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Attention: Nienke Hendriks Senior Price Control Review Manager

Dear sirs,

Subject: Electricity Distribution Price Control Review – Update October 2003

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

I believe one area of DNO income that you should consider, as part of the DPCR is the recovery of non-contestable charges. In the past, non-contestable charges have been excluded from the price control, which I believe is a mistake in that DNOs have enjoyed excessive returns from these activities. My experience in this market demonstrates that there is no transparency of charges and no obligation for the DNO to maintain a reasonable tariff of charges both that compromise the customer.

While DNOs are able to separately charge for services under the non-contestable banner they have no incentive to open activities to competition particularly when these charges are not regulated. Furthermore the DNO has the opportunity to cross subsidise contestable work carried out by its own connection business when competing against independent connection providers.

It is my view that these issues can be addressed by a combination of bringing some items within the DPCR, and by incentivising the DNO to introduce some areas to competition.

I believe non-contestable charges fall broadly into three 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

Specifying point of connection is likely always to remain the monopoly of the DNO. Design Approval and Inspection and Monitoring processes exist to satisfy the adopting DNO that a new network meets the DNO standard. I believe all these activities should be provided in the same manner as 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. Charges for network design / design approval should only apply 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.

This policy would see the 25% rule abolished. However, as this rule has been applied indiscriminately by the DNOs in the past, a more transparent policy would emerge.

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. I am aware that OFGEM have recently published a document titled "Structure of Electricity Distribution Charges – Initial Decision" and are inviting comments on the proposals set out in the document by 22 January 2004 for implementation in April 2005.

Diversions

I believe this is an area that OFGEM could encourage DNOs to 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, moving a substation to a more appropriate position within the site or it may be underground an overhead line that crosses the proposed development site. This work could become contestable very easily given that the DNO had the right incentive.

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
- DNO should be incentivised to allow Diversions associated with new connections to 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,

For and on behalf of Mowlem Energy

David Clare
General Manager
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