

5 May, 2004

Senior Price Control Review Manager  
OFGEM  
9 Millbank  
London  
SW1P 3GE

Attention: Nienke Hendricks

Dear Sirs,

Subject: Electricity Distribution Price Control Review March 2004

I am writing in on behalf of the Metered Connection Working Group in response to the above consultation document that is dated March 2004. The Group represents Independent Connection Providers and Customers and considers issues arising from introducing competition in connections. The output of that work is fed into the Electricity Connections Steering Group of which OFGEM chair. The chair of the Metered Connection Working Group, Mr. Vince Colby, delegates me to represent the views of the Group.

Within the scope of the price control particular reference is made to non-contestable connection charges and a number of OFGEM intentions are stated.

A number of activities are recognised as remaining in the non-contestable domain and we are of the view that the costs of providing these services should be recovered through the price control formula. The DNOs should be provided with incentives to both minimise those costs and move more of the activities into the contestable arena. We are disappointed that our representations as a group and individually have been overlooked and OFGEM have chosen not to include those charges that DNOs choose to be non-contestable to be within the scope of the price control. We believe that OFGEM have missed the opportunity to send the right messages to the DNOs and accelerate the acceptance of Competition in Connections (CiC) among the DNOs with appropriate incentives. We urge OFGEM to reconsider their position.

The DNOs will continue to resist inclusion of the charges into the price control as they add to their profitability and allow them the opportunity to cross subsidise their operations in the connection market. It is arguable whether or not this happens but the fact remains that the DNOs have the opportunity to do so.

It is encouraging that the review of the structure of charges has brought about a consultation on licence conditions associated with connection charging and that the structure of charges review will see reinforcement, TSA and O&M treated differently and create a transparent charging policy. While OFGEM does not propose to change the price control treatment in respect of reinforcement for demand customers it would be useful to reference your intent in other areas of work.

Other non-contestable activities such as specifying the point of connection (POC), design approval, inspection and monitoring (I&M) and the procurement of statutory wayleaves result in charges against Independent Connection Providers (ICPs) but are not necessarily passed through to the DNO own connection operations. Regulating those charges would remove the disparity and would level the playing field. Of particular concern on these charges is the level of I&M charges that can be significant enough to be a barrier to entry to ICPs. The recognition of developments in CiC does not provide an incentive on DNOs to levy charges in a clear and transparent manner. There is little consistency across DNOs how the charges are arrived at and the only mechanism to challenge those charges is through an Electricity Act

1989 section 23 determination. The process is ineffective in changing the DNOs application of these charges and ineffective with the involvement of energyWatch who do not recognise ICPs in the CiC market.

Turning to OFGEM comments on voluntary standards, OFGEM have failed to persuade DNOs to recognise voluntary standards of service in terms of implementing those standards. You possess no powers to force DNOs to comply and therefore voluntary standards are meaningless if DNOs can be selective. While we recognise that OFGEM do not intend to attach financial penalties at this time, the price control review in 2010 is too late to start considering how best to incentivise DNOs. The development of CiC is now, not in 6 years time. We urge OFGEM to consider bringing into focus the need for DNOs to collect data and information for benchmarking those services against each other. We also urge OFGEM to reconsider their position and force DNOs who insist on minimising contestable activities through proposed licence modification if that is the only course of action that will promote effective competition.

I hope that you can reconsider your approach to non-contestable charges under this current price control review and invite you contact the Metered Connection Working Group to discuss these matters further.

Yours sincerely,  
On behalf of the Metered Connection working Group

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