

**Competition in connections to electricity
distribution systems**

Decision Document – Part B

February 2005 60/05

Summary

This document follows Ofgem's 'Competition in connections to electricity distribution systems – Consultation document' of June 2004. The June 2004 consultation document set out proposals developed by the Energy Networks Association (ENA)¹ following the Ofgem connections workshop held in July 2003. At the workshop it was agreed that further work was required to reflect the impact of the Electricity, Safety, Quality and Continuity Regulations (ESQCR) 2002 (these Regulations took effect from 31 January 2003) and experience of initiatives such as the live jointing trials in United Utilities and SP Distribution/SP Manweb. The ENA's proposals covered various areas of work including a national consent to connect process (live jointing), adoption agreements, the national technical framework documents (G81), national inspection regimes and a national Service Level Agreement (SLA) for unmetered connections. The proposals were submitted to the Electricity Connections Steering Group (ECSG) for comment and input from the Metered Connections Customer Group (MCCG) and the Unmetered Connections Customer Group (UCCG) which represent the interests of commercial and Local Authority (LA) customers of Distribution Network Operators (DNOs). In some cases the customer groups were able to confirm agreement with the ENA proposals and in others the groups provided an alternative view. In addition, Ofgem used the June 2004 document², to highlight other issues not addressed by the ENA's proposals.

This is the second and final part of the documents which outline Ofgem's decisions with regard to the policies and initiatives discussed in the June 2004 consultation. Ofgem's policy decisions within this document relate to:

- ◆ Audit and Inspection Regimes; and
- ◆ Point of Connection (POC) charges.

Wherever possible Ofgem has attempted to achieve consensus after significant consultation with and work by the above groups. Where it has not been possible to achieve full consensus Ofgem has had to make decisions on the basis of the information available and in accordance with its duty to protect and advance the interests of consumers by promoting competition where possible, and through regulation only

¹ The ENA (formerly the Electricity Association) represents the licensed gas and electricity transmission and distribution companies within the United Kingdom.

² Competition in connections to electricity distribution systems – Consultation document (June 2004 124/04a) can be located on the Ofgem website www.ofgem.gov.uk

where necessary. While the ENA has attempted to achieve a broad DNO consensus in relation to the best way to develop competition in connections it should be noted that in some areas of work this has not been possible. Ofgem wrote to all DNOs individually highlighting the decisions contained within the November 2004 (Part A) decisions document and stating Ofgem's belief that these decisions are reasonable in terms of scope and timing. All DNOs have confirmed that they are working to comply with the decisions set out in that document. Ofgem also considers that the necessary framework to enable DNOs to commit to moving forward on the basis of the decisions in this (Part B) decisions document are already largely in place and should be capable of implementation from 1 April 2005.

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1. Introduction

- 1.1. In December 1998, OFFER³ issued a consultation document concerning the potential benefits of competition within connections. This consultation generated over 100 responses, the majority of which requested the introduction of competition to combat what customers perceived as high prices and poor levels of service being provided by DNOs. LAs were particularly vocal in their support for competition and complaints of poor service and high charges. 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 echoed the comments previously made. In light of these responses the Electricity Connections Steering Group (ECSG) and Unmetered Connections Steering Group (UCCG) were formed by Ofgem in October 2000. The task of these groups was to assist Ofgem to develop detailed proposals for policies and procedures to facilitate the development of competition in the provision of electricity connections.
- 1.2. In August 2002, Ofgem published a document entitled 'Competition in connections to electricity distribution systems – Final proposals'.⁴ This document sets out Ofgem's views on a suite of policies and procedures developed by the ECSG and the Unmetered Connections Sub-Group (UCSG) to facilitate competition in the provision of connections, initially in respect of new HV/LV connections associated with Greenfield sites and for LV unmetered connections, primarily streetlighting. The document highlighted that a number of policies and procedures could not be finalised at that time due to the delayed enactment of the ESQCR 2002. These regulations came into effect on 31 January 2003. It should be noted that when drafting the new regulations the DTI Safety Inspectorate took account of the need to accommodate competition in connections and recognised the use of an independent registration scheme as a way for DNOs to assess contractor competence.

³ OFFER was the Office for Electricity Regulation prior to merging with OFGAS (Office of Gas Regulation) to form Ofgem in June 1999.

