

**Competition in connections to electricity
distribution systems**

Consultation Document

June 2004 124/04a

Executive Summary

The lack of effective competition in the provision of electricity connections is indicated by the numerous responses to previous consultation documents issued by Ofgem¹ which have been characterised by complaints of high prices, poor service, and requests for the further expansion of competition. Ofgem's most recent Connections Industry Review (July 2003) also drew responses which clearly indicated that competition remains extremely limited.

This document follows Ofgem's 'Competition in connections to electricity distribution systems – Final proposals' document of August 2002. The final proposals document dealt with the work undertaken by Ofgem chaired steering groups in relation to new greenfield domestic/light commercial developments and unmetered connections, principally street lighting. Key proposals included a National Electricity Registration Scheme, administered by Lloyds Register, to provide DNOs and customers with confidence that competitive connections work is being undertaken by competent organisations/individuals; guidelines on the structure of adoption agreements and connection charging statements; the extension of competition to live working on greenfield housing developments; competition in design and national standards of service for DNO provided services relating to greenfield housing.

This document sets out proposals developed by the Energy Networks Association (ENA)² following the Ofgem connections workshop held in July 2003. At this workshop it was agreed that work was required to reflect the introduction of the Electricity, Safety, Quality and Continuity Regulations 2002. The ENA's proposals cover various areas of work including a national consent to connect process (live working), adoption agreements, the technical framework documents (G81), inspection regimes and a national service level agreement for unmetered connections. The proposals are outlined within Section A of this document, together with the views of the metered and unmetered connections customer groups on each proposal. Within Section B of this document, Ofgem highlights other issues, not addressed by the ENA and its proposals.

¹ OFFER - Competition in Connections (December 1998), Competition in connections to electricity distribution systems – Ofgem's proposals (July 2000) and Competition in connections electricity distribution systems – Update document (December 2001).

² The ENA (formerly the Electricity Association) represents the licensed gas and electricity transmission and distribution companies within the UK.

Table of contents

1. Introduction.....	1
Rationale.....	5
Purpose of this document	6
Responses	6
2. Section A – Metered Connections.....	8
Consent to Connect.....	8
Adoption Agreements.....	10
Memorandum of Understanding with Lloyds Register	12
Audit and Inspection Regime.....	13
Records Information – Greenfield Housing Estates.....	14
Live LV Jointing High Level Proposals.....	14
G81 Technical Framework Document Part 1 – Design and Planning (inc Brownfield)..	15
G81 Technical Framework Document Part 2 – Materials (inc Brownfield).....	15
G81 Technical Framework Document Part 3 – Installation and Records (inc Brownfield)	16
G81 Industrial and Commercial Technical Framework Document Part 4 – Design and Planning.....	16
G81 Industrial and Commercial Technical Framework Document Part 5 – Materials ...	17
G81 Industrial and Commercial Technical Framework Document Part 6 – Installation and Records	17
3. Unmetered Connections.....	19
Unmetered Connections Service Level Agreement.....	19
Unmetered Connections – Triangular Contract Arrangements	23
4. Section B – Other Issues	27
Contestable and Non-Contestable Quotation Split	27
Standards of Service	28

Licence Condition 4 Modification.....	29
Charges levied by DNOs for the Provision of POC	29
5. Way Forward.....	31

1. Introduction

- 1.1. In December 1998, OFFER issued a consultation concerning the introduction of competition within connections. This consultation generated over 100 responses, the majority of which requested that the regulator introduce competition as soon as possible to counter the effects of high prices and poor levels of service provided by Distribution Network Operators (DNOs) to customers. A consultation undertaken by Ofgem in July 2000 entitled 'Competition in Connections to Electricity Distribution Systems: Ofgem's Proposals', also received numerous responses which broadly repeated the comments made by customers previously. In October 2000 the Electricity Connection Steering Group (ECSG) and the Unmetered Connections Steering Group (UCSG) were formed. The task of the ECSG and UCSG was to develop detailed policies and procedures to facilitate the development of competition in the areas of work outlined within the July 2000 document.
- 1.2. In August 2002, Ofgem published a document entitled 'Competition in connections to electricity distribution systems – Final Proposals'.³ This document set out Ofgem's view on the policies and procedures developed by the ECSG/UCSG to facilitate competition in the provision of connections, initially in respect of new housing/light commercial developments and unmetered connections, such as streetlighting. The document highlighted that a number of policies and procedures could not be finalised at that time due to the pending enactment of the Electricity, Safety, Quality and Continuity Regulations (ESQC) 2002. These Regulations came into effect on 31 January 2003.
- 1.3. Following the publication of the August 2002 document a number of the proposals have been implemented by the majority of DNOs. These initiatives and procedures include:
 - National Electricity Registration Scheme (NERS) – Since October 2003, Lloyds Register has performed assessments of contractors wishing to be assessed for national accreditation for contestable works associated with the installation of electrical connections on Greenfield housing estates.

³ This document is available on the Ofgem website www.ofgem.gov.uk
Competition in connections to electricity distribution systems – Consultation document
Office of Gas and Electricity Markets

With regard to unmetered connections a separate module has been drafted and Lloyds envisage that this could be quickly finalised quite if required. The NERS is recognised by all DNOs.

