

Gas and Electricity Connections Industry Review 2009-10

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Target Audience: Business and domestic customers seeking gas and electricity connections and their representatives, distribution network licensees, independent

Overview: This document sets out how the gas and electricity connections market has developed in 2009-10 and the emerging trends. We also set out how licensed companies have complied with their connections related obligations and standards.

The operation of the connections market is important to customers who require a gas and/or an electricity supply. It is open to competition and a number of new players compete with incumbent network companies to provide new connections. Ofgem use the regulatory framework to facilitate the development of competition.

As competition is not yet developed enough to ensure that customers receive a good level of service it is Ofgem's role to monitor service standards. This document provides an overview of the service that customers receive.

Until competition is developed properly we will continue to regulate and monitor the service provided to customers. We can use our Competition Act and enforcement powers to protect customer interests.

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Context

Our principal objective is to protect the interests of consumers. We do this by promoting effective competition wherever appropriate and through regulation where necessary. Some aspects of the distribution of electricity and gas to business and domestic customers creates natural monopolies. This is because it is cheaper and more efficient to have one single company owning and operating the network than several competing companies with competing networks. However the construction, ownership and operation of network assets required to extend the network or connect to the existing network are competitive activities. Customers could benefit from this competition in connections through lower prices and better service (for example faster connection installations). Ofgem has worked over a number of years to promote competition in the gas and electricity connections markets. Competition has grown rapidly in the gas connections area, to the extent that more than half of all connections are now installed by Utility Infrastructure Providers (UIPs) or Independent Gas Transporters (IGTs) rather than the former monopoly incumbent network provider. However, competition in the electricity connections market has developed much less rapidly.

In last year's CIR¹, we discussed our concerns about the development of competition in the electricity connections market. We set out to address these concerns in Distribution Price Control Review 5 (DPCR5), which launched in April 2010, with the development of a series of initiatives designed to promote competition in electricity connections. These initiatives are discussed in more detail in the body of this document.

Associated Documents

Connections Industry Review 2009-10 Appendices

<http://www.ofgem.gov.uk/Networks/Connectns/ConnIndRev/Pages/ConnIndRev.aspx>

Electricity Distribution Price Control Review – Final Proposals (145/09)

http://www.ofgem.gov.uk/Networks/ElecDist/PriceCntrls/DPCR5/Documents1/FP_2_Incentives%20and%20Obligations%20FINAL.pdf

Electricity Distribution Price Control Review – Initial Proposals – Incentives and Obligations (93/09)

http://www.ofgem.gov.uk/Networks/ElecDist/PriceCntrls/DPCR5/Documents1/Initial%20Proposals_2_Incentives%20and%20Obligations.pdf

Gas Distribution Price Control Review – Home Page

<http://www.ofgem.gov.uk/Networks/GasDistr/RIIO-GD1/Pages/RIIO-GD1.aspx>

¹ Connections Industry Review 2008-09 (15/10)

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=52&refer=Networks/Connectns/ConnIndRev>

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Summary

In 2009-10 there were around 496,000 new energy connections and the direct value of the market was about £650 million, the majority of which (just over £607 million) relates to electricity connections. The number of connections completed in 2009-10 was considerably less than in the previous year. Overall the industry saw a 24 per cent drop in gas connections and a 20 per cent drop in electricity connections in the period. The value of charges for gas connections fell in line with the number of connections. Interestingly however, the value of the electricity connections market grew slightly despite the overall reduction in the number of connections made.

Ofgem² has sought to promote competition in the provision of connections to gas and electricity distribution networks with a view to allowing customers access to good quality and value for money connection services. This is done in the expectation that competition might also encourage innovation in technology, processes and commercial arrangements used in the connections markets.

The quality of service provided and the cost of obtaining connections is an important matter for consumers. For example, delays in getting connections, especially in the build phase, can have a significant detrimental impact on businesses and domestic customers.

Although the number of metered connections fell in 2009-10, the number of Distributed Generation customers seeking a connection to the network rose by just under 250%, albeit from a low base. This is an important new development as the needs of DG customers may differ significantly from those of traditional demand customers. Over the last 12 months we have taken steps to ensure these customers are protected by guaranteed standards that support an efficient connection process. We have also required the industry to develop and keep under review a guide to assist DG customers when seeking a connection³.

Competition

The gas connections market opened to competition in 1998, followed two years later by the electricity connections market. A customer seeking a new or modified connection can contact their local network provider (electricity DNO or gas GDN) or can have the connection assets installed by an independent provider (electricity ICP or gas UIP). In turn developers can approach a licensed independent operator (electricity IDNO or gas IGT). For the second year running the market share of non incumbents in the gas connections market exceeded the market share of the GDNs and now stands at 59 per cent.

In the metered electricity connections market, market penetration for new entrants stands at only 13 per cent. Although there has been a marginal increase in new entrant's market share since 2008-09, the overall level is low and the rate of growth remains slow. Over the last 12 months we have taken a number of steps to address the issues impeding competition; including incentivising the DNOs to do all they can to remove barriers to entry into the market. It is too early to judge the effectiveness of these measures, but we will be

² Ofgem is the office set up by the Gas and Electricity Markets Authority to assist it in discharging its functions. Everything done by Ofgem is done in the name of the Authority. The terms "Authority" and "Ofgem" are used interchangeably in this document.

³ <http://energynetworks.squarespace.com/distributed-generation/>

monitoring them closely. If there are no visible improvements to competition by 2013 we will consider referring DNOs to the Competition Commission.

Regulation

Where there are natural monopolies, or where competition is not yet effective, it is our role to protect customers by using appropriate methods of regulation. Regulation can also help prevent incumbents from gaining unfair advantage over their competitors by discriminating against them in the provision of monopoly services. It is important that we keep this regulatory framework under review to ensure it protects customers and does not act as a barrier to competition.

Since May 2005 the gas connections framework has included mandatory Gas Performance Standards.⁴ These set out the requirement on IGTs and GDNs to quote for work and to complete works within specified timeframes. There are financial penalties for failure to meet these standards. Performance by GDNs against the gas guaranteed standards continued to be good in 2009-10, with the standards being met on 99 per cent of occasions, a slight increase on the previous year. IGTs met the standards on 98 per cent of occasions, which represented a decrease on 2008-09. However, we are concerned with the accuracy of quotations issued by some companies, where a high proportion of quotations referred for review by customers were found to be inaccurate.

The performance data and the number of complaints we are asked to investigate shows that there is a better standard of service in the gas market than in the electricity market, even taking into account the smaller size of the gas connections market. This could be due to the well established regulatory framework safeguarding performance standards and greater levels of competition in the gas market.

Licence conditions and voluntary performance standards have been in place for electricity connections for some time. In 2009-10 DNO performance against the voluntary un-metered key performance indicators ('KPIs') was disappointing; five DNOs reached the benchmarks in 50 per cent or less of the indicators.

We continue to receive a significant number of complaints from electricity customers and ICPs about delays to their connections and the generally poor service they receive from DNOs. We have recently found Scottish Hydro Electric Power Distribution, Central Networks East and West and Electricity North West Limited, in breach of the licence condition that requires them to provide offers for connection within three months of the receipt of an application.

We have looked to improve the regulatory protection to customers seeking an electricity connection. In October 2010 we put in place new standards of performance which set strict deadlines for connection services and provide financial compensation for customers where deadlines aren't met. We have also introduced a broad measure of customer satisfaction, which will penalise companies that deliver poor quality service or who are not good at handling complaints, and reward those that lead the industry in understanding and meeting the needs of their customers. We will continue to monitor performance in this area and will take seriously any complaints brought to us. This could result in action taken against companies that are not complying with licence conditions.

⁴ Guidance for reporting on standards of performance and standard special licence condition D10 for gas distribution network operators and independent gas transporters (254/05)
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=156&refer=Networks/GasDistr/QoS>

1. Introduction

- This chapter begins with an introduction to the connections industry, explaining the evolution of competition and the key players in the market.
- It provides an overview of key developments impacting upon the industry over the last 12 months.
- It describes the annual 2009-10 Connections Industry Review (CIR) process and key changes from last year.
- Finally it describes the structure and contents of the remainder of this document.

Introduction to the Connections Industry

Overview of competition in connections

1.1. Many of the activities of electricity and gas network companies have characteristics of a natural monopoly and are regulated by Ofgem. Some network activities are not natural monopolies such as the construction of new assets required to extend the network or connect to the existing network. As discussed below, Independent Connections Providers (ICPs) compete with network operators to construct a connection (including constructing any network extension required for new developments), but only licensed companies can operate the assets once they have been installed. Therefore connection installation and asset operation are two distinct activities, with different but related competitive dynamics.

1.2. Where effective competition is possible, it is generally a much better way to protect consumers' interests than regulation. We have sought to promote competition in both the installation of connections to gas and electricity distribution networks, and in the subsequent operation of those assets. Competition in the gas connections market has developed steadily since 1998. Since 2000 Ofgem has been promoting competition in the electricity connections market.

Connections sourced from a host distributor

1.3. Customers⁵ who wish to have a new connection to a distribution network have three options available to them. Firstly, the customer can approach the local incumbent distributor and ask them to quote for and install the necessary assets to facilitate the connection. The incumbents are known as Gas Distribution Network Operators (GDNs) in gas and Distribution Network Operators (DNOs) in electricity. The incumbent will install the connection, although they may choose to sub-contract some of the construction work. The incumbent will charge the customer an upfront connection fee as contribution towards the capital cost of installing the connection assets. The incumbent will then operate the assets once they are installed, in return for annual distribution (i.e. transportation) charges, known as Distribution Use of System (DUoS) charges that customers pay through their energy supplier as part of their electricity or gas tariff.

⁵ The customer could be an individual domestic customer or small business customer, a housing developer developing a new housing estate and requiring multiple connections or a developer of a large commercial development.

Independent distribution companies

1.4. Secondly, a customer may choose to approach an independent distribution licensee for a connection. In gas these are known as Independent Gas Transporters (IGTs) and in electricity, Independent Distribution Network Operators (IDNOs). Typically, IDNOs/IGTs install and operate networks to multiple connections such as new-build housing estates rather than one-off connections. The independent network often covers the last few hundred metres from the point of connection to the incumbent's network, and is embedded in the local incumbent's network area. Connections to independent networks are more common in gas than in electricity. The physical connection works (installation of assets) required to connect independent networks are typically undertaken by the IGT/IDNO itself or by a connections provider (ICP) that may be affiliated to the respective IGT/IDNO. The operation of the assets is then undertaken by the independent distribution licensee itself.

1.5. The IGT/IDNO will typically charge the customer - usually a property developer - an upfront connection charge as a capital contribution towards the cost of installing the assets. Once the connection is live they will recover ongoing transportation (DUoS) charges from the occupier of the property via their energy supplier. The IGT/IDNO DUoS charges are regulated under separate gas and electricity Relative Price Control regimes (similar to the Price Control Review regimes for DNOs and GDNs). The Relative Price Control regimes are set to ensure that the total annual distribution charges paid by IDNO/IGT connected customers are linked to those paid by customers connected directly to the incumbent's network. Specifically, with the exception of some legacy networks, the Relative Price Control regimes generally cap the charge that an IGT/IDNO levies at no more than that which a customer would have paid if they were connected directly to the incumbent's network. Therefore the customer does not necessarily benefit from lower transportation (DUoS) charges by choosing an IGT/IDNO. However, customers may benefit from procuring the connection via an IGT/IDNO network if the IGT/IDNO has lower upfront connection charges, provides a better service and/or a faster connection time.