⁴ Competition in connections to electricity distribution systems – Final proposal (August 2002 54/02) can be located on the Ofgem website (www.ofgem.gov.uk)

1.3. The August 2002 document 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 20 contractors wishing to be assessed for national accreditation for elements of contestable works associated with the installation of new electrical connections. With regard to unmetered connections Lloyds Register has produced a separate module. All DNOs recognise NERS as an appropriate method to assess to ICP competence and are either represented on the NERSAP or have indicated their support for its decisions.
- ◆ Standards of Service – all DNOs have voluntarily implemented three standards of service which were highlighted by Independent Connections Providers (ICP) as essential in order to develop competition. These standards can be viewed on the Ofgem website (www.ofgem.gov.uk) and are measured and published on a yearly basis via Ofgem’s Connection Industry Review (CIR).⁵
- ◆ Adoption Agreements – all but one DNO has introduced a tri-partite agreement. The 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. Ofgem considers that the other guidance contained in the 2002 document is still appropriate. Ofgem can make a formal determination where required in the event of a dispute about terms of connection.
- ◆ Contestable and Non-Contestable Quotation splits for Greenfield housing sites – DNOs should provide to ICPs upon request, a quotation split between contestable and non-contestable elements. DNOs are required to provide this split in accordance with the Ofgem template which can be located on the Ofgem website (www.ofgem.gov.uk).
- ◆ Live LV Jointing Trials – within three DNO areas, SP Distribution, SP Manweb and United Utilities, live LV jointing trials with regard to new

⁵ The ‘Gas and Electricity Connections Industry Review Results 2004’ can be located on the Ofgem website

housing connections on Greenfield sites are currently in operation. While the details of the schemes vary (primarily in relation to safety management) the trials have been in operation for a sustained period of time, for instance the trials within SP Distribution and SP Manweb areas commenced on 16 December 2002. No insurmountable technical difficulties or other problems have been identified. SP Distribution/SP Manweb have circulated details of the operational procedures that have been successfully trialled to all other DNOs via their representatives on the working group, in order to facilitate the extension of competition in this sector.

- ◆ Rent-a-Jointer – all but one DNO offers a version of the rent-a-jointer scheme. However, take up by customers has been limited and the service generally appears to only be cost effective where larger volumes of work are involved.

1.4. Ofgem chaired a Connection 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 the 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 ENA would create a workstream to produce a report, taking into account the impact of the recently enacted ESQCR, which would further develop the initiatives in the August 2002 document to ensure they were workable for all stakeholders. The areas of work which the ENA undertook to report upon were:
 - consent to connect (live jointing) process
 - adoption agreements;
 - national inspection regime;

- extending the technical framework documents (G81) to cover Brownfield sites and up to 11kV connected Industrial and Commercial (I&C) loads;
- live jointing on Greenfield HV/LV Housing Developments and transfers and connections, disconnections and transfers of unmetered single phase street cables greater than 1 metre from the main as measured along the service cable; and
- formulation of a national SLA with regard to unmetered connections.

1.5. Further proposals made by Ofgem included:

- ◆ the establishment of the MCCG, consisting of ICPs and customer representatives/customer agents. This group would feed comments into relevant workstrands the ENA were taking forward;
- ◆ the establishment of the UCCG, comprising of LAs, contractors and the Association of Street Lighting and Electrical Contractors (ASLEC). This group would feed comments into relevant workstrands the ENA were taking forward; and
- ◆ representatives from the ENA, MCCG and UCCG forming the membership of a new ECSG.⁶

1.6. The results of the work by the ENA, MCCG and UCCG were set out within Ofgem's June 2004 document entitled 'Competition in connections to electricity distribution systems – Consultation document'.⁷ Section A of this document outlined the initiatives and processes proposed by the ENA Group and the views of the MCCG and UCCG jointing groups on the ENA proposals.

1.7. Section B of the June 2004 document outlined additional issues raised by Ofgem on issues which had not been considered by the ENA Group.

1.8. The consultation period for the June 2004 document concluded on 30 July 2004. Ofgem received over 120 responses from various stakeholders. The

⁶ The minutes of the ECSG can be found on the Ofgem website (www.ofgem.gov.uk)

⁷ This document can be found on the Ofgem website (www.ofgem.gov.uk)
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document 'Competition in connections to electricity distribution systems – Decision document Part A' was published on 9 November 2004.⁸

Rationale

- 1.9. Ofgem has worked closely with stakeholders over a significant period of time to develop competition and improve DNOs' service delivery within the electricity connections sector. The most recent CIR, published in August 2003, highlighted that 11% of Low Voltage (LV) connections were undertaken by Independent Connections Providers (ICPs) in the period April 2004 to March 2004. This compares to 4% of LV connections undertaken by ICPs in the period April 2002 to April 2003. While existing policies and initiatives have resulted in the number of connections undertaken by ICPs in the LV sector increasing, the CIR also illustrates that this increase is relatively small. Consequently, this document outlines Ofgem's decisions on the appropriate way to further develop competition and improve DNOs' service delivery.

