



Your Ref: A&D fees\_14\_08\_08- 123/08

Our Ref:

Roger Morgan  
Senior Manager, Compliance Policy  
The Office of Gas and Electricity Markets  
9 Millbank  
LONDON  
SW1P 3GE

Harvey Jones  
Head of Network Trading  
CE Electric UK  
98 Aketon Road  
Castleford  
WF10 5DS

2 October 2008

Dear Roger

**Connection assessment and design (A&D) fees levied by electricity distribution network operators (DNOs)**

I am writing on behalf of CE Electric UK Funding Company (CE) and its wholly owned electricity distribution licensees Northern Electric Distribution Limited (NEDL) and Yorkshire Electricity Distribution plc (YEDL). This letter provides our response to your recent consultation letter dated 14 August 2008.

We agree with Ofgem that the practice of up-front charging has been a feature of how the market operates for some time and that the practice is reasonable and cost reflective as it results in the direct charging of parties who impose costs on the DNO. We also agree that recovering these costs in this way protects consumers in general from bearing the costs of speculative connection requests and provides some protection against abuse of the DNOs' obligations to provide an offer of terms for connection.

CE believed that charging upfront was acceptable and our position was endorsed in a letter from Offer to a customer dated February 12, 1998 in response to a complaint. This letter is attached at appendix 1.

**Background**

CE generally does not charge A&D fees up-front for the majority of connection requests, but we have applied up-front charges for certain job types including larger generators and speculative/multiple-option enquiries; given the contents of your letter we have suspended the application of charges in respect of notices under section 16A (1) of the Act.. We have in the past (in NEDL) charged across a wider range of jobs and were considering an expansion of up-front charging for design work to try to recover our costs in a more direct manner and reduce the number of speculative enquiries for firm quotations.

We believe that the continued opening up of the competitive connections market encourages speculative applications where multiple applicants pursue the same project(s); often these different applications are for different levels of connection capacity and necessitate additional design work for each enquiry. Furthermore, the current economic climate's effect on the

**CE ELECTRIC UK FUNDING COMPANY**

Registered Office: Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF

Registered in England and Wales. Registered Number: 3476201

If you would like an audio copy of this letter, a copy in large type, Braille or another language, please call 0800 652 6543

building industry may actually increase the proportion of speculative enquiries for two reasons:

- developers will need to review project costs, including connection charges, in order to know when the time is right to start or restart their projects; and
- multiple connection providers and independent network operators will be pursuing a reduced pool of active new development sites.

We feel that it is appropriate in any market to be able to send the customer a price message that influences appropriate efficient behaviour, rather than have other customers cross-subsidise inefficient behaviour. At the moment we issue circa 30,000 firm and estimate quotations (all free at the point of request), of which circa 18,000 are subsequently accepted by customers and proceed. The 12,000 that do not proceed result in wasted time, effort and cost.

Providing appropriate price signals for design work elements should reduce wastage, thereby reducing overall costs and/or creating the potential to provide customers who do intend to proceed with a faster service with the same or reduced design resource levels. It can be argued that cost signals that discourage inefficient behaviour and potentially facilitate improved service response times have the benefit of improving competition.

## **Implications**

We would welcome Ofgem's recognition of DNOs' concern that, if they are unable to recover A&D fees that they were previously recovering in advance, the cost of progressing connections requests generally may increase. Given the effect on costs it would seem appropriate that DNOs may need an alternative mechanism for recovering such costs, pending an appropriate change to the Act, perhaps in the form of additional revenue allowances in DPCR5 to cover the cost of additional design work for speculative enquiries.

We note Ofgem's recognition that the statutory regime set out in sections 16 to 21 of the Act takes priority over licence provisions. As the requirements set out in sections 16 and 16A of the Act apply only in respect of owners or occupiers of premises; or authorised suppliers acting with the consent of owners or occupiers; or authorised distributors, we have therefore been surprised to receive a communication from an independent connections provider (ICP) setting out its expectation, in light of Ofgem's consultation, that up-front charges will not be imposed upon it. Not only did this expectation relate to applications "made under S16", but also to POC applications made under standard condition 15 of the electricity distribution licence (SLC15). In the latter case, payment of an up-front fee is clearly a pre-condition of the provision of the service referenced in SLC15, and we do not believe that Ofgem's current consultation affects that (certainly Ofgem has not pointed to the need for any modification of the electricity distribution licence). Clarification by Ofgem of the position *vis à vis* ICPs would be useful in this context and we would welcome Ofgem views on this specific aspect at the earliest opportunity.

Notwithstanding that the notice required to be given by distributors under section 16A(5) of the Act must specify, *inter alia*, any payment that the applicant will be required to make under section 19(1) of the Act, we wonder whether in situations where, say, a costly system study may be required to be commissioned from NGET in order for a quotation to be finalised, the requirements of section 16(5) might not be met by specifying that need, stating its expected cost (on a pass-through basis from NGET) and making the offer conditional on the outcome of that study.

## **Existing methodologies**

We understand Ofgem's concerns that some DNOs' charging methodologies in this area may not be compliant with the statutory arrangements. We shall therefore review our methodology and raise any necessary changes in the form of a modification submission. It is

unclear to us how we can meet your recommendation that DNOs co-ordinate and submit their modifications jointly and in a timely fashion, but we appreciate why this may be helpful to you and we are happy to participate in any joint working in this area.

Our initial thoughts on possible revised drafting have led us to the option of including additional text within our methodology along the lines of the following;

*Section 16(1) of the Act requires electricity distributors to connect any premises, or any distribution system of another authorised distributor, to their distribution systems, on request. Such a request may be made by the owner or occupier of the premises, an authorised supplier acting with the consent of that owner or occupier, or an authorised distributor. In each of these cases, the request may constitute a notice given under section 16A(1) of the Act (a section 16A(1) notice) provided that the request contains sufficient detail about the required connection, for example, electrical load details, the required location of the connection on the premises and when the connection is required.*

*Where we are served a notice under section 16A(1) of the Act we may not charge for design costs in advance of our serving a counter-notice under section 16A(5)*

*Where we consider an application from a customer does not constitute a notice under section 16A (1) we reserve the right to recover our reasonable costs prior to carrying out any design work.*

We are considering this aspect further in preparation for submitting a revised methodology as necessary, but in the meantime we would welcome any comments Ofgem may have on the above additional drafting.

## **Revising the Act**

We support Ofgem's view that the Act should be modified in this area to enable costs to be recovered in advance for administration costs and design work required to provide connection offers. We feel this should be done as quickly as possible and were therefore fully supportive of the industry's Energy Bill Review Team's broaching of this subject with BERR's Energy Bill Management Team. We would be happy to assist with the process of producing revised drafting that better serves the needs of all customers. In considering the factors that might influence revised drafting of the Act we believe it would be beneficial for the opportunity to be taken to achieve commonality of wording between the Act and the electricity distribution licence wherever appropriate – for example, in the case of the references to a notice specifying (inter alia) payment that will be due, as referenced in S16A (5) of the Act, and an offer of terms, as referenced in SLC12 of the electricity distribution licence.

I trust the above sets out our position on this topic and we would welcome the opportunity to discuss our points with you. We would also be willing to participate in any groups that are established to take forward developments in this area.

Yours sincerely

*Harvey Jones*

Harvey Jones

Head of Network Trading