- Standards of Service – all DNOs have voluntarily implemented three standards of service which were highlighted by Independent Connection Providers (ICPs) as essential in order to develop competition. These standards are measured and published on a yearly basis via Ofgem's Connection Industry Review (CIR) and include:
 - Time taken to provide Point of Connection (POC) information:
 - Simple schemes – 15 working days;
 - Complex schemes – 20 working days; and
 - Complicated schemes – letter within 10 working days, quotation date to be agreed for specific scheme.
 - Time taken to provide Design Approval:
 - Approval or reasoned rejection within 10 working days.
 - Request for on site connection:
 - Provisional dates to be given 10 working days prior to required connection date and confirmed 3 working days prior to required connection date.
- Adoption agreements – all but one DNO has introduced a tri-partite agreement and any liabilities/warranties for installed assets should be undertaken directly with the contractor. These principles are in accordance with those outlined within the August 2002 document. The one DNO which has not introduced a tri-partite agreement operates a bi-lateral agreement whereby either the developer or their contractor may be signatories to that document.
- Contestable and Non-Contestable Quotation Splits for Greenfield housing sites – DNOs should automatically provide a quotation split between contestable and non-contestable elements. The non-contestable

elements of the quotation should be broken down into the following categories:

- Charge for information on POC;
 - Charge for Design Approval;
 - Inspection and monitoring of contestable works “x” visits @ £ “y”;
 - Costs for connection to network – high level detail (i.e.) 2 x HV straight joints;
 - Reinforcement – breakdown as above plus DNO contribution (if applicable);
 - Diversions – breakdown as above (where they apply to connections);
 - Off-site wayleaves and easements;
 - O&M charges – calculated (basis defined) in accordance with the Licence Condition 4 statement; and
 - Tariff Support Allowance – value per connection or load assessment, or other method in line with the Licence Condition 4 Statement.
- Live Working Trials – within three DNO areas, SP Transmission and Distribution, SP Manweb and United Utilities, live working trials with regard to new housing connections on Greenfield sites are currently in operation. Two other DNOs have agreed to the principle of such trials and are in discussions with ICPs on the details of commencement at this time. While the details of the schemes vary the trials have been in operation for a sustained period of time, for instance the trials within SP Transmission and Distribution/SP Manweb areas commenced on 16 December 2002, without any major technical difficulties or other problems being identified.

- Rent-a-jointer – all but one DNO offers a rent-a-jointer scheme. However, take up by customers has been limited and the service generally appears to be cost effective where large volumes of work, such as those generated under Private Finance Initiative (PFI) arrangements, are involved.

1.4. Despite the introduction of these initiatives the 2002/03 CIR, published in July 2003, highlighted that the vast majority of electricity connections were still undertaken by the incumbent DNO. During the review period of June 2002 to May 2003, approximately 415,000⁴ electricity connections were undertaken resulting in a market value of approximately £372m. However, of these connections only 4% were undertaken by an ICP. Alongside this, some customers and ICPs highlighted that within the 12 month review period they felt that certain DNOs' service levels had deteriorated, while prices had increased. ICPs also highlighted delays in obtaining information, and inaccurate information being provided by DNOs as impacting adversely upon their business.

1.5. Ofgem chaired a Connections Workshop in July 2003 to identify further initiatives which would assist in the development of competition within the connections sector. Over thirty stakeholders took part in this workshop and the following way forward was agreed:

- The proposals outlined within the August 2002 document should form the foundation of any further initiatives designed to develop competition in the connections sector.
- The Electricity Networks Association (ENA) would create a workstream to produce a report, which would take into account the impact of the recently enacted ESQC Regulations, developing the initiatives in the August 2002 document to further develop competition in the connections sector. The areas of work which the ENA undertook to report upon were:

- Consent to connect;

⁴ This figure includes metered and unmetered connections made in the period June 2002-May 2003.
Competition in connections to electricity distribution systems – Consultation document
Office of Gas and Electricity Markets

- Adoption agreements;
 - Inspection Regimes;
 - Standards of Service;
 - Extending the technical framework documents (G81) to cover Brownfield sites and upto 11kV connected Industrial and Commercial Loads;
 - Live Working on Greenfield sites;
 - Live Working on Brownfield sites.
 - Development of competition in live working; and
 - Formulation of a National Service Level Agreement with regard to unmetered connections.
- Formation of a Metered Connections Customer Group, consisting of ICPs and contractors. This group would feed comments into some of the workstrands the ENA were taking forward.
 - Formation of an Unmetered Connections Customer Group, comprising of Local Authorities, contractors and ASLEC. This group would feed comments into some of the workstrands the ENA were taking forward.
 - Representatives from the ENA, Metered Connections Customer and Unmetered Connections Customer Groups would form the membership of a new Electricity Connections Steering Group (ECSG).⁵

Rationale

- 1.6. Ofgem has worked closely with stakeholders to develop competition with the electricity connections sector. However, the most recent CIR (July 2003) highlights that only 4% of Low Voltage (LV) connections were undertaken by an ICP in the period June 2002-May 2003. Consequently, this consultation

⁵ The minutes of the ECSG can be found on the Ofgem website www.ofgem.gov.uk
 Competition in connections to electricity distribution systems – Consultation document
 Office of Gas and Electricity Markets

document outlines proposals which seek to advance the further development of competition by addressing specific barriers to entry which are faced still by ICPs.

- 1.7. Ofgem recognises that licensees have statutory duties to provide connections and maintain existing connections. The ENA consider that its proposals strike a balance between the right of customers to be able to procure connection services at a reasonable costs and level of service, and the statutory duties of licensees to provide and maintain connections as part of their duty to manage their networks overall.