Purpose of this document

- 1.10. This document sets out Ofgem's decisions regarding policies and procedures relating to the provision of POC information and a national inspection and audit regime, that Ofgem considers are needed to enable effective competition in the provision of connections.
- 1.11. Chapter 2 of this document contains Ofgem's decisions in respect of the initiatives and processes proposed by the ENA Group and Ofgem for metered connections. The views of respondents to the June 2004 consultation document have been taken into account when reaching these decisions.
- 1.12. Chapter 3 of this document outlines the associated timescales in respect of the various decisions reached by Ofgem concerning the policies and initiatives contained within this document.

⁸ This document can be found on the Ofgem website (www.ofgem.gov.uk)
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2. Ofgem Decisions

- 2.1. Ofgem's decisions relate to the provision of LV underground cable electricity networks, including new associated High Voltage (HV)/LV distribution substations, for Greenfield and Brownfield housing developments (excluding reinforcement and diversion of the existing DNO network). Ofgem's decisions also include LV, 6.6kV and 11kV underground industrial and commercial connections, including their new associated HV/LV distribution substations (excluding reinforcement and diversion of the existing DNO network).
- 2.2. Outlined below is a summary of Ofgem's decisions with regard to metered connections, together with a summary of the respondents' views. A fuller explanation of the policies can be found in the June 2004 consultation document and associated Appendix document⁹ which should be read in conjunction with this paper.

Audit and Inspection Regime

ENA Proposals

- 2.3. The audit and inspection regime developed through discussions within the ECSG can be found within Annex 5 of the Appendix document. The aim of the audit and inspection regime is to discharge DNO obligations under the ESQC regulations and to provide assurance that ICPs are complying with the requirements of the Framework Document ("G81") and associated DNO appendices. It does not replace the ICP's own safety or quality assurance processes.

Respondents' Views

- 2.4. Five DNOs outlined their approval of the ENA proposals for a sliding scale of inspections, where inspections would initially be set at high levels but would be reduced over time, subject to successful results. However, the DNOs accepted that it was important not to deter ICPs and there was a need for a fast track

⁹ Competition in connections to electricity distribution systems – Appendix document (June 2004 124/04b) which can be located on the Ofgem website (www.ofgem.gov.uk)
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process, especially for ICPs who have a successful track record in other regions, to allow competent ICPs to move more rapidly to the reduced levels of the inspection regime.

- 2.5. One DNO stated that the current proposals encourage high standards of workmanship on the part of the ICP. It added that in the long term standard inspection charges could possibly be recovered via the Price Control with only those inspections required as a result of poor performance being recovered direct from the ICP concerned.
- 2.6. A further DNO highlighted that the proposals within the June 2004 consultation were the same regime that was outlined within the August 2002 document and saw no reason for change.
- 2.7. Three ICPs accepted the right of the DNO to inspect assets in order to ensure standards were being adhered to. However, one ICP raised concerns over the initial level of inspection, highlighting that a benchmark of 20% should be a sufficient initial level of inspection. In addition, the views of the ICPs were diverse in relation to the issue of inspection costs recovery. Two ICPs stated that costs should be funded by the general DNO cost base, unless poor workmanship could be highlighted.
- 2.8. Six DNOs stated that ICPs should meet the costs of inspections. One DNO stated that if ICPs were not required to meet the costs of inspection, there would be no incentive for them to progress to the lower levels within the inspection regime, which would result in a reduced level of inspection. Consequently, the DNO customer base would pay for this lack of an effective incentive to deliver competent performance.

Ofgem's Decisions

- 2.9. Ofgem accepts the need for DNOs to carry out reasonable inspections of assets, which they will subsequently adopt, to ensure that relevant work and safety standards are being adhered to. In light of this, and having considered respondents' views on the consultation and discussions within the ECSG, Ofgem has concluded that the proposals developed by the ENA and supported by the ECSG provide a workable model and no significant modifications to the current

arrangements are required. Consequently, Ofgem concludes that Annex 5 of the Appendix document should continue to be implemented by all DNOs.