Third party connection providers

1.6. Thirdly, a customer may also choose to use an alternative connections provider (known as an Independent Connections Provider (ICP) in electricity and a Utility Infrastructure Provider (UIP) in gas) to build the connection. The ICP/UIP may be an affiliate of the incumbent or of an independent, or may itself be an independent third party. ICPs/UIPs are accredited by Lloyds Register⁶ to undertake connection works on gas and electricity networks.

1.7. A customer may directly approach an ICP/UIP to install the connection to either an incumbent's network or an independent's network, and would typically do so where the ICP/UIP charges a lower connection charge, or offers a better quality of service such as faster connections or multi utility connections. However, ICPs/UIPs do not have distribution licences, so will not be licensed to operate the connection once it is installed. Therefore the ICPs must transfer ownership of the connection assets to a licensed distributor (i.e. GDNs, DNOs, IDNOs and IGTs). This process of transfer of ownership is referred to as the 'adoption' of the asset. In some instances the distributor may make a payment to the ICP/customer at the time of the transfer of the assets, and where a payment is made, this is known as an 'adoption payment'. Therefore the ICPs' remuneration may be made up

⁶ For an overview of accreditation schemes and list of accredited parties see Lloyds Register Website <http://www.lr.org/Industries/Utilities/Standards/Schemes/>

wholly from a combination of connection charges levied on customers and adoption fees paid by licensed distribution operators.

Figure 1.1- Competition in the installation of connection and operation of the network

		Network operator	
		Incumbent or affiliate (GDN / DNO)	Independent (IGT/IDNO)
Connection installer	Network operator or affiliate (GDN/IGT or DNO/IDNO)	<ul style="list-style-type: none"> •Customer approaches incumbent for connection •Incumbent installs connection assets, charging customer upfront for cost of installing assets •Incumbent then operates and maintains assets for on-going transportation revenue <p>No competition for incumbent</p>	<ul style="list-style-type: none"> •Customer approaches IGT/IDNO for connection •IGT/IDNO installs connection assets, charging customer upfront for capital cost of installing assets •IGT/IDNO then operates and maintains assets for on-going transportation revenue <p>Competition for incumbent in asset installation and operation</p>
	ICP	<ul style="list-style-type: none"> •Customer approaches ICP for connection •ICP installs connection assets, charging customer upfront for capital cost of installing assets •ICP transfers assets to incumbent who operates and maintains assets for on-going transportation revenue <p>Competition in asset installation</p>	<ul style="list-style-type: none"> •Customer approaches ICP for connection •ICP installs connection assets, charging customer upfront for cost of installing assets •ICP transfers assets to IGT/IDNO who operates and maintains assets for on-going transportation revenue <p>Competition for incumbent in asset installation and operation</p>

Role of the host distributor in supporting competition

1.8. There are limits to the scope of activities in which IDNOs/IGTs and ICPs/UIPs can compete with the incumbent. At present, certain activities such as deciding the point of connection to the incumbent’s network, can only be carried out by the host distributor and are referred to as ‘non-contestable’. Therefore it is important for the evolution of competition in connections that the incumbent does not abuse its monopoly power in the provision of non-contestable services. Ofgem has taken measures to prohibit the incumbents from discriminating unduly against competitors in the provision of these services⁷.

1.9. In addition, there are areas in the market where competition has been slow to develop, such as the provision of one-off connections. This may be due to the general low value of such jobs, making them unattractive to independent providers. Also initiatives such as the domestic load connections allowance⁸ in gas mean that domestic customers will be disincentivised from using an independent. Independents may not be competitive due, for example, to streetworks legislation⁹. In such cases, we regulate performance standards to ensure that the needs of customers are met and that customers are protected.

⁷ Standard Licence Condition 15

⁸ More information on the domestic load connection allowance can be found in Chapter 2 of this document.

⁹ Under Schedule 4 of the Electricity Act 1989, DNOs and IDNOs are ‘Statutory Undertakers’ for the purposes of the New Roads and Street Work Act 1991 (NRSWA) giving them a statutory right to carry out street works. ICPs are

Key gas connection market players

1.10. There are eight GDNs in the UK. National Grid Gas originally owned all eight however sold four of its local gas distribution networks in 2005. It retains ownership of four GDNs. Scotia Gas Networks owns two GDNs. Northern Gas Networks and Wales & West Utilities own one each. There are six active IGT groups/businesses in the UK: East Surrey Pipelines, Fulcrum Pipelines, Gas Transportation Company, Energetics Gas, Inexus Group Limited and Scottish and Southern Pipelines. All GDNs and IGTs are licensed gas transporters and can provide gas connections and own and operate gas networks.

Key electricity connection market players

1.11. There are fourteen DNOs in the UK. Central Networks, CE Electric, Scottish Power, Scottish and Southern Energy and Western Power Distribution own two DNOs each, while Electricity North West Limited owns one DNO. EDF Energy owns three DNOs¹⁰.

1.12. Each DNO operates within a specific area, known as Distribution Services Areas (DSAs). The majority of connections by DNOs will be undertaken within their DSA, but it is possible for DNOs to undertake connections outside of their DSA. For instance SSE constructs, owns and operates out-of-area (DSA) networks. There are six licensed IDNOs. These are Independent Power Networks Limited, The Electricity Network Company Ltd, Energetics Electricity Limited, ESP Networks Limited, EDF IDNO and ECG Distribution Limited. IDNOs do not have a DSA and operate on a national basis.

Key industry fora

1.13. The Electricity Connections Steering Group (ECSG) advises Ofgem on the measures that are required to support the development of competition in the electricity connections market. The group is attended by representatives of each DNO, third party connections providers, housing developers, Local Authorities and other customer groups.

Key developments in 2009-10: Connections in DPCR5

1.14. We used the DPCR5 review process to address customer service issues in electricity connections and to assist in the development of competition in connections. The key outcomes are as follows:

new connections related standards of performance that are designed to improve the level of service that customers receive from their host DNO. This is supported by a new licence condition that requires DNOs to meet the standards in at least 90 per cent of cases.

- a quotation accuracy scheme that requires the DNOs to review the accuracy of a quotation when requested by a domestic customers or a small commercial customers.

not Statutory Undertakers which means that they have to apply for a licence from the local authority under Section 50 of the NRSWA in respect of each works project

¹⁰ In October 2010 EDF and EDF IDNO were bought by the Cheung Kiong Group and are now known as UK Power Networks and UK Power Networks IDNO Ltd respectively.

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- the requirement for DNOs to have independently verified systems and processes that allow them to report performance against the guaranteed standards. Subject to delivering these systems, since 1 October 2010 the DNOs have been allowed to charge a regulated margin of 4 per cent for competitive connections.
 - the potential for DNOs to earn an unregulated margin on certain contestable connections activities where they demonstrate there is a competitive market in their area. To pass this test, DNOs will need to demonstrate they are not preventing competition in their area.
 - and the intention of Ofgem to consider referring DNOs to the competition commission where they have not passed a competition test by December 2013.

1.15. A high level overview of these outcomes is set out below. These measures, specifically designed to improve the quality of service provided to customers seeking a connection, were supported by the development of a broad measure of customer satisfaction. Under this broad measure a number of different elements of customer service will be assessed. These include the companies' performance in terms of customer satisfaction, complaint resolution and stakeholder engagement. The performance of companies in these areas will be exposed to significant financial penalty and reward, which will be effective from 2012. For a more in-depth discussion of these changes, please refer to our Final Proposals document.¹¹

Connections standards

1.16. In DPCR5 final proposals, we made it clear that we intended to introduce Guaranteed Standards in electricity which would impose specific timeframes and penalty payments on certain DNO services. These standards were drafted in accordance with Standard Licence Condition 15A.

1.17. The approach under the newly introduced Statutory Instrument Electricity Connections (Standards of Performance) Regulations 2088/2010¹² was to differentiate between metered, other metered and unmetered connections.

1.18. In addition, the Authority made a separate Direction in accordance with SLC 15A.16 to provide timeframes for the provision of generation (Distributed Generation) connections and works. The timeframes have remained largely similar to those under the Statutory Instrument. The penalty payments however are provided on a voluntary basis. DNOs have provided formal undertakings that they will map across the penalty payments from the Statutory Instrument to provide these to generation customers.

1.19. The standards came into force on the 1st October 2010. DNOs and IDNOs are required to report on their performance on a quarterly basis. The first quarter's data is expected in early 2011.

¹¹ Electricity Distribution Price Control Review Final Proposals:
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=346&refer=Networks/ElecDist/PriceCtrls/DPCR5>

¹² The Statutory Instrument itself can be located on the following website:
<http://www.legislation.gov.uk/uksi/2010/2088/contents/made>

1.20. The relevant documentation including the guidance documents supporting the Statutory Instrument and Direction can be found on Ofgem's website, under Networks -> Electricity Distribution -> Quality of Service -> Guaranteed Standards.

Competition tests and unregulated margins

1.21. With the introduction of the above standards we have allowed DNOs to charge a regulated margin of 4 per cent on their connections activities. We note however that in comparison to the gas market, competition is still slow to develop in this sector and we continue to receive complaints on the attitude of DNOs towards facilitating competition.

1.22. To incentivise DNOs to be more co-operative towards new entrants we will allow DNOs to earn an unregulated margin where they can demonstrate the connections market in their area is competitive. Our intention is to consult on how we should treat the applications DNOs make to us. A DNO that is successfully able to pass a competition test will be able to earn an unregulated margin.

1.23. Ofgem acknowledges that there are cases where there could be no competition through no fault of the DNO. Therefore the margins will only apply to those segments of the market where competition can be developed in practice.

1.24. We will also conduct a full competition review of any outstanding market segments that have not passed the test by the end of December 2013 and may refer any matters of concern to the Competition Commission.

1.25. The opportunity and incentive is therefore available for DNOs to proactively address and resolve the issues that give concern as to how the market currently operates towards new entrants.

Key developments in 2009-10: Common Connection Charging Methodology

1.26. At present, under SLC 13, DNOs are required to publish approved methodologies describing the basis of their charges for connection to (connection charges) and use of the distribution system (DUoS charges)¹³. DNOs can propose changes to the methodologies at any time. They are also obliged by SLC 13.2 to review their methodologies at least annually and make such changes as would allow the methodology to better meet the relevant objectives set out in SLC 13.3. Up-to-date copies of the DNOs' charging methodologies and charging statements are available from the DNOs' websites.

Connection Charging

1.27. Over the last two years, Ofgem has worked with an industry working group comprising a range of stakeholders, to align the DNOs connection charging methodologies. The primary aim of this work was to address a lack of consistency and transparency in connection

¹³ SLC 14 also requires DNOs to produce charging statements listing their charges. These are published separately, and are subject to a different approval (the Authority approves the form only) and change process (changes must be made with three months notice to the Authority).

charging, caused largely by variations in the interpretation of connection charging methodologies across DNOs. It is hoped that more consistency and transparency in this area may also result in a reduction in the number of disputes referred to Ofgem for determination.

1.28. As a result of the group's work, each DNO introduced a methodology comprising a common section and company specific section on 1 October 2010. The DNOs have no licence requirement to have a Common Connection Charging Methodology (CCCM).

