

Nienke Hendriks
Senior Price Control Review Manager
OFGEM
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Date 19th November 2003

Comments to the Electricity Distribution Price Control Review – Update October 2003

Dear Ms Hendriks

Utility Partnership Limited (UPL) has been an active proponent of competition in new electrical connections; over the past seven years we have brought choice for the first time to our clients. We welcome the opportunity to comment on the DPCR consultation document dated October 2003.

Executive Summary

- 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
- Competition in Connections (CiC) has caused DNO's to form unregulated connections businesses that abuse their monopoly position eg evidence of connection "on-costing" of 50%.
- DNO statements that CiC has given rise to increased connection costs citing OFGEM as the cause.
- There has been a general increase in costs of non-contestable elements.
- Staff transfers from regulated business to unregulated business to suit work loads
- 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

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UPL believe the DPCR should include the income generated by the UK DNO's from the recovery of non-contestable charges in relation to undertaking new electrical connections. Non contestable charges have been excluded in the past from the price control, from which DNOs have made access returns.

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, UPL believe non contestable charges fall into several categories which are addressed below. As a general principle, regulation in the electricity connections market should mirror that of the gas connections market, which is working well under current rules.

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.

UPL 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.

In gas a "shallow reinforcement" policy is applied. The rationale of a shallow reinforcement policy is detailed in the OFGAS document dated February 1997 "Transco: connection and system extensions. Regulating for competition".

There is no reason in our opinion why the principles could not be readily transferred the electricity market. 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, which 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 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.

We trust the above is of interest to you, and would be happy to expand further on any of the points raised.

Yours Sincerely,



Mr G Mawer
Director
Utility Partnership Limited