

Ofgem  
9, Millbank  
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29<sup>th</sup> September 2008

For Attn ; Mr R. Morgan  
Senior Manager, Compliance

**Ofgem Consultation Paper  
Connections Assessment and Design Fees levied by Distribution Network  
Operators : Paper 123/08 ; Dated 14/8/08**

We thank Ofgem for the opportunity to formally respond to the Consultation Paper dated 14<sup>th</sup> August 2008 relating to Connection and Assessment and Design Fees levied by Electricity Distribution Network Operators.

This response is made on the behalf of npower Power Connections Group.

General Comments

We note the stance taken by Ofgem and would concur that, in our opinion, the practice of upfront charging for Assessment and design works as a pre-condition of providing a Section 16A connection offer is, for the reasons suggested by Ofgem - not consistent with the Act.

Likewise we do accept that, in certain circumstances, the practice of charging for 'system studies' for highly complex, generation and designated feasibility study works (as opposed to standard load connections) may well attract an upfront [and separate] charge. In our opinion these instances should be of an infrequent nature and, in the main will be anticipated by the end users.

With regard to the upfront charges made by some DNO we have noticed that these upfront charges can also include:-

- PoC charges
- Design charges
- System study charges
- Miscellaneous charges to cover 'future engineering works'
- 2<sup>nd</sup> time round charges (i.e. charges where the original connection request has 'time-expired' or changed from a section 16 to a CinC quotation)

Whilst some of these charges are at best dubious in their nature, we find that challenging any of the 'component charges' can incur unacceptable time delays in the provision of the quotations by the DNO.

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In short, upfront charging methodologies can be used to delay the provision of the PoC quotation and/or distort the competitive marketplace.

Returning to the main debate we would wish Ofgem to note that we have brought the issue of upfront charging to the attention of the various industry steering groups on previous occasions.

From a competitive connections point of view we would again point out that where upfront charging regimes have been employed they have not in our opinion been seen to provide costs and charges representative or commensurate with the tasks undertaken.

Upfront charging for A&D work has therefore been seen to be a major barrier to engagement within the competitive connections environment.

In short, it can be clearly seen that the DNO's who employ upfront A&D charging regimes are, in general, the same DNO's where competitive connections have failed to flourish. On this basis we would suggest that Ofgem should reflect on the detrimental effect that upfront charging for A&D charges would have on the competitive connections marketplace should upfront charging become the norm.

We would also point out that the Electricity Connections Steering Group has been lobbying for a standard template for all non-contestable charges (of which the A&D fees form a significant part). It was anticipated that the transparency and clarity provided by such a template would have brought to the forefront all instances of potential overcharging. It is disappointing to note therefore that Ofgem have attempted to place the standard charging template, with all of its associated benefits, on the 'back burner'.

#### Speculative Connections

We note Ofgem's comments regarding the recovery of charges relating to speculative connections. We would respectfully point out that the remaining (majority) of DNO's who do not employ an upfront charging methodology have been successfully recovering their costs without any requirement for upfront charging and would therefore suggest that upfront A&D charging is not necessarily the only or preferred way forward.

Within the Electricity Connections Steering Group, and specifically the MCCG, we have long held the view that Ofgem must now take a firmer stance with the DNO in regulating what still remains a dominant monopoly. We do however welcome the opportunity provided within Codes Governance Review Charging Methodology Governance Options (Ref:132/08) to comment upon and potentially influence the Charging Methodologies currently employed.

#### Way Forward

We note Ofgem comments regarding the possibility of seeking an amendment to the Energy Bill to actually amend the legislation and allow for upfront charging methodologies.

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Whilst we would consider this to be a retrograde and potentially damaging step to Competition in Connections, we would suggest that should this be Ofgem's preferred way forward that, at the same time, Ofgem should also consider addressing the other outstanding issues that are at present under consideration within the industry steering groups [MCCG / ECSG] that will also potentially require legislative amendments.

We trust the above is of assistance.

Yours faithfully,

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