1.29. In order to build on the common connection charging methodology, we are now working with industry to develop common governance arrangements for connection charging methodologies.

The 2009-10 Connections Industry Review document

1.30. This document is the 7th in an annual series of Connections Industry Review (CIR) publications published by Ofgem. It discusses trends in the gas and electricity connections markets and highlights performance against connections related licence obligations. It also summarises connections related investigations and determinations that we have conducted throughout 2009-10.

1.31. Following the practice of previous years, this year's CIR publication presents data collected by Ofgem from industry participants. We include detailed information on compliance with connections related obligations and we also discuss the policy that was progressed through the DPCR5 process.

1.32. Going forward, we will adapt the CIR to incorporate the various refinements to the electricity connection reporting required as part of DPCR5 Final Proposals. Additionally, the CIR could include some of the further customer-related information that distributors are now required to report.

1.33. The CIR will reflect the segmenting of the electricity distribution connection market that has been put in place as part of the DPCR5 connections policy detailed in final proposals. This will provide a clearer understanding of how competition is developing within particular market segments as well as a more refined separation of connection jobs that fall within markets that we consider unlikely to be subject to competition. This will allow for a more relevant view of overall third party market penetration as well as how Network Operators perform against the new Connections Guaranteed Standards.

1.34. This document is in two volumes:

Volume 1 summarises the key competitive market trends data. We also include data on compliance against various connections related obligations that apply to DNOs and GDNs, such as performance against customer service standards.

Volume 2 contains a number of additional appendices with more detailed background information and/or data.

1.35. Volume 1 of the document is structured as follows:

The competitive market for connections- Chapter 2. This chapter summarises key developments in all electricity connections markets including connections relating to distributed generation and fuel poor network extensions. Competition in both segments of this market remains limited. We also summarise key developments in the gas connections markets.

Customer service in connections - Chapter 3. This chapter discusses gas and electricity compliance issues. On the electricity side, we summarise performance against electricity distribution licence conditions. We also set out last year's performance against the connections 30 and 40 days standards and the voluntary unmetered key performance indicators. On the gas side, we set out performance against the gas connections standards of performance. We also provide a high level overview of the connections related investigations we have taken forward and summarise the determinations we have made in both markets.

1.36. Volume 2 of the document contains more detail on the data summarised in Volume 1 and contains the following appendices:

Appendix 5 provides background to the connections industry structure in gas and electricity, explains the role in competition played by Independent Connections Providers (ICPs) and Utility Infrastructure Providers (UIPs), explains the standard DNO and GDN licence conditions relevant to connections, and contains maps of DNO and GDN areas.

Appendix 6 presents more detailed tables and figures with disaggregated data on the metered electricity connections market.

Appendix 7 presents more detailed tables and figures with disaggregated data on the unmetered electricity connections market.

Appendix 8 presents more detailed tables and figures with additional disaggregated data on the gas connections market

Appendix 9 presents more detailed tables and figures with additional disaggregated data on the performance of GDNs and IGTs against gas connections standards, as well as the performance of DNOs and IDNOs against SLC 15 and the unmetered KPIs.

Appendix 10 presents an update on the work of the Electricity Connections Steering Group (ECSG). The ECSG advises Ofgem on the measures that are required to support the development of competition in the electricity connections market.

2. The competitive market for connections

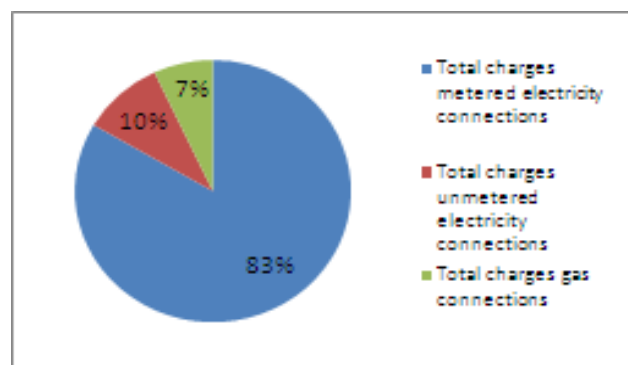
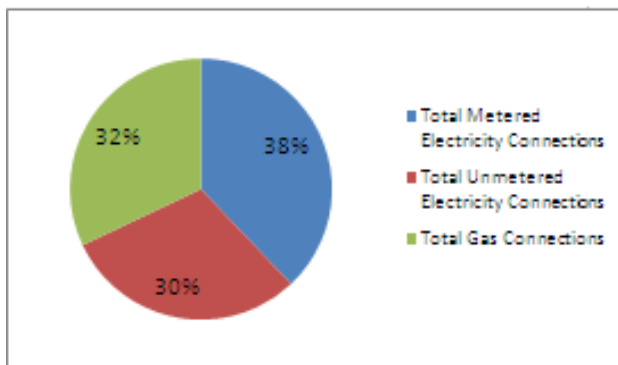
- ➔ This chapter summarises the latest developments in the electricity and gas connections market. A more detailed overview is included in the accompanying appendix document.
- ➔ The total gas connections market in 2009-10 was worth just over £45 million, excluding charges levied by UIPs.
- ➔ The total electricity connections market in 2009-10 was worth around £607 million, excluding charges levied by ICPs.
- ➔ In electricity 88 per cent of connections were installed by DNOs or their affiliates, with ICPs or IDNOs installing just 13 per cent of connections between them.
- ➔ In gas 41 per cent of connections were installed by GDNs or their affiliates, with IGTs or UIPs installing 59 per cent of connections between them.

Comparison of gas and electricity markets

2.1. In 2009-10 a total of just under five hundred thousand connections were made to distribution networks, with levied charges of £652 million. This compares to around 630,000 connections and charges of £713 million in 2008-09. The decrease in the overall number of connections is likely to be due to the continued effects of the economic downturn.

2.2. Figures 2.1 and 2.2 below compare the size of the gas and electricity markets in that period. Electricity connections made up 68 per cent of total connections and 93 per cent of charges. This reflects the higher proportion of high cost, large scale connection jobs in the electricity market compared to gas.

Figures 2.1 and 2.2 - Comparison of market size (total connections and total charges)



Total number of new and modified metered electricity connections

2.3. In 2009-10 around 189,000 new and modified¹⁴ metered electricity connections were undertaken by DNOs and IDNOs. This compares to around 261,000 in 2008-09, which is a 28 per cent decrease.

2.4. Table 2.1 shows that of the connections undertaken in 2009-10, nine per cent were to IDNO networks, compared to 91 per cent to DNO networks. This is a relative improvement from 2009-10, where only six per cent of connections undertaken were to IDNO networks. Overall, market penetration of new entrants (ICPs as well as IDNOs) in the electricity connections market has risen to 13 per cent, compared to 11 per cent in 2008-09 and seven per cent in 2007-08. The IDNO totals for 2009-10 includes 1,321 connections to out-of-area networks operated by the DNO, SSE.

2.5. The size of the independents' market share is still small and has risen only slightly since 2008-09. Although this is disappointing it is noted that independents at least maintained their market share whilst the connections market as a whole has declined. A low market share for independents does not necessarily mean that there are barriers to competition. We are concerned however that the ongoing nature of the complaints we receive indicate that IDNOs/ICPs find difficulties in working alongside DNOs.

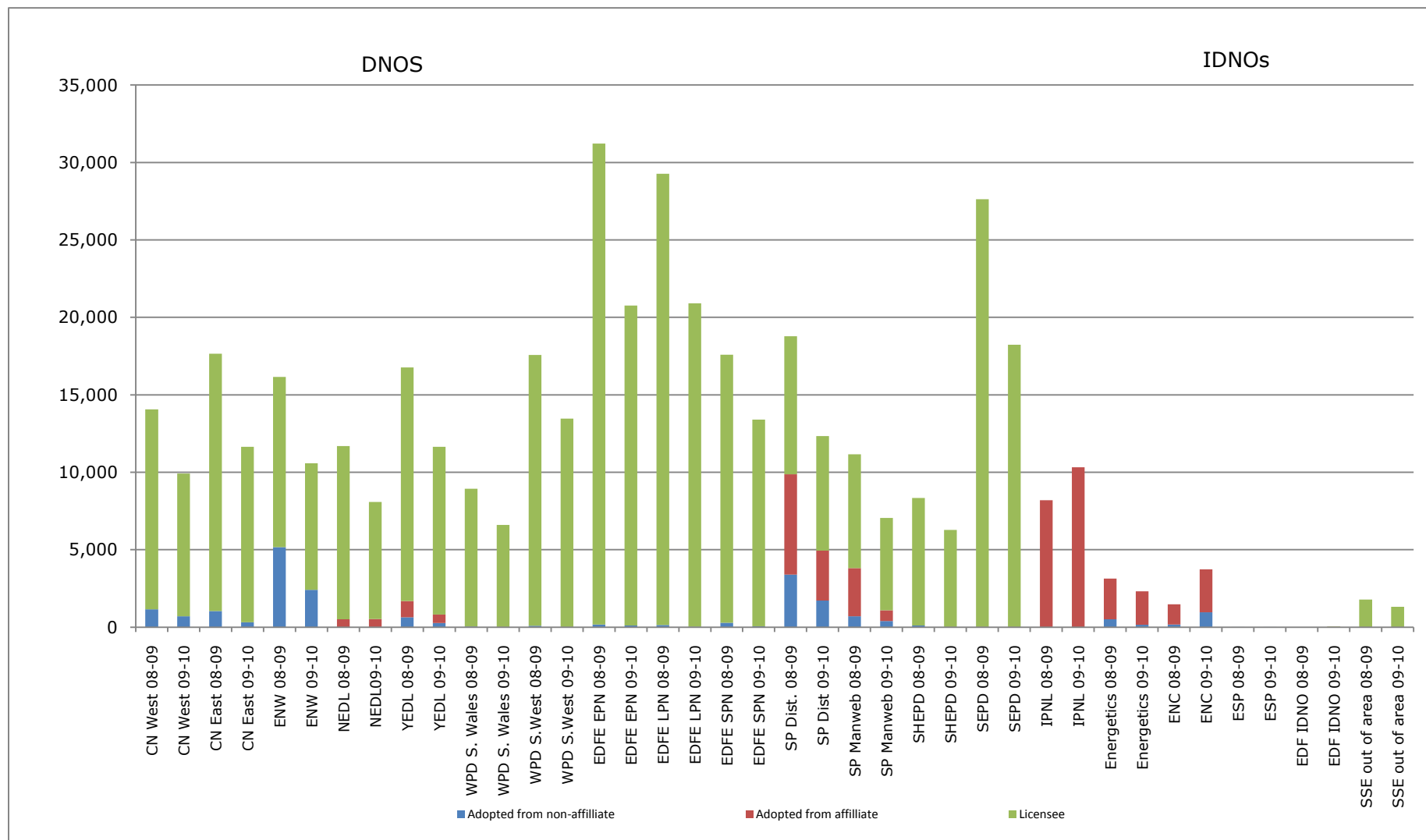
Table 2.1 – Total number of new and modified metered electricity connections

Connections by:	DNO 2007-08	IDNO 2007-08	DNO 2008-09	IDNO 2008-09	DNO 2009-10	IDNO 2009-10
	294,161	308	222,693	0	159,877	1,350
Licensee	87%	0%	85%	0%	85%	1%
Companies affiliated to the licensee	19,727	3,961	11,143	12,133	4,955	15,284
	6%	1%	4%	5%	3%	8%
Third Parties	14,108	5,979	12,911	678	6,025	1,117
	4%	2%	5%	0%	3%	1%
Total	327,996	11,585	246,747	14,585	170,857	17,751
	97%	3%	94%	6%	91%	9%
Industry Total	339,581		261,332		188,608	
	100.00%		100.00%		100.00%	

2.6. Figure 2.4 overleaf shows that the level of activity by independent providers varies significantly from area to area. Independents have a relatively high market share in the ENWL and SP Distribution areas, whilst the number of connections adopted from affiliates has dropped in most cases. Incumbents or their affiliates typically installed almost all of the connections in the NEDL, WPD, EDF and SSE areas. Where networks were run by IDNOs the majority of connections were undertaken by their affiliates.

