

Our reference: CB/OFGEM/DPCR/001

Ofgem
9 Millbank
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18th November 2003

For the attention of Nienke Hendriks, Senior Price Control Review Manager

Dear Nienke

Electricity Distribution Price Control Review

Further to the issue of the DPCR consultation document dated October 2003 I have pleasure in outlining a number of points that should be considered in the DPCR.

I am a member of OFGEM's "Metered Connections Group" and have been working with OFGEM to establish an acceptable level of competition in the electricity connections market. I believe one area that must be considered as part of the DPCR is the recovery of Non-contestable charges by the DNO.

On the whole Non-contestable charges have not been subject to review within the DPCR and are currently treated as recovery of "actual costs". The term of actual appears to be subjective and I believe DNO's are able to recover charges for Non Contestable elements that are not reflective of what should be the real costs of undertaking these activities. This would appear to be due to either inefficient working in the non contestable activity or over charging for the particular element.

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

The activities of determining the point of connection, design approval and inspection and monitoring charges are activities that should be carried on all connections and therefore should not be levied at just purely "Contestable Connections". This creates a distorted market favouring the DNO's activities.

Within 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. The costs associated with this activity are recovered through the system charges.

The principles of the gas connections model should be easily transferable to the electricity distribution market. The key advantage to this method is that the DNO is clearly incentivised to complete the work in the most efficient manner.

By eradicating these charges from "Contestable Connections" this would also help to remove the current differential approach the DNO's apply to Competitive Connections against those completed by their

own in house contractors, which whether real or not are perceived by clients/new entrants to be anti competitive.

Tariff Support and O&M Charges

Tariff Support and O&M need to be clearly laid out within the new DPCR. Currently these are applied by DNO's in an inconsistent manner and once again whether real or only perceived, it would appear that work that it undertaken through Competitive Connections is adversely affected by this inconsistency.

I believe tariff support and O&M should be abolished and recovered through the DUoS. Should this not prove practicable then most certainly there is a need for the mechanisms to clear, have a full rationale and there application be clearly laid out. This should include an unambiguous statement that is applied to all projects as to when each element is applied and at what point in the process the tariff support is paid.

Diversions

Diversions could easily be open to competition therefore allowing the customer freedom of choice and through a competitive market place allow price and customer service to be valued by the ultimate client rather than dictated by the DNO.

This would once again remove the issue of determining what "actual costs" are as it could be clearly determined in an open and competitive market place. Therefore focusing the attention of the DPCR around the elements of the DNO regulated business, which actually need to be a monopolistic activity.

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.
- Tariff Support and O&M charges need to be applied consistently or abolished and incorporated into DUoS.
- Diversions associated with new connections should become a contestable activity.

I trust the above is self explanatory however if you require any further information please do not hesitate to contact me.

Yours Sincerely,

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