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REVIEW OF COMPETITION IN GAS AND ELECTRICITY CONNECTIONS

Dear Roger

Central Networks welcomes the opportunity to comment on the Proposals Document ref 26/07, our response represent both Central Networks licence holders: Central Networks East and Central Networks West and the wider E.ON group as appropriate, also where necessary making reference to our formal response of 31st October 2006 to the Consultation 159/06.

Metered Electricity Connections

In our response to 159/06; the 2006 Consultation on the Review of Gas and Electricity Connections, Central Networks supported the need for licence conditions replacing the voluntary standards, before consideration is given to structural change which would increase the costs to the majority of customers. In general we continue to support Ofgem's proposals in introducing such licence conditions. We again welcome the opportunity to demonstrate continued compliance with the performance standards set out in the proposals and we have continued to expend further resource and cost in this area. We have continued to improve to a point whereby we are now, on average, providing 95% of our Point of Connection (POC) information, in the nationally agreed format, within the predetermined voluntary standards of performance, notwithstanding a further 12% increase in requests for competitive connections in the first two months of 2007.

In accordance with our response of 31st October, we believe that timely provision of information including provision of quotations incorporating point of connection (POC) information, approval of designs and final connections is necessary to facilitate competition, and we are broadly

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supportive of Ofgem's proposals. However, we do not believe that we are able to fully support the amended licence conditions in their current form due to the inclusion of two further licence conditions not previously subject to voluntary standards, DNOs have not yet had any opportunity to properly analyse the impact of achieving the more stringent standards of service for some EHV approvals, or final connections. Having not first assessed performance against a voluntary standard it is our view that imposing a licence condition associated with either of these activities is not appropriate at this time. Further information of the reasons for our objections is included in the following appendix at section 3.

To ensure compliance with any new licence conditions we would welcome Ofgem's proposed audit visits. However, in order to be fully supportive of such an initiative, we would seek further information on the framework for such audits, and, given that financial incentives will be dependent upon data provided, we would expect that any audit would concentrate on the robustness of data submitted.

Promotion of convergence and good practices

Central Networks supports the majority of initiatives seeing these as fundamental to good customer service and has already implemented the majority of the good practices listed, including:

- Key Account Manager; this provides a single point of contact to ensure we meet current and future customer requirements;
- In relation to "section 16" connections, a bi-monthly customer survey is commissioned using an external agency. This survey captures a random sample of our customers and seeks feedback on satisfaction with all areas of our "section 16" connections process. We are proposing to roll this out to our competitive connection customers;
- Providing information packs to our developer customers;
- Further development of our website to provide a simplified application process;
- The provision of an "outline design service" which many customers use for their major schemes;
- The provision of an analysis of charges as requested by the customer;
- Our competitive connection team hold regular review meetings with those ICPs that are active within our Distribution Services Area (DSA). We also hold an introductory meeting with ICPs commencing activity within our DSA;

- We are in the process of publishing our reviewed and enhanced disputes resolution process.

Central Networks is supportive of Ofgem's proposals to await the first reporting in order to assess its effectiveness in promoting competition. In our response to the initial consultation we were extremely concerned that Ofgem may consider it appropriate to drive process and structural changes within the industry which would incur significant additional costs and delays, predominantly to parties who may not have access to competitive providers. Our view was that the primary barrier to competition was the timescales to respond to third party connection providers and this should be addressed through more formal standards.

Unmetered electricity connections

Central Networks support the need for a national standard benchmark for performance in this area. Whilst initial reporting difficulties were encountered, we are confident that we have appropriately engaged all Lighting Authorities (LAs) through our Public Lighting User Group forum in order to agree standards of performance that are based upon the National Service Level Agreement (NSLA).

We see the implementation of the minimum benchmark as a positive step and would agree that these are set at an appropriate level in order to promote improved performance and equitable treatment of all LA's on a national basis, we would however urge Ofgem to work with the audit commission to produce a consistent method of measurement for these activities.

Gas Connections

In respect of Gas Connections it is disappointing to note that it is not thought necessary to review both the ten metre subsidy and gas diversions, when both areas are critical to facilitating competition in connections. With the Gas Distribution Price Control Review currently taking place it is not clear when there will be another opportunity to review these arrangements. We would reiterate our comments of 31st October 2006 in which we expressed our concern that the current subsidy generated by the ten-metre rule creates a barrier to competition in this area which does not have an objective justification.

In addition, Central Networks believes that developers do not see the full cost of a gas connection including the large subsidy, comparative to an electricity connection. This disparity causes developers to perceive

electricity connections to be expensive when viewed against their gas equivalent. We believe this subsidy also prevents multi-utility activity on smaller developments when it could be in the interests of the customer to pursue this option.