¹⁴ A modified connection is an existing connection that has been changed. Modified connections include increases in capacity which may include contestable elements but also 'service alterations' which are generally not contestable.

Figure 2.4 – Breakdown of metered electricity connections by DSA (2008-09/2009-10)¹⁵



¹⁵ We are unaware whether SSE's out of area connections were installed by the licensee, an affiliate or a third party.

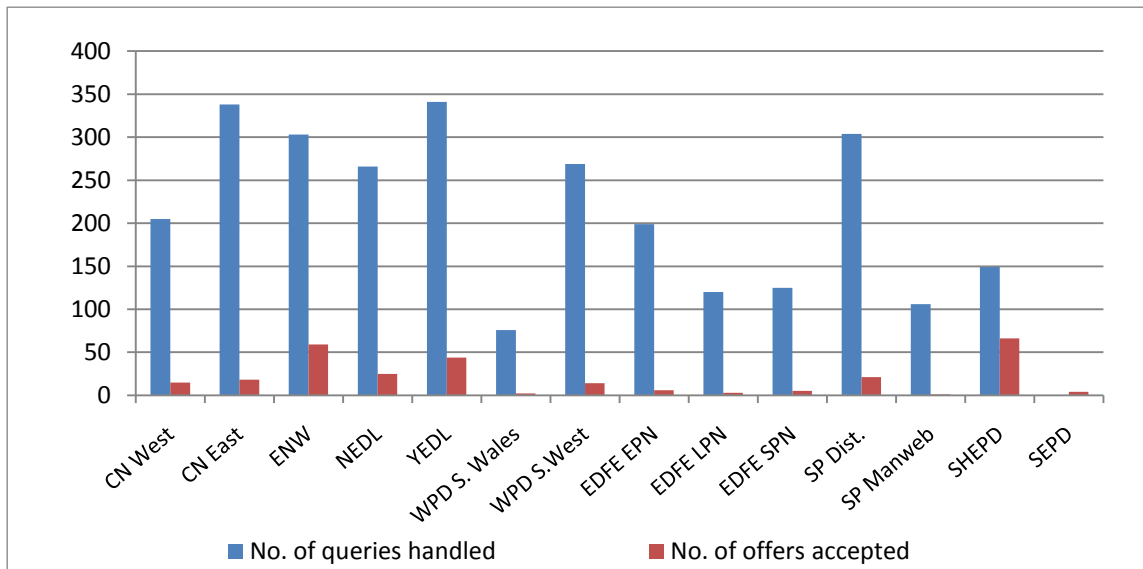
2.7. Significantly in 2009-10 there has been an increase in the number of Distributed Generation (DG) connections that have been completed. Table 2.2 below shows an increase of 239 per cent (albeit from a low base) in the total number of DG connections compared to 2008-09. This is in line with a range of different measures that have been introduced nationally to support the development of DG, including the Feed-in Tariffs Scheme¹⁶.

2.8. Figure 2.3 below shows the volume of queries regarding DG handled by DNOs against the number of offers that are actually accepted. Whilst the number of queries handled includes all queries, not just quotation requests, it highlights the high ratio that exists between queries received and connections progressed.

Table 2.2- Historical summary of DG Connections

Connection by:	DG		
	07-08	08-09	09-10
Licensee	90	242	820
Companies affiliated to DNOs	0	0	0
Independent connections providers	4	2	6
Total	94	244	826

Figure 2.3 – Number of DG queries handled and the number of offers accepted



¹⁶ More information on FITs can be found on our website here; <http://www.ofgem.gov.uk/Sustainability/Environment/fits/Pages/fits.aspx>

Total number of unmetered electricity connections

2.9. In 2009-10, around 147,000 unmetered connections were undertaken by DNOs, with charges of £63 million levied, of which only about 9 per cent were installed with the involvement of ICPs. IDNOs undertook 1,400 unmetered connections (less than one per cent), and reported just over £2 thousand in connection charges. This relatively low figure could be because in most cases the unmetered connections provided were to new developments and the costs of connecting the unmetered assets were discounted from the adoption payments paid to the UIP developing the site rather than charged.

2.10. Overall, market penetration of connections installed by IDNOs and ICPs in the unmetered electricity connections market has risen to nine per cent, compared to two per cent in 2008-09. This growth in competitive activity in the unmetered sector represents an encouraging sign and one that hopefully signifies that competition is beginning to take hold in this area.

Table 2.3 – Total number of unmetered electricity connections

Connections by:	2006-07	2007-08	2008-09	2009-10
DNOs	168,714 99.9%	165,620 99.1%	152,105 93.4%	133,719 90.7%
Companies affiliated to DNOs	- -	789 0.47%	8,500 5.22%	- -
Third Parties	185 0.11%	751 0.45%	2,276 1.40%	13,631 9.25%
Rent-a-jointer / Tri-Partite*	8,658 5.1%	16,900 10.1%	10,434 6.4%	29,100 19.7%
Total	168,899 100%	167,160 100%	162,881 100%	147,350 100%

*Figure not included in the total as it is already accounted for in the above rows.

“Rent-a-Jointer” and Tri-partite Arrangements

2.11. The Rent-a-Jointer scheme allows ICPs and Local Authorities (LAs) to engage a DNO jointer for a set period of time to complete pre-arranged live working on unmetered connection projects. This allows the LAs to take control of their own connections, therefore ensuring they keep to their specified timescales and are not reliant on the DNO. In 2009-10 a total of 24,877 (17 per cent) connections were completed under “Rent-a Jointer” or equivalent schemes. In all of these cases the DNO was the provider of both the contestable and non-contestable works. This is an increase in the number of connections completed under this scheme as DNOs reported 8,329 (five per cent) Rent-a-Jointer connections in 2008-09. No rent-a-jointer connections have yet taken place on IDNO networks; it is likely that this is because IDNOs have access to their own jointers.

2.12. Tri-partite arrangements exist between DNOs, ICPs and LAs. An ICP, usually engaged by the LA, liaises closely with the DNO to arrange when and where live jointing will take

place for a particular project. In 2009-10 a total of 4,223 (three per cent) of connections were completed under tri-partite arrangements on DNO networks. In all cases the contestable portion of the works were undertaken by an ICP. This is another increase on previous years; in 2008-09 there were 2,105 tri-partite arrangements. While the number of connections being undertaken under tri-partite arrangements has increased in 2009-10, we would usually expect this percentage to be higher in a competitive market.

2.13. To date no connections to IDNO networks have taken place under tri-partite arrangements. As per Rent-a-Jointer connections, it is likely that this is because IDNOs have access to their own jointers.

2.14. The small number of connections being undertaken through tri-partite schemes suggests that barriers may exist for ICPs and LAs who seek to enter into these sorts of arrangements. They have brought to our attention issues such as a lack of transparency around the charges levied by DNOs and overly onerous contracts. We continue to engage with market participants in relation to these issues.

Total charges for electricity connections

2.15. In 2009-10, the approximate value of charges made by DNOs and IDNOs for new metered and unmetered connections was £607 million; this is a three per cent increase on £589 million in 2008-09.

2.16. Of the charges made for new and modified connections about £7 million (one per cent) was levied by IDNOs, this is up from 0.01 per cent in 2008-09. The majority of these charges were associated with one major development project.

Table 2.4 -Total charges made by DNOs/IDNOs (£m)

	2007-08	2008-09	2009-10
DNO Charges	620.66	589.59	600.17
IDNO Charges	0.01	0.06	6.95
Total	620.67	589.65	607.12

2.17. It should be noted that the "total charges" figures do not show the total value of the market as we do not have the power to require ICPs to provide us with data.

Total number of gas connections

2.18. In 2009-10 around 159,000 new and modified¹⁷ gas connections were undertaken in aggregate by GDNs and IGTs, a 24 per cent decrease on 2008-09 levels. 49 per cent were made to GDN owned networks whilst 51 per cent were made to IGT owned networks.

2.19. Around 78,000 gas connections were made to GDN owned networks. 84 per cent were connected by the GDNs themselves, down four per cent on 2008-09 levels. Less than one per cent of connections to GDN networks were undertaken by affiliates of the GDNs.

2.20. Around 81,000 gas connections were made to IGT owned networks. 11 per cent were connected by the IGTs themselves, up two per cent on 2008-09 levels. 66 per cent were undertaken by IGT affiliates, up from 49 per cent in 2008-09.

2.21. The proportion of connections being carried out by licensees has remained more or less static in the past year, however connections carried out by companies affiliated to IGTs has seen a noticeable increase from 25 per cent to 34 per cent. The overall proportion of third party connections (i.e. independents) has in turn seen a noticeable decrease from 22 per cent to 12 per cent.

2.22. We note that GDN networks account for a much higher proportion of new / modified connections to existing domestic premises, whereas new connections tend to be on IGT networks and are delivered by IGTs or their affiliates. The opposite is true for new domestic premises. Where a higher proportion of existing domestic premises are connected to GDN networks.

2.23. Another reason independents do not hold a large share of the market for connections to existing premises is that independents do not offer the Domestic Load Connections Allowance (DLCA). The DLCA means that the customer does not have to pay for the first ten metres of their connection if they live within 23 metres of the gas main. As a result customers are unlikely to use a UIP as they will not make this saving. We expect that as time progresses, the number of modified connections to existing domestic premises undertaken by independents will increase. This will be the result of more customers being connected to IGT networks as the number of new existing connections to IGT networks increases.

¹⁷ A modified connection is an existing connection that has been changed. This includes position alterations, increases in capacity and diversions.