Purpose of this document

- 1.8. Section A of this document outlines the initiatives and processes proposed by the ENA Group and the views of the Metered Connections Customer and Unmetered Connections Customer working groups on the ENA proposals. Ofgem invites the views of stakeholders on the proposals outlined within this document.
- 1.9. Section B of this document outlines further suggestions from Ofgem on issues which were not taken forward by the ENA Group. Ofgem also invites the views of stakeholders on the issues outlined within Section B and suggestions as to any additional initiatives or areas of work which Ofgem should be considering in order to further develop competition.
- 1.10. Finally, this document proposes the next steps following completion of this consultation exercise.

Responses

- 1.11. Responses should to returned to Ofgem by Thursday 15 July 2004 to:

Sean O'Hara

Head of Connections Policy

Office of Gas and Electricity Markets

9 Millbank

London SW1P 3GE

- 1.12. It is open to respondents to mark all or part of their responses as confidential. Responses that are not marked as confidential will be placed in the Ofgem library and published on the Ofgem website. If you have any queries concerning this document, Sean O'Hara on 020 7901 7036 (e-mail: sean.o'hara@ofgem.gov.uk) or James Copeland on 020 7901 7036 (e-mail: james.copeland@ofgem.gov.uk) will be pleased to help.

2. Section A – Metered Connections

- 2.1. Outlined below is a summary of the proposals put forward by the ENA, in respect of metered connections, alongside the view of the Metered Connections Customer Group (MCCG). This section has been drafted by representatives of the ENA.
- 2.2. The proposed procedures and documentation drawn up by the ENA can be found in the Appendix document which supplements this document. The scope of these proposals include, LV underground cable electricity networks, including their new associated High Voltage (HV)/LV distribution substations, for greenfield and brownfield housing developments (excluding reinforcement and diversion of the existing DNO network). The proposals also include LV, 6.6kV and 11kV underground industrial and commercial connection, including their new associated HV and LV distribution substations (excluding reinforcement and diversion of the existing DNO network).

Consent to Connect

ENA Proposals

- 2.3. The detailed ENA proposals concerning this area can be found within Appendix 2 of the Appendix document. The ENA considered a number of options in which Consent to Connect might be given:
 - Option 1 - General consent given to an ICP across a DNO area.
 - Option 2 - General site-specific consent associated with a named project or list of connections. This option would include the facility to remove general consent and move to connections specific consent. General consent would be time constrained in addition to project constrained and there would be a process for withdrawal of consent following project completion.
 - Option 3 - Connection specific consent with the option to move to general consent based for example on number of connections

successfully completed over a defined time period/project in a DNO area.

- Option 4 - Connection specific consent.

2.4. Option 1 was rejected as it was felt that it would result in loss of control and knowledge of where and when ICPs were operating on DNO networks. Option 4 was rejected as it would put the DNO on the critical path for ICP connections, could be seen as being overly bureaucratic and had no added value. Option 3 was rejected as it is anticipated that processes and controls will achieve a robust process to facilitate general consent. There would therefore be no additional benefit in further control by implementing a connection specific consent process. Connection specific consent is likely to be complex and prone to error and general site-specific consent avoids the DNO being on the critical path for new connections. Option 2 was therefore considered to be the most appropriate.

2.5. In applying for consent for either a specific project or list of individual connections it is envisaged that the ICP would be required to complete an application that will be in two parts, with a third part held by the ICP as record of satisfactory tests having been completed on each connection:

- Part A will be agreed with the DNO prior to any connections being made. It will normally be completed at the time the adoption agreement is signed and an outline programme has been established. It will include:
 - Confirmation that wayleaves/consents are in place.
 - Confirmation of G81 compliance.
 - Confirmation that an adoption agreement is in place.
- Part B will be completed by the ICP, typically weekly, with one weeks forward notice of a batch of connections, and will be used by the DNO 'for information only' e.g. to know that work on the circuit is taking place and to facilitate inspection and audit etc. The forms have to be submitted prior to making connections and also provide confirmation to

the DNO that 'conditions precedent' defined in Part A of the form are still applicable.

- Parts C of the form are completed by the ICP for each connection and provide confirmation that post commissioning tests have been carried out and are satisfactory. The completed form is retained by the ICP and available to the DNO on request, e.g. to demonstrate compliance with the requirements of the ESQC Regulations.

Views of the MCCG

- 2.6. The Metered Connection Customer Group (MCCG) agrees that the general site specific consent should be the preferred option. However, the proposal is not clear with regard to some minor issues.
- 2.7. The ICP needs to know that general site specific consent shall be granted prior to completing a connection offer to a customer. An ICP that holds appropriate accreditation should have this general agreement from the DNO that he will enter into a general site specific consent.
- 2.8. The Consent to Connect process tabled by the ENA does not provide any details on how operational incidents that occur on 'newly' adopted networks i.e. networks that are subject to ICP activity under consented terms shall be treated. ICPs should be provided with consent to connect continuity where an incident does not affect the works being undertaken by the ICP. Where an incident does have an impact on the ICP's work then a clear process including communication plans needs to be developed by the ENA setting out any temporary suspension of the consent to connect terms.
- 2.9. The MCCG recognise that the presented Consent to Connect process has not yet been dovetailed into other work areas e.g. adoption agreements. The group suggest that the Consent to Connect process is dovetailed into the relevant work once a consensus had been reached, prior to the issuing of the Final Decision Document.