We would draw your attention to the response of 31st October in which we expressed concern that restrictions imposed under the New Roads and Street Works Act 1991 (NRSWA) lead to unnecessary delays in obtaining permission which limited competition in both gas and electricity connections when undertaken by any party other than the incumbent DNO, or an IDNO/IGT nationally. We believe that the removal of restrictions should be addressed by this consultation and the Local Highway Authorities (LHA).

In terms of Gas Diversionary works, we would again stress our comments made at 31st October that called for gas diversionary works to mirror the system currently used in the electricity industry, to open this area up to multi-utility competition, and ultimately give developers what they want: namely a more joined-up approach to the timeliness of utility connections, as this, we believe will be a major step forward to resolving the issue of continuity highlighted at s 4.14 of this consultation.

Our detailed comments are contained within Appendix 1.

Yours sincerely

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Central Networks

APPENDIX 1

3 **Metered electricity connections: Introduction of a licence condition**

- (1) *Do you agree with our proposals to introduce a licence condition?*

With reference to our 31st October response: We agree that in order to further facilitate competition in connections, a licence condition is needed to replace the voluntary standards, setting out timescales that are monitored and complied with. Ofgem should then await the first reporting before undertaking further policy change, particularly in respect of process or structural change which would incur significant additional costs and delays, predominantly to parties who may not have access to competitive providers. Our view was that the primary barrier to competition was the timescales to respond to third party connection providers.

- (2) *Do you agree with the proposed scope, performance targets and timescales?*

It is our view that the proposed standards of performance associated with only those activities listed below are reasonable, and we therefore accept the rationale put forward by Ofgem for the introduction of a licence condition associated with the provision of these services:

- (i) Provision of POC information
- (ii) Approving or providing reasoned rejection of the contestable design (LV & HV)
- (iii) Carry out partial energisation (LV & HV)

With regard to the approval or reasoned rejection of the contestable design, we believe that consideration should be given to the complex nature of many EHV connections, some utilise bespoke designs or require lengthy and detailed correspondence and studies to agree equipment types and network configurations. DNOs rarely provide a formal 'reasoned rejection' of EHV contestable designs; having found that a more constructive approach is to work together to produce a design acceptable to both parties.

Given these constraints, we therefore believe that DNOs should be in a position to provide the applicant with a proposed date for the approval of the contestable design within ten working days; however we do not believe that providing approval or reasoned rejection within this timescale is, at this stage, supportable.

No formal metric has ever been applied or reported to the completion of final connections other than the generic term ‘agreed timescales’ which the annual Connections Industry Review suggests that DNOs are performing well against. Central Networks has on a voluntary basis, applied a standard of service for this activity that is equitable with that of our statutory connection service provision and this appears to be working well with our Customers.

We believe that 25 working days for completion of final connections for both LV and HV is appropriate. The basis of this requirement is that we utilise exactly the same jointing resource to conduct LV as we do to conduct HV jointing work and therefore we cannot differentiate between the two when programming resource.

The DNO’s performance against this standard of service (completion of final connection) is greatly influenced by businesses operational activities and is directly linked to:

- the DNO’s resource capacity
- the availability of resource within the market
- the cost of this resource if it is to be diverted from other equally critical activities, for example delivery of the business’ agreed capital reinforcement programme that in turn drives our operational performance and associated customer service; and
- the preparedness of the ICP or IDNO, e.g. legal acquisitions completed and compliance in full with the DNO’s Construction and Adoption Agreement.

(3) *Is the proposed structure and drafting of the licence condition clear?*

Central Networks’ position in relation to the proposal to impose a licence condition is outlined above. We do not believe that

any further appropriate clarity has been provided in terms of the structure and drafting of that licence condition since it was first presented at the Electricity Connections Steering Group (ECSG), where serious concerns were raised with respect to accuracy and ambiguity of the initial drafting. We will be happy to support the subsequent consultation on this particular matter during Q2 of this year, possibly through the Distribution Licence Review Group proposed by the Energy Networks Association (ENA) which is next due to meet in mid April.

- (4) *Does the licence condition require a supporting guidance document?*

Central Networks believes that the impact of such a licence condition on a DNO in the Competition in Connections area will require full supporting guidance as this will ensure that DNOs apply the licence condition in a like manner and thus avoiding irregularities in reporting.

