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Dear Nienke

## **Electricity Distribution Price Control Review – Update October 2003**

I refer to your DPCR consultation document dated October 2003. I am the chairman of OFGEMs “Metered Customer Connections Group” and am working with OFGEM to develop competition in the electricity connections market.

I believe one area of income that you should consider as part of the DPCR is the DNO recovery of non-contestable charges. Non contestable charges have been excluded in the past from the price control, I believe this is a mistake and DNOs have enjoyed excess returns from these activities. These issues can be addressed by a combination of bringing some items within the DPCR, and by introducing some areas to competition. In order to address these issues, I believe non contestable charges fall into several categories and I shall deal with each separately. As a general principle I believe that regulation in the electricity connections market should mirror that of the gas connections market, which is working well under current rules.

### **Point of Connection, Design Approval, Inspection & Monitoring Charges**

In the gas connections market, Transco do not recover costs directly for point of connection applications, design approval, nor do they levy any inspection and monitoring charges. Indeed, Transco only charge for network design time in excess of 8 hours, where a network study is required.

I believe these principles should readily be transferred to the electricity market. The advantages of this approach are that it gives an incentive to the DNO to carry out this work efficiently and also, it encourages the DNO to act reasonably.

### **Reinforcement**

Again, I think we can look to the gas market and see how this can be applied to the electricity market. In gas a “shallow reinforcement” policy is applied. I would refer you to the OFGAS document dated February 1997 “Transco: connection and system extensions. Regulating for competition”. In that document the rationale of a shallow reinforcement policy is articulated. I can see no reason why the principles could not be readily transferred. Under this policy, the point of connection would be the point where the new connection cables join the existing network (i.e. where the existing system has sufficient capacity to meet the connecting load, disregarding existing loads at that point). Deep reinforcement is therefore recovered through DUoS charges.

In order to implement such a policy the 25% rule would need to be abolished. However, this rule has been applied indiscriminately by the DNOs in the past.

In considering the content of this proposal OFGEM need to change to the application of Tariff Support Allowances and O&M charges in the New Connections market. Currently the application of TSA and O&M is over complicated and only seeks to provide the DNO with an opportunity to distort / hinder competition.

### **Diversions**

I believe this is an area that OFGEM could open to more competition. Diversions, particularly those associated with a new connection, are usually fairly simple. For example, it may be the diversion of a cable that runs across the proposed development site, or it may be moving a substation to a more appropriate position within the site. In both cases, this is work that could become contestable very easily.

In summary;

- I believe DNOs have made excess returns from non contestable activities in the past because these activities have been outside the distribution price control. Clearly any monopoly service provision should be subject to a form of regulation in order to protect customer’s interests.
- OFGEM should look to bring recovery of these costs in line with the gas market
- Point of connection application, design approval and inspection and monitoring charges should be recovered through DUoS
- DNOs should adopt a “shallow” reinforcement policy reflecting that in the gas market
- Diversions associated with new connections should become a contestable activity

I trust the above is of interest to you, I would be happy to expand further on any of these points.

Yours sincerely

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