Adoption Agreements

ENA Proposals

- 2.10. The ENA have provided a paper (which is outlined within the Appendix 3 of the Appendix document) which suggests a list of features that should be captured within the adoption agreement(s) between the DNO and other parties, for the DNO to adopt assets constructed by an accredited ICP on behalf of a developer.
- 2.11. The ENA state the need for a framework for agreements to be flexible allowing for the needs of all stakeholders to be considered and accommodated wherever possible. Consequently the structure and content of the document will vary. The ENA believe that bi-partite, multiple bi-partite and tri-partite arrangements are all acceptable with the final choice dependent upon:
- Project specific issues.
 - Local circumstances and DNO preference.
- 2.12. The ENA consider that the principles outlined within their paper can be applied for metered and unmetered connections.

Views of the MCCG

- 2.13. The MCCG believe that when a contestable connection agreement is entered into an appropriate adoption agreement will provide the foundation for any such agreement. To this end it is essential that the terms of the adoption agreement are balanced and suitable.
- 2.14. Having followed the debate and progress of the adoption agreement through the work of the ECSG, MCCG members feel strongly about what they feel to be retrograde proposals arising in this area from the work of the ENA (see Appendix Document). Areas of particular concern are:
- the parties to the adoption agreement, surety requirements; and
 - no commitment from the DNOs to agree the terms prior to commencement on site and no further progress in the development of a standard national adoption agreement.

- 2.15. The MCCG firmly aligns itself with the view that the agreement should be tripartite in the first instance. Surety should only be based on the requirements set-out in the August 2002 Final Proposals document.⁶
- 2.16. In general the adoption agreement features scheduled in the ENA proposal document are accepted by the MCCG. However, the consensus presented by the ENA does not go far enough to establish a co-ordinated and coherent approach across all DNOs. Indeed the ENA have fallen short of their own objective to develop Adoption Agreements for metered and unmetered supplies. They have merely provided a framework based on the lowest common aggregation of the current terms offered by DNOs.
- 2.17. The MCCG members believe the terms set-out in the August 2002 Final Proposals document to be the most acceptable way forward for the terms offered by DNOs in their adoption agreements.
- 2.18. As a result of the lack of DNO progress in this area ICPs still face the continuation of current practice, where terms offered by DNOs are inconsistent, vague and tailored to inhibit competition. Furthermore the failure to provide equitable terms has a disruptive knock-on impact with site construction commencing on site in some cases prior to the execution of the adoption agreement.
- 2.19. The adoption agreement proposals need to be developed further and integrated with the other areas of work.

Memorandum of Understanding with Lloyds Register

ENA Proposals

- 2.20. The purpose of the Memorandum of Understanding (MoU) is to set out the governance arrangements between the National Electricity Registration Scheme Advisory Panel (NERSAP). The NERSAP has been established to oversee and perform an ongoing review of the performance of the Scheme and the Accreditation Body which owns and operates the Scheme under the terms of the

⁶This document can be found on the Ofgem website www.ofgem.gov.uk.
Competition in connections to electricity distribution systems – Consultation document
Office of Gas and Electricity Markets

MoU. The MoU is outlined in its entirety within Appendix 4 of the Appendix document.

Views of the MCCG

- 2.21. Whist the MCCG recognise that the National Electricity Registration Scheme (NERS) MoU has been finalised and signed by the Advisory Panel members, the MCCG would nevertheless wish to comment on certain aspects of the MoU.
- 2.22. The NERS MoU provides DNO Panel Members with access to assessment reports that have not been sanitised to protect the identity of the delegate company. MCCG believe that DNO Panel Members should not have access to assessment reports in their unsanitised form as a matter of course. Only in the event of a dispute from a DNO who is seeking withdrawal/suspension of an ICP accreditation or from an ICP who disputes whether his accreditation suspension/withdrawal is legitimate should any panel representative have access to the full report. There may also be Data Protection Act implications.
- 2.23. The NERSAP should have no right to approve or otherwise any application/proposal from Lloyds Register to increase the costs Lloyds Register may wish to charge ICP's. Lloyds Register's charges are a matter between ICP's and Lloyds Register.
- 2.24. The MoU does not outline the term of office for the NERSAP membership. This should be documented in the MoU and the re-election process outlined.

Audit and Inspection Regime

ENA Proposals

- 2.25. The audit and inspection regime described in Appendix 5 was developed in discussion within ECSG. The aim is to discharge DNO obligations under ESQC Regulations and to provide assurance, via a reducing sampling regime, that ICPs are complying with the requirements of the Framework Document's ("G81") and associated DNO Appendices. It does not replace the ICP's own safety or quality assurance processes.

Views of the MCCG

- 2.26. The MCCG do not dispute the right of the DNOs to ascertain from their own inspections and audits a level of comfort that new assets have been constructed in accordance with specification and are fit for the purpose intended. However, the group is not minded to accept the audit and inspection regime set-out by the ENA proposal. The category of inspection and proposed first level frequencies are too onerous and should be reduced to a level that is more realistic and practical.
- 2.27. In the matter of inspection costs the group believe that the cost of inspections and audit should not be recovered directly from the ICP being inspected. A direct inspection charge should only be levied in the event that the inspection had been required as a result of poor quality workmanship previously identified. General compliance inspection costs should be recovered through the distribution revenues over the asset life. Stakeholders may wish to view Ofgem's March 2004 Price Control Document entitled 'Electricity Distribution Price Control Review – Policy Document'.

Records Information – Greenfield Housing Estates

ENA Proposals

- 2.28. The proposals in this field are outlined within Appendix 6 of the Appendix document.

Views of the MCCG

- 2.29. The MCCG is minded to accept the proposals presented by the ENA.

Live LV Jointing High Level Proposals

ENA Proposals

- 2.30. At the beginning of the process of introducing competition in connections, the DNOs stated that the introduction of competition in live working would increase the level of risk on the part of the DNO. The creation of a National Electricity Registration Scheme was intended to ensure that risks found by a DNO that embraced competition would be no different to those risks faced by a DNO in

respect of work undertaken by its own contractors. The ENA proposals are outlined within Appendix 7 of the Appendix document.