Table 2.5 – Total number of gas connections market share calculation – GDN/IGT

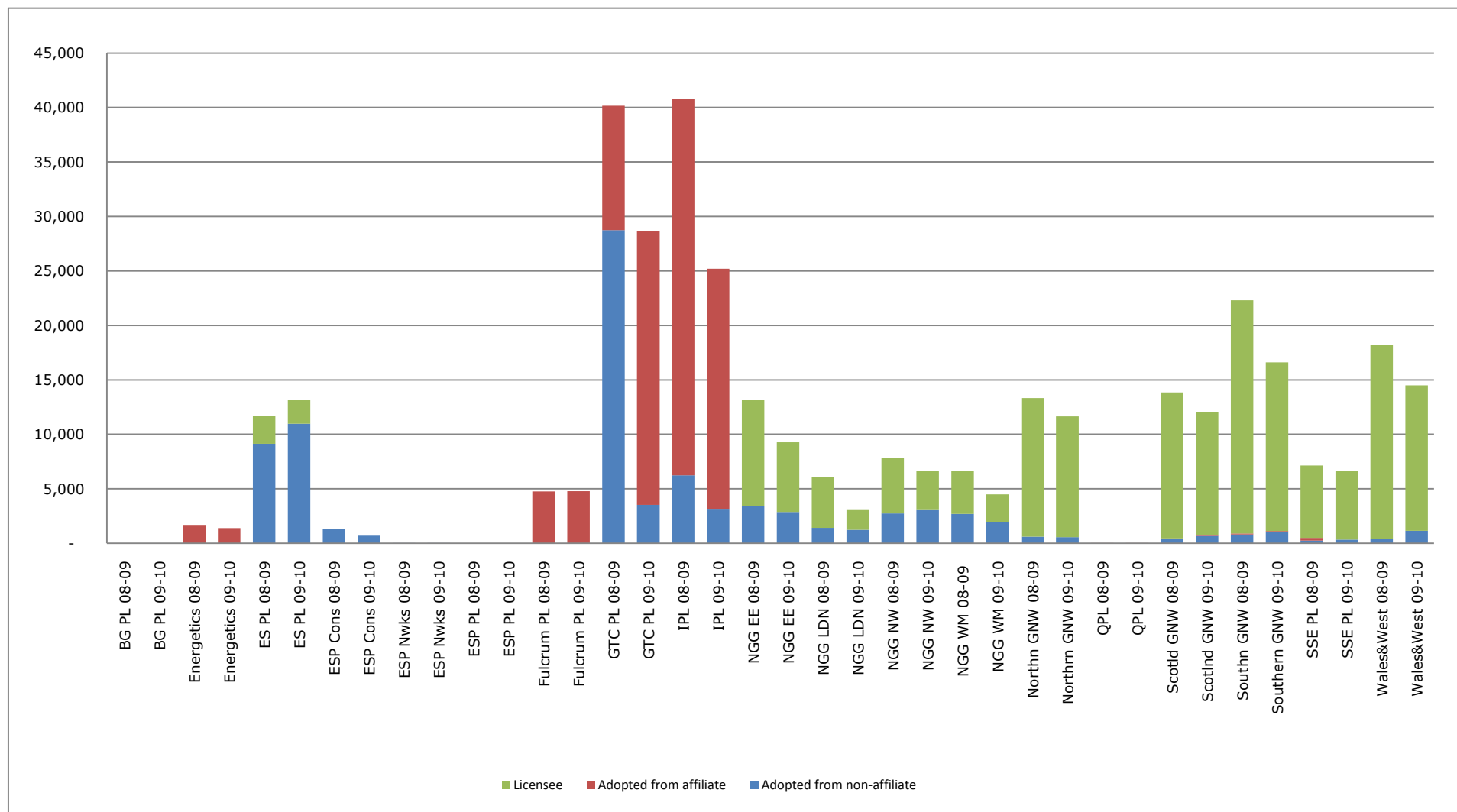
Connections by:	GDN 2007-08	IGT 2007-08	GDN 2008-09	IGT 2008-09	GDN 2009-10	IGT 2009-10
Licensee	108,371 42%	9,782 4%	88,695 42%	9,227 4%	65,551 41%	8,489 5%
Companies affiliated to the licensee	139 0%	65,934 25%	147 0%	52,723 25%	159 0%	53,354 34%
Third Parties	5,573 2%	69,027 27%	12,516 6%	45,655 22%	12,627 8%	18,709 12%
Total	258,826 100%		208,963 100%		158,889 100%	

2.24. Figure 2.5 (below) shows that the level of activity by UIPs varies significantly from Local Distribution Zone (LDZ) to LDZ. UIPs have the highest market share in the National Grid North West (47 per cent) and National Grid West Midlands (44 per cent) LDZs. UIPs have the smallest market share in the Northern Gas Networks area (five per cent). There is no one reason for the significant difference in activity. It could be down to the behaviour of the incumbent in that area, or the development strategy of the UIP.

2.25. In the majority of GDN LDZs there has been a year on year increase in the proportion of connections involving UIPs. This is most noticeable in the National Grid London area where the proportion of connections involving UIPs has risen by 17 per cent. The number of connections involving UIPs did not decrease in any GDN area.

2.26. The proportion of IGT connections involving UIPs largely remained the same. However, in one IGT area the percentage of connections involving UIPs reduced while the percentage involving IGT affiliates increased.

Figure 2.5 - Number of gas connections by LDZ (2008-09/2009-10)



Total charges for gas connections

2.27. In 2009-10, the approximate value of charges made by GDNs and IGTs for new and modified connections was £45 million, down nearly 30 per cent compared to charges levied by GDN and IGTs in 2008-09 (£67 million). The lower value of charges in 2009-10 corresponds with a fall in the number of connections made over the last year.

2.28. Of the charges made for new and modified connections £1.9 million (four per cent) were levied by IGTs, this is down from five per cent in 2008-09.

Table 2.6 -Total charges made by GDNs/IGTs (£m)

	2007-08 (£m)	2008-09 (£m)	2009-10 (£m)
GDNs	97.9	63.1	43.4
IGTs	3.4	3.4	1.9
Total	101.3	66.6	45.3

2.29. It should be noted that the “total charges” figures do not show the total value of the market as we are unable to require UIPs to provide us with data.

Fuel poor network extensions

2.30. Fuel poor network extensions were initially proposed in GDPCR 1 and were implemented in January 2009. They involve the GDN partnering with another organisation in order to provide discounted or free gas connections to those classified as ‘fuel poor’¹⁸. 2009-10 is the first regulatory year in which we have figures that show the number of gas connections made by GDNs under the network extensions scheme.

2.31. Overall in 2009-10 there were 5,672 fuel poor connections. This is well above anticipated numbers; the expectation for the period 2008-2013 was to connect 20,000 fuel poor customers.

2.32. The table below shows that National Grid has completed the most fuel poor connections. It is also possible to see that most of the fuel poor connections done to date were one-off connections and not part a project to connect a community.

2.33. We are currently reviewing this scheme as part of the RIIO-GD1 price control review.¹⁹

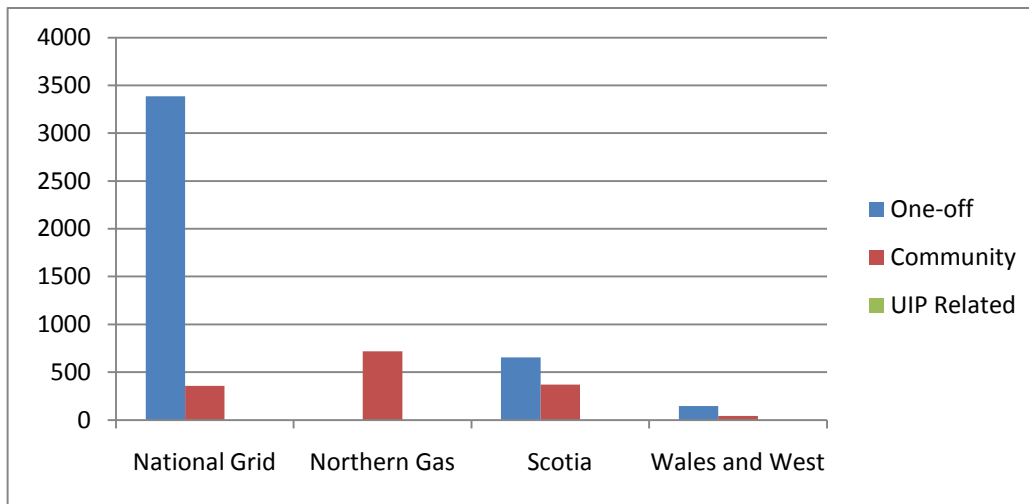
¹⁸ Guidance on Fuel Poor Network Extensions can be found on the Ofgem website at [http://www.ofgem.gov.uk/Consumers/ncamm/Documents1/Guidance%20on%20how%20to%20apply%20for%20a%20fuel%20poor%20discount%20%20\(2\).pdf](http://www.ofgem.gov.uk/Consumers/ncamm/Documents1/Guidance%20on%20how%20to%20apply%20for%20a%20fuel%20poor%20discount%20%20(2).pdf)

¹⁹ More information can be found on the Ofgem website at <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=251&refer=Networks/GasDistr/RIIO-GD1/ConRes>

Table 2.7 – Total number of fuel poor network extensions connections

GDN	Type of Connection			Total
	One-off	Community	UIP Related	
National Grid	3386	358	-	3744
Northern Gas	-	718	-	718
Scotia	654	369	-	1023
Wales and West	145	42	-	187
Total	4185	1487	0	5672

Figure 2.6 – Total number of fuel poor network extensions connections



3. Customer service in connections

- ➔ This chapter looks at the performance of gas and electricity network distributors against the various licence conditions that apply to their connection activities.
- ➔ Performance for DNOs against the voluntary unmetered Key Performance Indicators (KPIs) remains below benchmarks for most standards. SP Manweb only achieved three of the eleven KPIs in 2009-10.
- ➔ Generally performance against the Gas Guaranteed Standards is good.
- ➔ Investigations into SHEPD, CN (East and West), and ENWL's compliance with SLC12 concluded in 2010-11.

3.1. In this chapter we set out the data we have received from gas and electricity network distributors in relation to the connections service they provide. The level of service that customers receive when obtaining a gas or electricity connection can vary and concerns remain about poor performance in the electricity connections market in particular.

3.2. In this section we set out performance against SLC 15 'Standards for the provision of Non-Contestable Connections Services'. We also provide an update on how we have reviewed the SLC 19 'Prohibition of discrimination', the reporting against the unmetered key performance indicators, and performance against SLC 12 ('Requirement to Offer Terms for Connection').

3.3. In addition, we also set out performance against the quality of service standard of the Gas Distribution licence (SLC D10) and the accompanying gas connections guaranteed standards of performance.

Performance of electricity distributors against SLC 15

3.4. SLC15 requires DNOs to provide a range of non-contestable services to ICPs within specified time limits in at least 90 per cent of cases (measured for each category of service across a regulatory year). In addition, DNOs must use reasonable endeavours to meet the requirements in every case. The condition came into effect on 1 October 2007 and replaced a previously voluntary regime.

3.5. SLC15 covers three key areas of non contestable connection services:

- providing quotations and Point of Connection (POC) information
- responding to design submissions
- completing final works/energisations.

3.6. Satisfactory performance in these areas is considered essential to allow effective competition in connections services which are contestable. ICPs or IDNOs rely on the DNOs' services in formulating their offers to end-customers and in fulfilling their connection contracts.

3.7. We have received data on the performance of each DNO since the introduction of the standards in October 2007, with 2009-10 being the second full year of reporting.

3.8. On average the reported industry performance rates have improved across seven of the standards and remained consistent across five. Two standards were reported against after no reporting in 2008-09.

3.9. Appendix 9 provides further detail and information on DNO performance against the SLC 15 standards including a comparison with performance in previous years.

Performance of electricity distributors against SLC 19

3.10. SLC19 prohibits discriminatory behaviour by licensees. In the last CIR, it was noted that respondents felt that the questions posed by Ofgem to assess compliance could be more specific. A revised template²⁰ for 2009-10 was developed. Some of the key findings have been outlined below. The need for external auditors to assess compliance with SLC 19 is being kept under review.