- 2.10. In relation to the issue of who should bear the costs associated with the audit and inspection regime, Ofgem believes that it would be inappropriate to require the costs of inspection to be met by the generality of DNO customers. Ofgem believes that by requiring ICPs to meet the costs of the audit and inspection regime a suitable incentive will be placed on ICPs to ensure high standards of workmanship and adherence to safety standards. This will in turn lead to a reduced level of inspection and costs being placed upon the ICP.
- 2.11. However, it is important to stress that the costs which DNOs recharge to ICPs must be efficiently incurred. DNOs need to ensure inspection visits are undertaken in an effective and efficient way by, for example, ensuring that as much work as possible can be inspected on a single occasion rather than unnecessarily making repeat visits and transparent systems need to be developed to ensure that only inspections that have actually been undertaken are charged for. DNOs should be able to confirm that inspection visits have been made in accordance with the ECSG's guidelines and that any charges imposed on ICPs relate to efficiently incurred costs. Ofgem will investigate any complaints in relation to alleged overcharging/non-adherence to the regime by DNOs.
- 2.12. Ofgem is working with the NERSAP to develop suitable arrangements whereby an ICP that has attained the minimum level of inspection in one DNO area, can, where appropriate, have this competence recognised in another DNO's area as part of a "fast track" process. This work will have to consider the implications of the establishment by ICPs of new centres in other DNO areas, and the potential use of different staff groups/subcontractors, working to different DNO G81 Appendices. It will be necessary to consider how inspection data from DNOs can be effectively shared with NERSAP as part of this work.

Charges levied by DNOs for the provision of Point of Connection (POC) information

Ofgem's Proposal

- 2.13. 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 an inappropriate barrier to entry and that it is inconsistent for a DNO to charge for the provision of POC information, whilst not overtly charging to recover costs associated with the provision of a quotation under section 16 of the Electricity Act 1989, of which POC information forms a part. Consequently, Ofgem used the June 2004 consultation paper to invite views from stakeholders on this question.

Respondents' Views

- 2.14. Five DNOs expressed support for charges to be levied for the provision of POC information, citing the need to cover costs incurred in handling ICP requests and queries. One DNO stated that costs generated in the course of providing this additional information to ICPs should be specifically recovered from those imposing costs on DNOs. Another DNO highlighted that it would be perverse if the cost of providing POC information on a contestable connection basis should be met by the general DNO customer base.
- 2.15. Another DNO said that there should be no charge at the time of the initial application for connection. However, fees for subsequent modifications to the application could be levied as they would act as a disincentive for unnecessary reworking of the same application.
- 2.16. ICP respondents highlighted their belief that DNOs charging for POC information submitted in a competitive environment, while producing section 16 quotations without a directly related charge, were engaging in anti-competitive behaviour. One ICP stated that DNOs should be prevented from charging up-front for the provision of POC information. Another ICP stated that charges levied for POC frustrate competition in connections resulting in ICPs not meeting the needs of their customers.

Ofgem's Decision

2.17. Generally Ofgem considers that costs should be met by those parties which cause such costs to be incurred. Ofgem also notes that with the increase in ICP activity, DNOs are already facing the burden of additional administrative costs which need to be recovered. Ofgem believes that there is no justification for different charging arrangements for the provision of section 16 quotations or information, such as POC, between customers seeking to have connections work undertaken in the competitive environment and those who do not. Consequently, Ofgem considers it appropriate for DNOs to apply non-discriminatory charging policies in respect of the provision of POC and section 16 quotations for connections associated with new Greenfield/ Brownfield housing estates and non-domestic HV connections where competition is a realistic option at this time. At this time Ofgem does not consider there would be benefit in requiring detailed quotation breakdown/provision of POC in relation to small one-off LV service connections to be provided by DNOs on a routine basis.

2.18. Ofgem believes such charges should reflect the costs reasonably and efficiently incurred by a DNO in the provision of a quotation and POC/other information. In light of discussions with the ECSG, Ofgem considers that the model described in 2.19 below has a number of beneficial features. In particular, it should facilitate increased competition, allow DNOs to recover their costs regardless of whether or not works associated with individual sites go ahead and reduce the administrative burden placed on DNOs and ICPs in terms of invoicing. Ofgem recommends that all DNOs consider the adoption of the model outlined in 2.19 in relation to charging for POC information. Ofgem will investigate cases brought to it highlighting charges which do not reflect reasonable and efficiently incurred DNO costs.

2.19. Recommended model

Costs incurred by a DNO when providing POC information for Greenfield /Brownfield HV/LV housing developments and I&C connections up to and including 11kV (i.e. developments that are not speculative in nature and involve standard, non-complicated designs such as LV connections up to 1000 kVA or HV network connections provided via a single "teed" circuit breaker or RMU)

will typically be recovered via a standard charge levied on the successful contractor (ICP), appointed to complete the works on behalf of the developer. Complex designs outside this scope will be subject to charges assessed on an individual basis. The DNO's charge will be based on annual forecasts of the volume of POC requests expected to be recovered and the number of jobs that are expected to proceed to construction.

- 2.20. Ofgem would expect all DNOs to implement non-discriminatory charging policies for the provision of quotations from 1 April 2005.

3. Timescales

3.1. Outlined below is a brief summary of when Ofgem expects the conclusions of this document to be implemented by DNOs:

Audit and Inspection Regime	1 April 2005
POC Charges	1 April 2005