4 Promotion of convergence and good practices in electricity connections

- (1) *Do you agree with the package of best practice principles?*

Central Networks is broadly in agreement with the concept of best practice principles and sees them as fundamental to good customer service. As such, we have already implemented the majority and make the following observations:

Connections Application Process

Increasing of customer awareness

Central Networks believes that the existing Licence Condition 4 (LC4) statement is a useful document and is used by many customers, this breaks down our non-contestable charges in a format that is consistent with that proposed by Ofgem in their Decisions Document – Part A (252/04) of November 2004. In relation to Ofgem’s proposal (4.8 & 4.9), we believe that these requirements are fulfilled by the current information provided to customers. However, we appreciate that this information is to be found in several different areas (i.e. LC4, Offer Letters sent) and

could be provided in a manner designed to be more helpful to the ultimate customer. We are working as part of the ECSG to develop a universal document. Independently of the consultation process, Central Networks is currently reviewing its internet presence which also explains the options open in establishing a new connection with a view to providing a more effective route to support our customers.

We don't view the provision of a split between contestable and non-contestable work as being as important to customers as suggested, generally, we find that customers often seek both a section 16 and competitive quotation in order to ascertain the differences between the two connection offerings.

Managing customer interfaces effectively

Central Networks is keen to continue to improve customer service, we already provide Developer Packs and provide a Key Account Management service as a single point of contact to all our major customer groups.

The review of our web presence has included an updated FAQ section, and has a dedicated Customer Applications Team in place to guide applicants through the connections process; further development of the site will allow applicants to monitor progress of their applications.

In relation to section 4.13, Central Networks believes that the provision of a speculative quote is extremely resource intensive, resources which could be used to improve the service for all customers; we too believe that a web-enabled solution would help to ease this burden. However the cost of producing speculative quotes needs to be recovered through our charging mechanism.

Standardising the application process

As suggested in section 4.20, Central Networks has a suite of differentiated application forms for different customers that provides for all relevant information in order to ensure a timely and accurate quotation. Further web-based solutions are planned to capture the full end-to-end process, including automated email communication with customers of quotations and delivery information. As Ofgem may be aware, the development of such

a system is significant and Central Networks is gauging customer appetite at each stage to ensure the system will both suit customer requirements and be cost effective. We do however believe that a deadline of summer 2007 is too vague and seek clarification of the timescale involved.

Extension of the breakdown of charges and provision of POC information

Central Networks currently provides an analysis of charges if requested by customers, although mindful of both the importance of providing effective customer service, and continuity as highlighted in s4.14, we believe that breaking down a quotation in such detail may ultimately work against that objective. The prescribed format in the consultation does not align with these requirements. We agree that better information can be provided but must be customer led, e.g. quotations for building works are broken down into distinct elements such as brickwork, windows, kitchen etc.

Whilst we would maintain that certain information would be deemed to be commercially sensitive, Central Networks would welcome an opportunity to review and comment on any further proposals regarding this matter.

It is unclear to Central Networks of the requirements specified by Ofgem in s4.25. Is Ofgem requiring DNOs to record the date on which the completed application was received from the customer and the date of the completed quotation as this is something that Central Networks already provides?

Central Networks already provides a detailed design scope as part of the offer letter to our customers and therefore provide the PoC as suggested by Ofgem.

Dispute resolution process

Central Networks is in the process of refining, simplifying and publishing our existing disputes resolution process for the use of all customer groups.

In our experience many cases of customer dissatisfaction could have been resolved without the need for the customer to escalate the matter to energywatch or Ofgem and therefore we are extremely keen to ensure we take whatever steps are necessary in this area.

Connection Charges

Introduction of a national standard template for non-contestable charges

Central Networks currently participates as part of the ECSG to develop a framework to provide a national standard template for non-contestable charges, in support of transparency and consistency.

Detailed costings for schemes

The existing Central Networks' LC4 statement breaks down our non-contestable charges in a format that is consistent with that proposed by Ofgem in their Decisions Document – Part A (252/04) of November 2004, we do provide further breakdowns wherever possible when approached by customers for the disaggregation of information. We would welcome an opportunity to review and comment upon any further proposals but remain aware of the need to protect commercially sensitive information.

Structure and transparency

Affiliate connections business

In respect of the SP Manweb commitments (234/05b - Commitments from SP Manweb plc to the Gas and Electricity Markets Authority), we must be mindful that these were both company and issue specific. We would therefore propose that, when Ofgem reviews the state of competition in 2008, they examine any remaining barriers that exist then, rather than refer back to these commitments directly.