3.11. All DNOs have demonstrated that they are compliant with their requirements for audit (SLC 44) and there is no evidence of breaches under SLC 19. Despite this however the results indicate that steps taken to avoid discrimination vary between DNOs. We continue to have concerns that in some areas there is little in the way of formal processes, policies, training programmes, stakeholder engagement and self-monitoring to ensure the approach taken is appropriate. We will continue to focus on this area and will expect DNOs to come forward with proposals for improvement. Table 3.1 (overleaf) outlines the procedures each DNO has in place to comply with SLC19.

3.12. The majority of DNOs have in place a formal policy statement in relation to avoiding discriminatory behaviour, either as an individual policy or code of conduct or as part of a broader policy on competition law and regulatory compliance. Other DNOs have in place a strong organisational philosophy or corporate governance/accountability processes which include an emphasis on equal treatment, licence compliance and prohibition of discrimination. One DNO relies on its system design alone to ensure compliance.

²⁰ The current template can be found on the Ofgem website at <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=16&refer=Networks/Connectns/taf>

Table 3.1 – DNOs procedures in place to comply with SLC19

DNO	Policy/Procedure in place
CE Electric (CE)	Corporate governance and compliance assurance protocols
Central Networks (CN)	Specific policy on competition law and regulatory compliance
Electricity North West (ENWL)	Specific policy manual and process of accountability
Scottish Power (SP)	No formal policy. Reliance on system design
Scottish and Southern Electricity (SSE)	Several policy documents refer to SLC 19 compliance
EDF	Dedicated regulatory compliance policy document
Western Power Distribution (WPD)	Code of conduct on fair competition

3.13. All DNOs have either a single or multiple points of responsibility for monitoring compliance. Some have this responsibility spread across different licensed regions or across different parts of their organisations.

Table 3.2 – DNOs points of responsibility

DNO	Point of responsibility
CE	Several points of contact with differing responsibilities
CN	Single point of contact
ENWL	Several points of contact throughout the organisation
SP	Single point of contact
SSE	Two points of contact, one each for each licensed region
EDF	Several points of contact throughout the organisation
WPD	Single point of contact

3.14. All DNOs have in place some level of training or communication with those members of staff engaged in the provision of connections services to ensure they avoid discrimination and treat parties and persons equally and fairly. Some have more formal training in place than others, whilst others rely on semi-formal briefings as a way of addressing this issue.

3.15. One of the key concerns highlighted by ICPs is access to information. DNOs were asked about the types of information available to customers and ICPs, where it was stored and arrangements in place to allow access. The majority of DNOs provide access to all the types of information listed in the question. However some do not provide access to codes of practice and current network load information/feeder load analysis. We have identified that the lack of access to information is a potential barrier to competition.

Table 3.3 – DNOs access to information given to customers

DNO	Access to information
CE	Provide access to all information specified in the question. In addition they plan to enhance the amount of information available on their website and how they signal any updates to the information
CN	Provide access to all information specified in the question. All is web based and maintained
ENWL	Provide access to all information specified in the question. Information is provided online following a request for access to their electronic library.
SP	Do not provide access to codes of practice relating to substation design and HV network protection or design policy except on a case by case basis. Do not provide current network load information/feeder load analysis
SSE	Provide access to all information except current network load information/feeder load analysis
EDF	Do not provide codes of practice relating to substation design, HV and LV network protection. Also do not provide current network load information/feeder load analysis
WPD	Provide access to all information except current network load information/feeder load analysis

SLC 12 – provision of quotations

3.16. SLC 12 obliges licensees to provide offers for connection as soon as reasonably practicable, and in any event within three months of the receipt of an application. This is provided that the application contains all such information as may reasonably be required by the DNO for the purpose of formulating an offer.

3.17. The responses received from IDNOs regarding SLC12 indicate that they rarely receive requests for connections because generally the networks they run are new developments that are adopted from ICPs ready built. Although SLC12 obliges a three month time frame for providing quotes, this is only intended as a backstop. We have introduced Guaranteed Standards in order to set timeframes dependant on the type of connection.

3.18. It is expected that with the introduction of Guaranteed Standards of Performance in October 2010 the speed with which customers receive quotations when applying for connections will improve. We will report on this in future CIRs.

3.19. However we also note that there may be some misalignment between the new Guaranteed Standards and SLC12. SLC12 specifies a three month time period within which connection offers should be provided. The Guaranteed Standards specify it as being 65 working days. There can be three month periods which, due to bank holidays, can include less than 65 working days. In these circumstances a potential breach of SLC12 may not result in a failure to meet the Guaranteed Standard. As well as this, the Guaranteed Standards allow network companies the opportunity to

'stop the clock' to allow for any legitimate delays in processing applications, ie a need for further information. There is no such equivalent mechanism under SLC12. Again what may be considered a breach in one is not in another. As systems are updated to accommodate the Guaranteed Standards these issues are likely to become more evident.

3.20. In our final proposals we noted that SLC12 would remain as a backstop for provision of quotations and that removing it from the licence would essentially mean taking a step backward in customer protection. As a result we are currently considering solutions to address this issue.

Table 3.4 – Average and maximum timescales within which Licensees have provided S16 connection offers in 2009-10²¹.

	LV		HV		EHV		DG	
	Average number of days	Max number of days	Average number of days	Max number of days	Average number of days	Max number of days	Average number of days	Max number of days
CN West	16	100	41	104	0	0	27	86
CN East	15	108	46	127	78	78	31	109
ENW	14	135	32	90	54	85	44	90
NEDL	11	89	38	88	40	90	42	90
YEDL	8	87	25	87	47	90	33	87
WPD Wales	3	17	14	89	51	59	38	89
WPD West	4	18	53	90	35	35	73	94
EDFE EPN	11	90	23	89	35	91	64	91
EDFE LPN	12	91	24	91	45	90	45	73
EDFE SPN	17	90	32	89	51	91	47	91
SP Dist.	14	60	32	60	0	0	40	85
SP Manweb	11	15	50	90	89	91	89	92
SHEPD	4	391	32	160	0	0	78	152
SEPD	3	90	34	90	90	90	90	90
IPNL	15	15	0	0	0	0	0	0
Energetics	5	29	0	0	0	0	0	0
EDFE IDNO	38	46	28	54	0	0	0	0

Key - Red: Where responses indicate that SLC 12 may have been breached.

3.21. Table 3.4 highlights WPD Wales's good performance across all voltages. On the other hand it also highlights CN East and SHEPD's poor performance in three of the four voltages. We can also see that the average number of days taken to provide connection offers for LV connections is significantly lower than that of any other voltage. EHV connections offers took the longest on average, this is probably because these types of connection are more complicated as they often require reinforcement and have more of an impact on the network.

²¹ A section 16 connection offer refers to an offer made under Section 16 of the Electricity Act 1989.

30 and 40 day standards

3.22. In addition to other reporting requirements, in 2009-10 DNOs were required by quality of service regulations to provide Ofgem with information on the number of straightforward domestic and non-domestic metered connections which they completed within 30 days and 40 days respectively²². For this purpose a straightforward connection is defined as a connection where only a new service line (LV, up to 1kV, electrical line or equipment) is required. This predominantly refers to situations where there is a nearby existing electricity main to which the new service line can be jointed.

3.23. In 2009-10 DNOs reported that a total of 21,412 straightforward domestic connections had been completed (11 per cent of total electricity metered connections). Of those straightforward connections 93 per cent had been completed within 30 working days, this is down from 99 per cent in 2008-09. They also reported that a total of 10,660 straightforward non-domestic connections had been completed (6 per cent of total electricity metered connections). Of those straightforward connections 92 per cent had also been completed within 40 working days, this is again down from 99 per cent in 2008-09.

3.24. Since the connections guaranteed standards of performance were introduced on 1 October 2010, the 30 and 40 day standards will no longer be a feature of the standards of performance. The new connections guaranteed standards of performance do not set out the number of days in which a connection is to be completed. Rather they require companies to enter into an agreement with the customer as to when the connection should be complete.

Performance against Key Performance Indicators (KPIs) - unmetered connections

3.25. Given the lack of effective competition in the provision of unmetered connections, we are keen to ensure that DNOs meet appropriate customer service standard benchmarks.

3.26. In 2009-10 there were no specific licence conditions or financial incentives associated with customer service standards in the provision of unmetered services by DNOs. Historically, DNOs have agreed individual Service Level Agreements (SLAs) with their clients, the Local Authorities (LAs). However, performance metrics varied and not all LAs had SLAs. As in 2008-09, in 2009-10 DNOs reported their performance against a standard set of Key Performance Indicators (KPIs), derived from the specimen unmetered SLA originally issued through the ECSG in 2005 (see Appendix 10 for discussion of the role of ECSG). These KPIs relate to street lighting and street furniture services provided by DNOs to LAs and include both connections and fault repair performance.

3.27. The KPIs were set at a level based on historic performance which should be achievable by DNOs on a consistent basis and establish a datum for future service level improvements. Bearing this in mind, the reported performance levels are disappointing.

²² The reporting criteria are set out in the quality of service regulatory instructions and guidance

3.28. As illustrated in Table 3.2, average DNO performance was again below the benchmark level for eight of the eleven standards, the same eight as in 2008-09. However even though some were still below the benchmark, performance has improved in eight of the eleven standards.

3.29. The best performing DNOs in 2009-10 were ENW and SHEPD, as they both met 11 and 10 out of 11 respectively, of the performance benchmarks. This compares with 10 out of the 11 benchmarks met by CN West in 2008-09. CN West only achieved four of the KPIs in 2009-10.

3.30. The worst performing DNO was SP Manweb who only achieved three out of the eleven KPIs. This is no improvement on the three out of eleven KPIs they achieved in 2008-09.

3.31. Since we have made it clear in the last two CIRs that the DNOs' inability to meet the service benchmarks was disappointing and given that we would expect performance to improve year on year, it is our view that the level of service provided to unmetered connections customers is unacceptable.

3.32. As a result, in DPCR5 we introduced a means of imposing financial penalties for under performance. DNOs will have to tighten up performance or face significant pay outs under the Guaranteed Standards initiative.

Table 3.5 – DNO average performance against KPI benchmarks

Standard	Performance Benchmark	Industry Average 2007-08	Industry Average 2008-09	Industry Average 2009-10
Emergency response	80%	70.0%	77.0%	70.12%
High priority fault repair 50% < 1 working day	50%	49.0%	47.0%	46.82%
High priority fault repair 90% < 10 working day	90%	87.0%	86.0%	83.82%
Multiple unit fault repair 75% <10 working days	75%	69.0%	63.0%	71.40%
Multiple unit fault repair 90% <20 working days	90%	89.0%	81.0%	87.81%
Single unit fault repair 60% <10 working days	60%	59.0%	61.0%	62.82%
Single unit fault repair 80% <20 working days	80%	81.0%	82.0%	84.16%
New works 1- 10 jobs. 60% <15 working days	60%	51.0%	55.0%	74.97%
New works 1 - 10 jobs. 90% <30 working days	90%	77.0%	81.0%	89.96%
New works 11 - 50 jobs. 70% < 25 working days	70%	67.0%	78.0%	84.70%
New works 11 - 50 jobs. 90% <35 working days	90%	78.0%	88.0%	90.13%

3.33. Further detail on individual DNO performance against the unmetered KPIs can be found in Appendix 9 of the Appendices document.