Views of the MCCG

- 2.31. The MCCG is minded to accept the high level proposals outlined by the DNOs.
- 2.32. However, the group seek further clarification on the function and responsibility of any ENA assessment panel. The issue surrounding type testing of joints is not new and has previously been debated by the ECSG. In essence the group has no issue with DNOs specifying approved joints or approved jointing components. However, each DNO should be required to state within their own materials specifications the joints that constitute an approved LV joint for a network they are willing to adopt. An approval panel should only be required when a new joint or combination of joint components are submitted for type approval.

G81 Technical Framework Document Part 1 – Design and Planning (inc Brownfield)

ENA Proposals

- 2.33. This document (outlined within Appendix 8 of the Appendix document) sets out the minimum requirements for design of LV underground cable electricity networks, including their new associated HV/LV distribution substations for housing estates undertaken under the Ofgem Competition in Connections regime. The document intends to set out or make reference to design and planning requirements which have to be met for a DNO to adopt contested LV networks and their associated new HV/LV distribution substations on housing estates.

Views of the MCCG

- 2.34. The MCCG accepted this document within the forum of the ECSG. However, this document is an evolving document and acceptance was made on that basis.

G81 Technical Framework Document Part 2 – Materials (inc Brownfield)

ENA Proposals

- 2.35. This document (outlined within Appendix 9 of the Appendix document) sets out the materials specification requirements for LV underground cable electricity networks and associated new HV/LV Distribution substations for housing estates undertaken under the Ofgem Competition in Connections regime. This document intends to set out or make reference to materials specification requirements which have to be met for a DNO to adopt contested LV networks and associated HV/LV distribution substations on housing estates.

Views of the MCCG

- 2.36. The MCCG accepted this document within the forum of the ECSG. However, this document is an evolving document and acceptance was made on that basis.

G81 Technical Framework Document Part 3 – Installation and Records (inc Brownfield)

ENA Proposals

- 2.37. This document (outlined within Appendix 10 of the Appendix document) sets the installation and record requirements for LV electricity underground cable networks and associated new HV/LV distribution substations for housing estates undertaken under the Ofgem Competition in Connections regime. This document intends to set out or make reference to installation requirements which have to be met for a DNO to adopt contested LV networks and associated new HV/LV distribution substations for housing estates.

Views of the MCCG

- 2.38. The MCCG accepted this document within the forum of the ECSG. However, this document is an evolving document and acceptance was made on that basis.

G81 Industrial and Commercial Technical Framework Document Part 4 – Design and Planning

ENA Proposals

- 2.39. This document (outlined within Appendix 11 of the Appendix document) sets out the minimum requirements for design of LV 6.6kV and 11kV underground industrial and commercial connections, including their new associated HV and HV/LV distribution substations. This document is intended to set out or make reference to design and planning requirements which have to be met for a DNO to adopt contested HV and LV networks and their associated new HV and HV/LV distribution substations supplying industrial and commercial loads connected up to and including 11kV

Views of the MCCG

- 2.40. The MCCG accepted this document within the forum of the ECSG. However, this document is an evolving document and acceptance was made on that basis.

G81 Industrial and Commercial Technical Framework Document Part 5 – Materials

ENA Proposals

- 2.41. This document (outlined within Appendix 12 of the Appendix document) sets out the materials specification requirements for LV 6.6kV and 11kV underground industrial and commercial connections, including their new associated HV and HV/LV distribution substations. This document is intended to set out or make reference to materials which have to be met for a DNO to adopt contested HV and LV networks and their associated new HV and HV/LV distribution substations supplying industrial and commercial loads connected up to and including 11kV.

Views of the MCCG

- 2.42. The MCCG accepted this document within the forum of the ECSG. However, this document is an evolving document and acceptance was made on that basis.

G81 Industrial and Commercial Technical Framework Document Part 6 – Installation and Records

ENA Proposals

2.43. This document (outlined within Appendix 13 of the Appendix document) sets out the installation and record requirements for LV 6.6kV and 11kV underground industrial and commercial connections, including their new associated HV and HV/LV distribution substations. This document is intended to set out or make reference to installation requirements which have to be met for a DNO to adopt contested HV and LV networks and their associated new HV and HV/LV distribution substations supplying industrial and commercial loads connected up to and including 11kV.

Views of the MCCG

2.44. The MCCG accepted this document within the forum of the ECSG. However, this document is an evolving document and acceptance was made on that basis.

3. Unmetered Connections

- 3.1. Outlined below is a summary of the proposals put forward by the ENA, alongside the view of the Unmetered Connections Customer Group (UCCG). This section has been drafted by representatives of the ENA.
- 3.2. The proposed procedures and documentation drawn up by the ENA can be found with the Appendix document which supplements this document. The Appendices which relate to unmetered connections are Appendix 1, 14 and 15. These proposals relate to underground, unmetered single phase 230 volt (less than 500 watts) connections, for example, streetlighting, street furniture etc.

