

ENERGY ACT 2008

EXPLANATORY NOTES

Part 5: Miscellaneous

Connection Offer Expenses Summary and Background

543. New developments such as retail parks or housing projects require connections to the local electricity distribution network. When assessing the capital costs of such developments, developers need to know how much such a connection would cost and can request a network connection offer from the relevant Distribution Network Operator. The Distribution Network Operator is required, under the Electricity Act 1989, to provide a network connection offer following such a request. When providing the connection offer, the Distribution Network Operator will incur costs, for example, in determining the most appropriate point of connection to its network, designing the connection to the network and assessing what upstream changes need to be made to provide the load requested.
544. Until 2008, the practice was that Distribution Network Operators charged persons making connection requests up front for the costs incurred when providing network connection offers¹. However, following a complaint lodged with the Authority about this practice, legal advice confirmed that the Electricity Act 1989 only permitted Distribution Network Operators to recover these costs if an actual connection to the network was made. Since this issue came to light, the Authority has required Distribution Network Operators to change their charging methodologies to remove all elements of up front charging and bring them in line with the statutory arrangements. However, this means that because there are instances where connection offers are made but no connection is established, the Distribution Network Operators are unable to recoup all of their costs. Examples of such scenarios are, where developers make speculative requests about developments that do not then go forward, or where a third party connections provider requests an offer on a speculative basis. It is envisaged that without the ability to charge up front, that Distribution Network Operators may pass their assessment and design costs onto all users of the network, rather than those who cause these costs to be incurred.
545. This section will amend the Electricity Act 1989 to allow for up front charging in certain circumstances to allow Distribution Network Operators to recoup the costs of providing network connection offers.

¹ The practice of levying upfront charges was reflected in each DNOs' Connection Charging Methodology that are approved by the Authority.