Performance against Gas Connections Guaranteed Standards

3.34. Connections related Guaranteed Standards of performance were introduced into both the Gas (Standards of Performance) Regulations 2005²³ and GDNs' Standard Special Licence Condition D10²⁴ in 2005.

3.35. In total there are 14 standards of performance, eight of which relate to connections. These eight standards set out the requirements to quote for work and to complete works within a prescribed number of days, or to agreed timescales.

3.36. All the standards of performance apply equally to all Gas Transporters (,), but the potential penalties may differ. The Regulations require GTs to pay compensation to the relevant customer each time GTs fail to meet the required standard²⁵. However, only GDNs face possible enforcement from Ofgem if the company fails to meet any of the standards at least 90 per cent of the time. These different arrangements apply because incumbent monopoly power was the primary concern at the time of distribution network sales in 2005. Similarly, it was not thought proportionate to place a standards of performance licence obligation on IGTs. This difference in regulation may need to be revisited in time.

3.37. GTs are required to pay compensation only in respect of service requests by end-customers and not if they have failed to meet a standard when serving ICPs or IGTs. However, GTs have agreed (on a voluntary basis) to make the same compensatory payments as prescribed in the Regulations to ICPs and IGTs when they fail to meet the standard required in respect of end-customers.

3.38. The industry's²⁶ performance against seven of the eight connections standards is set out in Table 3.6 below and a detailed breakdown of the performance of each GT against all 8 standards is set out in Appendix 9.

3.39. Overall, GDN performance has been good, with GDNs meeting the standard on average 99 per cent of the time. IGT performance dropped slightly to 98 per cent in 2009-10. While Standard Special Condition D10 does not apply to IGTs, we would expect IGT performance to at least be at the same level as GDNs. We would also expect performance of both GDNs and IGTs to improve on a year on year basis.

3.40. The guaranteed standards also include a standard relating to the accuracy of quotations (GS7). Where a customer challenges a quotation under the GTs' published accuracy scheme and the quotation is found to be inaccurate the GTs must refund any overcharge that has been made. The quotation is treated as a failure under the relevant Guaranteed Standard until a revised quotation has been provided.

²³ Statutory Instrument 2005 No.1135

²⁴ Standard Special Licence Condition D10 of the Gas Transporters licence.

²⁵ Details of the compensation payable, which varies from incentive to incentive, are set out in Appendix 6

²⁶ Due to differences in the way IGTs report performance against guaranteed standards we are unable to include data from two IGTs in this report. We hope that this issue will be resolved in future reporting periods.

3.41. In 2009-10 GDNs received 21 requests for quotations to be reviewed, of these quotations six (29 per cent) were found to be inaccurate. This compares to 62 requests in 2008-09 when nine (15 per cent) quotations were found to be inaccurate.

3.42. Overall GDNs issued two refunds this is compared with zero in 2008-09. In 2009-10 IGTs received no requests for quotations to be reviewed.

3.43. Information about all Guaranteed Standards, including those that do not relate to connections can be found on the Ofgem website under Gas Distribution -> Quality of Service.

Table 3.6 – Summary of performance against Guaranteed Standards

Guaranteed Standard	Description	GDN						IGT					
		Average percentage achieved			Worst licensee percentage			Average percentage achieved			Worst licensee percentage		
		2007-08	2008-09	2009-10	2007-08	2008-09	2009-10	2007-08	2008-09	2009-10	2007-08	2008-09	2009-10
GS4	Provision of standard connection quotations =<275kWh per hour within 6 working days	98.00	99.00	99.76	97.00	98.00	99.29	100.00	100.00	95.16	100.00	100.00	94.59
GS5	Provision of nonstandard connections quotations ≤ 275 kWh per hour within 11 working days	97.00	98.00	99.36	93.00	91.00	95.34	100.00	98.00	99.05	100.00	60.00	92.86
GS6	Provision of nonstandard connection quotations >275 kWh per hour within 21 working days	96.00	96.00	99.45	93.00	94.00	90.00	100.00	100.00	100.00	100.00	100.00	100.00
GS8	Response to land enquiries within 5 working days	99.00	100.00	99.62	99.00	99.00	99.20	-	-	100.00	-	-	100.00
GS9	Offering a date for commencement and substantial completion of connection work (≤ 275 kWh per hour) within 20 working days	99.00	100.00	99.36	96.00	100.00	97.51	100.00	100.00	97.63	100.00	100.00	63.64
GS10	Offering a date for commencement and substantial completion of connection work (> 275 kWh per hour) within 20 working days	96.00	98.00	99.40	93.00	97.00	80.00	100.00	100.00	100.00	100.00	100.00	100.00
GS 11	Completion of the work on the agreed date	97.00	97.00	95.41	96.00	93.00	92.21	100.00	94.00	90.86	100.00	100.00	85.37
Average over all relevant standards		97.4	98.3	98.9	95.3	96.0	93.4	100.0	98.7	97.5	100.0	93.3	90.9

Investigations and Determinations

Connections Investigations

3.44. Once we have decided that there are reasonable grounds for suspecting there may have been, is, or is likely to be a breach of any of requirements of the legislation we have the power to enforce, and we may commence an investigation.

3.45. Investigations usually involve several stages. We may request information from the company involved and third parties. This is either informally or using our formal powers under the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998 or the Enterprise Act 2002. Once the information has been gathered and analysed, if appropriate, we will produce a document which sets out the case against the company which is the subject of the complaint. At this stage we could also choose to close the case and would explain our reasons for doing so. If we have produced a document setting out the case against them, the company will then have the opportunity to respond to the case. We will consider the company's response before deciding on the appropriate course of action.

3.46. In 2009-10 we commenced the following investigations that relate to connections activities

Investigation into Central Networks East and West ("CN") regarding compliance with its electricity distribution licence, specifically:

- SLC 4D and SLC 12 (Requirement to offer terms for Use of System and connection)
- SLC 30 (Availability of Resources)

Investigation into Scottish Hydro Electric Power Distribution ("SHEPD") regarding compliance with its electricity distribution licence, specifically:

- SLC 4D and SLC 12 (Requirement to offer terms for Use of System and connection).
- SLC20 (Compliance with Core Industry Documents)
- SLC 30 (Availability of Resources)

Investigation into Electricity North West Limited ("ENWL") regarding compliance with its electricity distribution licence, specifically:

- SLC 4D and SLC 12 (Requirement to offer terms for Use of System and connection).

3.47. In February 2011 Ofgem concluded these investigations; SHEPD and CN were found in breach of the licence for failing to meet the three month deadline for providing connections offers in a number of cases(SLC4D and SLC12),and for not having systems and processes sufficient to monitor provision of their connections services (SLC30).

3.48. ENWL was found in breach for failing to meet the three month deadline in a number of cases (SLC4D and SLC12). All three DNOs have entered settlements with

Ofgem and have agreed not to contest our findings. In total we have issued fines of £1 million.

3.49. The investigation into SHEPD for compliance with SLC 20 was not pursued.

3.50. Further information about these investigations can be found at www.ofgem.gov.uk under Enforcement -> Investigations.

Connections Determinations

3.51. There are circumstances in which a dispute between an electricity distributor or gas transporter and a customer may be referred to the Gas and Electricity Markets Authority for a determination. These can arise under statute (particularly the Gas Act 1986 and the Electricity Act 1989) or under the provisions of licences. Where a dispute arises, Ofgem will expect that the parties will seek to resolve it between themselves or where applicable with assistance from the Energy Ombudsman²⁷. If these efforts are unsuccessful the matter may be referred to Ofgem for determination.

3.52. In 2009-10 we received 12 formal requests for Ofgem to determine connection disputes (nine relating to electricity and three relating to gas).

- Of the nine electricity connection disputes referred to Ofgem in 2009-10; no decision was issued in the period
- four disputes were withdrawn
- two disputes were settled before the disputes process was completed
- one decision was issued after 31 March 2010; and two are ongoing.

3.53. Of the three gas connection disputes referred to Ofgem in 2009-10:

- one decision was issued in the period, in which we found in favour of the complainant and they were awarded a payment of £5729.29²⁸
- two disputes are ongoing.

3.54. In 2009-10 we also issued three decisions (one gas, two electricity) relating to connection disputes referred to Ofgem for determination prior to 1 April 2009. In all three determinations we found in favour of the customer.

3.55. In August 2009 we published a letter²⁹ on our website (www.ofgem.gov.uk under Consumers -> Getting a connection) to all DNOs and GDNs concerning a change in Ofgem's involvement in connections dispute resolution following the

²⁷ Since 1 October 2008 there have been new consumer arrangements which replace energywatch. For more details see the following link:

<http://www.ofgem.gov.uk/Media/FactSheets/Documents1/changestoconsumer.pdf>

²⁸ More information on this, and other determinations can be found on our Electronic Public Register here:

<http://epr.ofgem.gov.uk/index.php?pk=folder156674>

²⁹ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=12&refer=Consumers/GettingConn>

introduction of The Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008³⁰. That letter explained that we expect licensees to make every effort to resolve disputes before they escalated to the point of being formally referred to Ofgem. The letter also explained that to allow us to devote our resources to the key policy and regulatory issues related to connections, we have decided that it is no longer appropriate for us to provide an informal connections mediation service. The letter stated that as of 1 September 2009 we would refer all queries and informal complaints to the network companies concerned.

3.56. In December 2009 we published an open letter as part of a review into our determinations procedures. A copy of that open letter can be found on our website www.ofgem.gov.uk under Consumers -> Getting a connection.

3.57. In July 2010 we set out our decision to seek to recover some costs for our determination work under specific circumstances as the determinations process can be lengthy and time consuming process. We are keen to improve this process. In the July letter, and a further letter published in December, we set out some key process changes including naming licensees in our published determinations, updating our determinations procedure document and recovering some determination costs from parties. Part of this, particularly charging to encourage parties to cooperate, is aimed at encouraging network companies to look to do all they can to resolve customer complaints before they are referred to us.

3.58. In relation to recovering costs we have consulted stakeholders on the most appropriate cost recovery approach, the proposed circumstances and factors to be taken into account before seeking to recover such costs³¹. As a result of this we will be updating our guidance on determinations which will be published in Spring 2011.

³⁰ S.I. 2008/1898

³¹ A copy of the open letter can be found here;
<http://www.ofgem.gov.uk/Consumers/ncamm/Pages/ncamm.aspx#unhappy>

4. The Way Forward

4.1. The information contained within this year's CIR highlights a number of issues that we will seek to address over the course of 2011. Our proposed priorities for the year ahead are highlighted below. We invite views from recipients of this report on these priorities.

4.2. In the next CIR, we will report on how effectively the measures introduced through DPCR5 have worked in addressing the various issues relating to customer service and the development of competition highlighted in this document. If there has been no significant change by 2013 we may begin to refer cases to the Competition Commission.

4.3. To support the growth of competition in DPCR5 we introduced a requirement on DNOs to come forward with evidence to support a competition test assessment. If successful, DNOs will be able to earn an unregulated margin on connection activities. To succeed in this application however, we will expect to see a significant improvement in the effort demonstrated by each DNO in addressing the poor levels of service that have traditionally characterised this market. As yet no company has come forward however we anticipate receiving applications later this year.