Unmetered Connections Service Level Agreement

ENA Proposals

- 3.3. The ENA states that the Service Level Agreement (SLA) has been developed as an alternative for Local Authorities who do not wish to venture down any potential path of competition in electricity connections, but who do wish for improved levels service from their local DNO.
- 3.4. The SLA has been developed with extensive input from the UCCG, and the following principles were agreed:
 - Any SLA should only cover unmetered activities.
 - Standard service categories would be applied equally across the country.
 - All service standards would have documented, agreed and unambiguous definitions, including trigger points for standards initiation.
 - The SLA may contain penalties for poor performance and these will be applied equally to the DNO and Local Authorities as appropriate.
 - There should be an effective and agreed Force Majeure process for suspension.
- 3.5. While standard service categories have been identified, based on existing best practice in place around the country, no specific targets have been identified

within the document. These targets are to be proposed through wide and effective consultation.

- 3.6. As with service levels, no specific penalty payment levels have been identified and again this would be a matter for wider consultation. However, the ENA believe that penalty payments outlined within the SLA should be proportionate to the level of Distribution Use of System (DUoS) income derived from a typical lighting installation annually. Based upon an initial survey of five DNO DUoS charging regimes, annual DUoS charges range between £2.29 and £3.77.
- 3.7. The ENA also propose that before any actual penalties are applied to either party, there should be a 12 month shadow period during which the SLA is implemented. This is in order to allow all parties to gain an understanding of the potential liabilities from the operation of the SLA. It would also allow DNOs to establish auditable performance monitoring systems. The ENA highlights that the 'targets without penalties' regime established for Greenfield HV/LV Housing Developments has provided an effective incentive and resulted in a real and tangible improvement in performance. The ENA highlight there is no reason to believe this would not be the case for unmetered connections. The ENA also add that if a 12 month shadow period were to highlight poor DNO performance, it would be more likely that Ofgem would be minded to take a more robust approach by attempting to enforce minimum standards of performance through a Licence Condition. DNOs therefore have significant incentives to perform during any shadow period.
- 3.8. If necessary, service targets would need to be amended to take account of experience and auditable performance data available, gained during this period, and after consultation with the ECSG.
- 3.9. With regard to the content of the SLA the ENA stated that the issue of defining the working day has been discussed at length with the UCCG. DNOs are not prepared to define a working day that would create an increase in costs, via the imposition of overtime costs, unless Ofgem have agreed the method of cost recovery. Consequently, the proposed definition gives a typical working day across the DNO community.
- 3.10. In relation to Clause 13 concerning Force Majeure, the ENA believe an acceptable definition has been developed, however, they note the comments of

the UCCG via discussions, and would welcome detailed proposals from the UCCG in order to provide additional clarity to the wording of this clause.

- 3.11. With regard to Clause 14, the ENA believe that the limits are appropriate and consistent with other similar agreements. The ENA note that a legal review/re-draft of the SLA will be necessary when the general content has been agreed with the ECSG following this consultation.
- 3.12. The ENA highlight that they believe a termination clause is necessary to protect the interests of all parties. The ENA state that it is unlikely that parties to a SLA would wish for the arrangement to run forever and consequently the parties should have the right to terminate if the agreement is not meeting their requirements.

Views of the UCCG

- 3.13. The UCCG agrees with the principles on which the proposed SLA (a copy of which can be found as Appendix 14 of the Appendix document) is based and that it provides a platform for a sound framework document. However, the UCCG has made the following comments regarding the document.
- 3.14. The introduction page covered a number of items and the UCCG would comments as follows:
 - The UCCG agree with the view that service standard response times should be widely consulted upon. In order to aid this discussion UCCG have prepared Appendix 1 which can be found within the Appendix document. Appendix 1 which shows the range of responses from amongst some of its members. This is not exhaustive but has been prepared to indicate the potential breadth of responses.
 - Reference is made by the DNOs to the order of magnitude of penalty payments and that they 'should be in proportion to the level of DUoS income derived from a typical lighting installation annually'. Although the meaning of this statement is not clear, the implication is that any penalty payment should be of the same order of less than the DUoS payment received from the individual lighting column for the period that the lamp was not working. Since the annual DUoS element for a typical

lighting column is likely to be less than £1, this means that if the lamp was off for 20 days over the agreed period, the penalty would be in the order of £0.05p. Clearly this is such an insignificant amount of money as to make the notion of a penalty payment meaningless. The UCCG believe the order of magnitude of the penalty payment should be similar to other penalties imposed on the DNOs. For example, for the loss of supply to domestic customers there is a set payment of £50 if supply is not restored after 18 hours. UCCG is not advocating these terms, but the principle that the penalty must be sufficiently large to act as an incentive to perform.

- The introduction page also refers to a shadow period of one year where the National SLA is in place but where no penalties are applied. This is to allow 'all parties to understand the potential liabilities resulting from the operation of the National Service Level Agreement'. The UCCG cannot agree with this concept. One of the principles of the penalty is to provide an incentive to DNOs to ensure they perform and meet their targets. If no penalty exists then any notional liability calculated at the end of the year would bear little resemblance to the liability in a live situation.

3.14 The UCCG requested a number of amendments to the draft document as follows which have not been incorporated:

- Working day – to be a calendar day, excluding bank holidays.
- Emergency work should sit at the top of the response hierarchy followed by High Priority Fault, Section Fault and Single Unit Fault. Under these definition the status of each fault is clear and fault rectification should be undertaken in accordance with the fault status and chronological order within each status. It must be acknowledged by the Highway Authorities that the High Priority Fault status is used responsibly because of the possible disruption to the DNO's fault rectification programme. In addition it must also be acknowledged by the DNOs that poor response to fault rectification is likely to result in a higher number of faults designated as High Priority Fault.

- 3.15 Clause 13 - the UCCG discussed at length with the DNO Unmetered Supplies Group the issues arising from the broad nature of the clause 13 Force Majeure and System Emergencies but no agreement could be reached on any changes. The UCCG view is that the intent of the title is not reflected in the content of the clause. Whilst UCCG accept that some system emergencies may reflect on the ability of a DNO to meet the National Service Level Agreement, the listed items will give the ability to a DNO to cover behind particular parts of this clause when they fail to meet the response times when a real Force Majeure and System Emergency did not occur. Clarity now will overcome long and difficult disputes in the future.
- 3.16 Clause 14 – in its current form this clause is unacceptable for several reasons. Firstly, it seems to have been copied from another document which makes some of the content inappropriate. Secondly, it limits the DNO liability to death and personal injury and to reasonably foreseeable events which give rise to physical damage to Local Authority (LA) property, its officers and agents. It does not include liability to third parties. The financial limit of £100,000 or £1,000,000 for the DNO costs in providing connections is insufficient.
- 3.17 Clause 15 – whilst UCCG understand the need for a termination clause it has concerns about protection of service standards in the absence of a Service Level Agreement. UCCG's view is that if the take up of the National Service Level Agreement is poor, then service standards should be included in the DNO unmetered licence agreement.

Unmetered Connections – Triangular Contract Arrangements

ENA Proposals

- 3.18 The ENA highlight that this proposal have been developed to facilitate competition in the provision of unmetered connections, while also mitigating the liability issues associated with Highway Authorities contracting directly with ICPs.
- 3.19 It is envisaged by the ENA that these arrangements will only apply to work on the service cable and that work on mains cables will still be classed as non-

contestable and undertaken by the DNO. For the purposes of live jointing the successful contractor will be under the operational control of the DNO, this is consistent with the initial proposal described by the ECSG. The ENA state that fundamental to this process is the requirement for physical work to be carried out by a competent workforce in a safe manner to agreed standards and specifications and not to the detriment of other users of the DNO's distribution network.

- 3.20 The ENA expects that initially ICPs involved will be those that are currently employed as contractors to DNOs. This will need to be reviewed when the form of the arrangements are developed as the additional services may be required, for example, project and work management may not be provided by contractors currently working for some DNOs. However, there will be no constraint on the number of contractors that will be allowed to compete in this market subject to them meeting the agreed criteria.
- 3.21 The ENA highlights that the ESQC Regulations clearly places liabilities on Network Operators/Owners (i.e. the DNO). There is currently no incentive upon a DNO to increase risk exposure. Consequently, the ENA believe that the proposed live working arrangements represent a pragmatic and significant first step forward toward the introduction of competition in unmetered connections whilst managing DNO exposure to increased risk. The ENA believe it is important to appreciate that even some DNOs do not allow contractors to undertake live LV jointing. The proposals therefore represent a significant change in practice.
- 3.22 The ENA states that the 1 metre from the main restriction was introduced to take account of the complexity of mains cable identification and operational issues arising from the wide variety of mains cables in use by DNOs. Only a very limited number of contractors have the necessary skills and expertise to undertake work on mains cables and only then under the close supervision of the DNO. It is anticipated that a much larger number of contractors will have the skills and expertise necessary to work on service cables, thereby creating a truly competitive market for Highway Authorities to procure services. To seek to incorporate identification of HV/LV mains cables and all of the many permutations of service/main joints and live jointing techniques into the Accreditation process will substantially add to the complexity, time to develop

and the cost of obtaining Accreditation. The ENA, however, understand from Highway Authorities that the proposed 1 metre from the main restriction will still open up in excess of fifty per cent of unmetered connections work to competition.

Views of the UCCG

- 3.23 Proposals for live working on street lighting works were first made by the UCCG in 2003 and introduced the concept of Independent Connections Providers (ICP) working under the 'operational control' of the DNO. The philosophy behind this proposal was that, until then, DNOs would not accept live work being carried out by third parties who were not under their operational control. The barrier to live work was therefore 'operational control'. By creating a system where the ICP was placed under the DNOs, operational control would mirror the operational arrangements which the DNO had with their directly appointed contractors and remove this barrier.
- 3.24 The DNOs proposals to Ofgem have accepted the principles put forward by UCCG but only propose to allow live work to be carried out on service cables. Live connections onto the main will be done by the DNO or its contractor. UCCG find this illogical for the following reasons:
- The arrangement being proposed by the DNOs will give rise to anomalies where contractors who carry out the full range of work for one DNO will only be allowed to carry out service work for another.
 - Even in the same DNO area an ICP who is also the contractor for DNO will only be allowed to carry out service work even though he carries out live mains connections directly for the DNO. Since the operational control is the same, why should a Highway Authority be prevented from placing an order for all the work with the ICP rather than give him the service work only, given that the ICP will be doing the mains work anyhow.
- 3.25 The UCCG's view is that if a contractor is under the operational control of the DNO he should be allowed to carry out work within his range of competence. This would mean that a contractor who is assessed by Lloyds Register as only being competent to carry out live service work should not be allowed to carry

out live mains connections. On the other hand if a contractor is assessed by Lloyds Register as competent to carry out mains work, he should not be prevented from doing so.

- 3.26 The UCCG understand that allowing any live work is a cultural shift from the principles that DNOs have always had and that different DNOs have different views on this issue. Taking the approach suggested by the UCCG will provide logic and consistency to the process.
- 3.27 UCCG ask members of the highway electrical industry to comment on the proposals relating to both the Service Level Agreement and Live Connections made by the DNOs whilst taking into account the views of their industry representatives on the UCCG.