4.4. Elsewhere we will be looking to assist the growth of competition in the electricity sector by working with the industry to extend the type of work for which ICPs/IDNOs can compete. This 'extension of contestability' should help remove one of the key barriers that are seen to restrict the development of competition.

4.5. In 2011 we will begin consultation on the regulatory arrangements for IDNOs and IGTs. This will provide an opportunity to highlight how effective the market has been in delivering anticipated benefits to customers and whether or not the current arrangements need amending.

4.6. In 2010 we began work on the next gas distribution price control, RIIO-GD1, which is due to start in April 2013. Through this process we will review the current arrangements in relation to connections. We will work with industry and other stakeholders to ensure that the network companies are focussed on delivering an efficient connections service that meets the requirements of customers.

Appendices

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Appendix 1 - Glossary

A

ACB [Affiliated Connections Business](#)

A connections business which is a holding company of a distribution network operator, subsidiary of such a holding company or subsidiary of a distribution network operator (as defined within the Companies Act 1985).

D

DG [Distributed Generation](#)

Distributed generation is also known as embedded or dispersed generation. It is an electricity generating plant connected to a distribution network rather than the transmission network. There are many types and sizes of distributed generation facilities. These include Combined Heat and Power (CHP), wind farms, hydro electric power or one of the new smaller generation technologies.

DLCA [Domestic Load Connections Allowance](#)

If a customer lives within 23 metres of the main gas main and they connect to a GDN network then they are entitled to not pay for the first ten metres of their new connection.

DNO [Distribution Network operator \(Electricity\)](#)

There are 14 Electricity Distribution Network Operators who carry electricity from the transmission system and some distributed generators to industrial, commercial and domestic end users. They have distribution service areas which correspond to those of the former public electricity suppliers (before privatisation in 1990). They are owned by seven different corporate groups.

DPCR [Distribution Price Control Review](#)

The price review applicable to electricity distribution network operators. The fifth Distribution Price Control Review (DPCR5) was launched in April 2010.

DSA [Distribution Service Area](#)

Electricity DNOs each have a distribution service area. With the exception of embedded independent networks they are monopoly operators within that area and are subject to particular licence requirements accordingly.

E**ECSG** Electricity Connections Steering Group

Advises Ofgem on the measures that are required to support the development of competition in the electricity connections market.

EHV Extra High Voltage

Over 22 kV but less than or equal to 72 kV

EPR Electronic Public Register

The online register set up by Ofgem to store records of determinations, Exemptions, Industry Code Determinations, Licences, Metering and Standard Licence Conditions.

<http://epr.ofgem.gov.uk/>

G**GDN** Gas Distribution Network (Operator)

There are five Gas Distribution Network Operators who transport Gas from the National transmission system to final customers. Up until June 2005 all eight area networks in the country were owned and operated by National Grid Gas but at that time, four area networks covered by four licences were sold to three other corporate groups, whilst four were retained by National Grid Gas plc under one licence.

GS Guaranteed Standard

The Gas Act 1986 (as amended) ("the Gas Act") provides for the Authority to make regulations for guaranteed standards of Performance. In the light of these provisions, standards of performance for gas transporters were introduced for the first time in April 2002. Guaranteed standards of performance set service levels that must be met in each individual case and are made with the consent of the Secretary of State for Trade and Industry.

GT Gas Transporter

Another word to describe a GDN or IGT. Relates to the licence they hold, a gas transporter licence, which is the equivalent to an electricity distribution licence.

H**HV** High Voltage

Exceeds 1 kV but does not exceed 22 kV

I**ICP** **Independent Connections Provider**

An independent connections provider not affiliated to a distribution network operator.

IDNO **Independent Distribution Network Operator (Electricity)**

In 2007-08 there were four independent electricity distribution network operators. IDNOs own and operate various small networks embedded within DNO networks. IDNOs do not have DSAs.

IGT **Independent Gas Transporter**

In 2007-08 there were eleven IGT licence holders. IGTs own and Operate various small networks embedded within GDN networks.

IN **Independent Network**

For the purpose of this document, 'independent network' refers to a network within a host DNO's DSA which is owned and operated either by an IDNO or by another DNO.

Intermediate Pressure

Gas term. Intermediate Pressure is defined as any pressure between 2 bar and 7 bar. It is measured at the inlet to the Primary Meter installation.

K**KPI** **Key Performance Indicator**

A set of benchmarks to be met by DNOs. These are not backed up with any specific licence conditions or financial incentives.

L**LDZ** **Local Distribution Zone****Low Pressure**

Gas term. Low Pressure is defined as any pressure not exceeding 75 mbar and is measured at the inlet to the Primary Meter Installation.

LTS **Local Transmission System**

Greater than 7 bar pressure.

LV **Low Voltage**

Does not exceed 1kV

M

Medium Pressure

Gas term. Medium Pressure is defined as any pressure between 75 mbar and 2 bar. It is measured at the inlet to the Primary Meter Installation

P

POC **Point of Connection**

The point at which new works are connected to the existing distribution network.

R

Regulatory Year

From 1 April - 31 March.

S

SLC **Standard Licence Condition**

A Condition of either the Electricity or Gas Distribution licence.

U

UIP **Utility Infrastructure Provider**

An independent connections provider not affiliated to a gas distribution network operator

Appendix 2 - Index of Licensee names

Abbreviation	Licensed entity	Group
NEDL	Northern Electric Distribution Ltd	CE Electric UK
YEDL	Yorkshire Electricity Distribution Plc	
BG PL	British Gas Pipelines Ltd	Centrica Plc
EDFE EPN	EDF Energy Networks (EPN) Plc ³²	EDF Energy ³³
EDFE LPN	EDF Energy Networks (LPN) Plc ³⁴	
EDFE SPN	EDF Energy Networks (SPN) Plc ³⁵	
ENWL	Electricity North West Ltd	Electricity North West Limited
Energetics	Energetics Electricity Ltd	Energetics Networked Energy
Energetics	Energetics Gas Ltd	
CN West	Central Networks West Plc	E.ON UK
CN East	Central Networks East Plc	
ESP PL	ESP Pipelines Ltd	ESP Gas Group Ltd
ES PL	E.S. Pipelines Ltd	
ESP Cons	ESP Connections Ltd	
ESP Nwks	ESP Networks Ltd	
ESP	ESP Electricity Ltd	
Fulcrum PL	Fulcrum Pipelines Ltd	
IPNL	Independent Power Networks Ltd	The Inexus Group
IPL	Independent Pipelines Ltd	
QPL	Quadrant Pipelines Ltd	
ENC	The Electricity Network Company Ltd	International Energy Group
GTC PL	GTC Pipelines Ltd	
NGG NW	National Grid Gas North West Plc	National Grid
NGG WM	National Grid Gas West Midlands Plc	
NGG EE	National Grid Gas East of England Plc	
NGG LDN	National Grid Gas London Plc	
Northn GNW	Northern Gas Networks Ltd	Northern Gas Networks Ltd
Scotld GNW	Scotland Gas Networks Plc	Scotia Gas Networks plc
Southn GNW	Southern Gas Networks Plc	
SSE Hydro	Scottish Hydro Electric Power Distribution Plc	Scottish and Southern Energy
SSE south	Southern Electric Power Distribution Plc	
SSE PL	SSE Pipelines Ltd	
SP Dist.	SP Distribution Ltd	Scottish Power Ltd
SP Manweb	SP Manweb Plc	
Wales & West	Wales and West Utilities Ltd	Wales and West Utilities
WPD S. Wales	Western Power Distribution (South Wales) Plc	Western Power Distribution
WPD S.West	Western Power Distribution (South West) Plc	

³² Now known as Eastern Power Networks

³³ Now known as UK Power Networks

³⁴ Now known as London Power Networks

³⁵ Now known as South Eastern Power Networks

Appendix 3 - The Authority's Powers and Duties

1.1. Ofgem is the Office of Gas and Electricity Markets which supports the Gas and Electricity Markets Authority ("the Authority"), the regulator of the gas and electricity industries in Great Britain. This Appendix summarises the primary powers and duties of the Authority. It is not comprehensive and is not a substitute to reference to the relevant legal instruments (including, but not limited to, those referred to below).

1.2. The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002 and the Energy Act 2004, as well as arising from directly effective European Community legislation. References to the Gas Act and the Electricity Act in this Appendix are to Part 1 of each of those Acts.³⁶

1.3. Duties and functions relating to gas are set out in the Gas Act and those relating to electricity are set out in the Electricity Act. This Appendix must be read accordingly³⁷.

1.4. The Authority's principal objective when carrying out certain of its functions under each of the Gas Act and the Electricity Act is to protect the interests of existing and future consumers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the shipping, transportation or supply of gas conveyed through pipes, and the generation, transmission, distribution or supply of electricity or the provision or use of electricity interconnectors.

1.5. The Authority must when carrying out those functions have regard to:

- the need to secure that, so far as it is economical to meet them, all reasonable demands in Great Britain for gas conveyed through pipes are met;
- the need to secure that all reasonable demands for electricity are met;
- the need to secure that licence holders are able to finance the activities which are the subject of obligations on them³⁸;
- the need to contribute to the achievement of sustainable development; and
- the interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.³⁹

1.6. Subject to the above, the Authority is required to carry out the functions referred to in the manner which it considers is best calculated to:

³⁶ entitled "Gas Supply" and "Electricity Supply" respectively.

³⁷ However, in exercising a function under the Electricity Act the Authority may have regard to the interests of consumers in relation to gas conveyed through pipes and vice versa in the case of it exercising a function under the Gas Act.

³⁸ under the Gas Act and the Utilities Act, in the case of Gas Act functions, or the Electricity Act, the Utilities Act and certain parts of the Energy Act in the case of Electricity Act functions.

³⁹ The Authority may have regard to other descriptions of consumers.

- promote efficiency and economy on the part of those licensed⁴⁰ under the relevant Act and the efficient use of gas conveyed through pipes and electricity conveyed by distribution systems or transmission systems;
- protect the public from dangers arising from the conveyance of gas through pipes or the use of gas conveyed through pipes and from the generation, transmission, distribution or supply of electricity; and
- secure a diverse and viable long-term energy supply.

1.7. In carrying out the functions referred to, the Authority must also have regard, to:

- the effect on the environment of activities connected with the conveyance of gas through pipes or with the generation, transmission, distribution or supply of electricity;
- the principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed and any other principles that appear to it to represent the best regulatory practice; and
- certain statutory guidance on social and environmental matters issued by the Secretary of State.

1.8. The Authority has powers under the Competition Act to investigate suspected anti-competitive activity and take action for breaches of the prohibitions in the legislation in respect of the gas and electricity sectors in Great Britain and is a designated National Competition Authority under the EC Modernisation Regulation⁴¹ and therefore part of the European Competition Network. The Authority also has concurrent powers with the Office of Fair Trading in respect of market investigation references to the Competition Commission.

⁴⁰ or persons authorised by exemptions to carry on any activity.

⁴¹ Council Regulation (EC) 1/2003

Appendix 4 - Feedback Questionnaire

1.9. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

- Does the report adequately reflect your views? If not, why not?
- Does the report offer a clear explanation as to why not all the views offered had been taken forward?
- Did the report offer a clear explanation and justification for the decision? If not, how could this information have been better presented?
- Do you have any comments about the overall tone and content of the report?
- Was the report easy to read and understand, could it have been better written?
- Please add any further comments?

1.10. Please send your comments to:

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