4. Section B – Other Issues

- 4.1. As stated in paragraph 1.5, Ofgem considers that the proposals outlined within the August 2002 document should form the foundation of any further initiatives designed to develop competition in the connections sector. This background formed the basis of the proposals outlined by the ENA in Section A.
- 4.2. The August 2002 document also addressed a number of other issues in respect of which the ENA did not provide additional proposals. In addition various stakeholders have raised other issues with Ofgem. Consequently, Ofgem has taken this opportunity to raise these issues in Section B of this document. Ofgem invites the views of stakeholders on the issues outlined within Section B.

Contestable and Non-Contestable Quotation Split

- 4.3. The issue of providing a contestable/non-contestable breakdown within a quotation was originally discussed by the ECSG. The following items were those agreed by the ECSG and confirmed by the ENA as an appropriate breakdown of non-contestable costs for the provision of estimates to ICPs and developers for contestable projects:

- Charge for information on Point of Connection;
- Charge for Design Approval;
- Inspection and monitoring of contestable works “x” visits @ £ “y”;
- Costs for connection to network – high level detail (i.e.) 2 x HV straight joints;
- Reinforcement – breakdown as above plus DNO contribution, if applicable;
- Diversions – breakdown as above, where they apply to connections;
- Off-site Wayleaves and Easements;
- Operation and Maintenance charges – calculated (basis defined) in accordance with Licence Condition 4 Statement;

- Tariff Support Allowance – value per connection or load assessment, or other method in line with Licence Condition 4 Statement.
- 4.4. Currently, these breakdowns are only provided in respect of Greenfield Housing Developments. In light of the extension of G81 to brownfield and industrial and commercial sites, it may be appropriate that similar breakdowns should also be automatically provided for connection works to be undertaken by ICPs at brownfield and industrial and commercial sites. Ofgem has received representations stating that breakdowns should be provided to all other customers upon request. Ofgem invites views from stakeholders on this issue.

Standards of Service

- 4.5. The August 2002 document highlighted the need for a level playing field to be established to ensure a competitive market. Central to the establishment of a level playing field is a requirement that DNOs should not favour their own or affiliated connection business ahead of an ICP bidding for the same site. Consequently, within the August 2002 document a number of standards of service were proposed. These standards of service, during discussions with ICPs and DNOs, were agreed to be too onerous and consequently 3 revised voluntary standards were agreed. These are set out in paragraph 1.3.
- 4.6. Ofgem has requested information relating to DNO performance in respect of those standards via the 2003/04 Connections Industry Review. The results will be published by Ofgem in the summer of 2004. While it was stated within the March 2004 document entitled 'Electricity Distribution Price Control Review – Policy document' that Ofgem, at this point, does not intend to attach financial penalties to these standards, if DNO performance is poor Ofgem will have to consider whether these standards need to be underpinned by financial penalties for failure.
- 4.7. As with the case of the contestable/non-contestable split, it may be appropriate that, in line with the extension of the Technical Framework document to brownfield and industrial and commercial sites, the existing voluntary standards of service should be developed and extended into these additional areas of connections work. This is consistent with the view outlined within paragraph

3.39 of Ofgem's Electricity Distribution Price Control Review document. Ofgem invites views from stakeholders on this question.

Licence Condition 4 Modification

4.8. During 2001, and within the forum of the ECSG, some DNOs suggested that it might be appropriate for Ofgem to introduce a licence modification to make it a statutory requirement for DNOs to adopt assets constructed by third parties, although this view was not shared by all DNOs. This was highlighted by Ofgem in the December 2001 and August 2002 documents. DNO responses outlined within the August 2002 document highlighted several concerns with regard to such a licence modification. These concerns included:

- whether the NERS would provide the adequate safeguards for remedial works in the event of poor performance by an ICP;
- whether the safety issues and liabilities associated with a licence modification had been adequately assessed; and
- that a suitable form of adoption agreement should be adequately reflected in the licence modification.

4.9. In light of these responses, Ofgem concluded that a licence modification proposal was not a feasible way forward due to the lack of support for such a change by a number of DNOs. The need for such a licence condition was also questioned due to the existence of voluntary adoption arrangements in all DNO areas.

4.10. Recently, some DNOs have suggested that a licence modification along the lines of that suggested in 2001 may still be of benefit, particularly in light of developments since 2002. One DNO in particular highlighted that this would better protect the interests of the DNO than the present voluntary adoption arrangements. Ofgem invites views from stakeholders on this issue.

Charges levied by DNOs for the Provision of POC

4.11. Ofgem is aware that certain DNOs apply a policy of charging customers, who wish to procure connections in a competitive environment, an administration fee

for the provision of POC information. ICPs have expressed concerns that such charging represents a barrier to entry and that it is inconsistent for a DNO to charge for the provision of POC information, whilst absorbing the costs associated with the provision of a section 16 quotation, of which POC information is a part. Ofgem invites views from stakeholders on this question.

- 4.12. In addition, Ofgem published in April 2004 a document entitled 'Structure of distribution charges – Update document and licence modifications'.⁷ This document addressed additional issues concerning connection charging (please refer to page 14 of this document). Stakeholders might usefully read this document.

⁷ This document can be found on the Ofgem website www.ofgem.gov.uk
Competition in connections to electricity distribution systems – Consultation document
Office of Gas and Electricity Markets

5. Way Forward

- 5.1. Ofgem will be producing a summary of responses in order to allow interested parties to view non-confidential responses to the consultation.
- 5.2. Upon the completion of this consultation process Ofgem, with the aid of the ECSG, will develop a way forward which Ofgem would expect all DNOs to implement. It is proposed that a Final Decisions Document will be published towards the latter part of 2004.