With regards to affiliate businesses, it is important to differentiate between a statutory section 16 connection which is undertaken by the distribution business (directly or via an

affiliate acting as agent of the Licensee) under their published charging methodology and licence obligations, and an affiliate which competes with the distribution business. In the case of the former we do not believe that further structural or process change is justified on the grounds highlighted previously since sufficient safeguards and transparency are already proposed in this consultation. However, where affiliate businesses compete with the incumbent licensee business then we do believe that greater transparency and separation is warranted.

Scope of contestability

Central Networks supports Ofgem's decision and re-iterates the points made in the response of 31st October; that competition in key areas should be reinforced before extending the scope of competition to new activities.

Protection where competition is not effective

One-off connection charges

Central Networks agrees with Ofgem's comments in section 4.59 in that DNOs should not be constrained by price-capping in setting the level of charges so long as the general charging principles are met.

Whilst Central Networks understands that Ofgem's role is to promote choice and value for customers and that their primary objective is to protect the interests of the customer, we believe that resorting to price-capping is not cost-reflective and may distort future competition in this particular area. We consider that the way forward is outlined in chapter 4 of Ofgem's proposal document.

Whilst we note Ofgem's proposal to consider this matter further through the next price control review, it would appear to suggest that for one off domestic connections, there may be a recovery through use of system charges or a capital subsidy of the connection cost differential. This in our view would be a retrograde step and out of line with Ofgem's decision on the removal of Tariff Support Allowance.

Customer satisfaction

We already utilise the services of an independent company to actively canvass our statutory connection customers in order to monitor customer satisfaction and to identify any areas where improvement may be required. It has always been our intention to extend this survey to include our competitive connection customers.

Reporting arrangements

Central Networks would expect appropriate levels of reporting guidance to be provided for all reporting, and will work with the ECSG to produce workable instructions.

- (2) *Are there other areas of improvement to the connections application process that are required?*

Please see Central Networks' comments in (1) above.

- (3) *Do you agree with the reporting arrangements set out in this chapter, are specific guidelines required?*

Central Networks expects that for all reporting arrangements that already exist, as well as those to be introduced, appropriate levels of reporting guidance should be provided.

5 Unmetered electricity connections

- (1) *Do you agree with the proposed minimum benchmarks for the SLA?*

Central Networks support the need for a national standard benchmark for performance in this area. We are now confident that we have appropriately engaged all LAs through the Public Lighting User Group in order to agree standards of performance that are based upon the (NSLA). However we would make the following observations in the paragraph below:

It is not clear that further development of the triangular arrangement or live jointing trials will enhance improved

performance in this area; the recently undertaken project in Caerphilly may not have been sufficiently encompassing to provide fully comprehensive results. In terms of the provision of the triangular arrangement or indeed live jointing trials, Central Networks remains concerned that the uptake of this initiative remains poor among the ICP community, notwithstanding our commitment to offer both these arrangements.

Further to our response of 31st October, Central Networks expresses some concern over the differing measures being used by Ofgem and those imposed upon the authorities by the Audit Commission in BV215A and BV215B. This currently means that data is being recorded twice, once in calendar days and again in working days, this does not appear to be particularly efficient.

We see the implementation of the minimum benchmark as a positive step forward and would agree that these are set at an appropriate level in order to promote better performance and equitable treatment of all LA's on a national basis. However Ofgem should be mindful of the issues that could affect the relative merits of the reported key performance indicator figures. The DNO's ability to perform against the NSLA and for the reporting by the DNO to be truly reflective of actual performance requires the LA's co-operation in the management of the LA/DNO interface, for example more evenly spread expenditure by the LA over the full financial year so as not to substantially overwhelm the DNO's available resource at the year end.

- (2) *Do you agree that the scope of contestability should be based on contractor accreditation rather than the 1 metre rule?*

Further to our response of 31st October, as the final closing joint of the contestable assets onto the DNO's existing distribution system must remain non-contestable, we believe that removal of the one metre rule would make little difference to the scope of contestable works associated with the triangular contract arrangement.

We previously stated that Central Networks would be willing to further review the merits of removing the one-metre rule on the grounds that live LV jointing of Contestable Assets could only

take place onto mains and services installed by that ICP on that same particular 'project', we remain willing to conduct this review.

Our response of 31st October made it clear that we object strongly to any suggestion that any person could be contracted, other than the host DNO (or their affiliated contractors working under the various DNO safety and quality management systems), to live joint onto mains or service cables forming any part of the host DNO's existing distribution system that had not been installed by that ICP under the same 'project', and that are not covered by a current and valid 'Consent to Connect' certificate.

Central Networks is comfortable with the National Electricity Registration Scheme (NERS) accreditation system being the mechanism for the accreditation of contractors for their purpose of conducting live jointing activities. It should however remain appropriate for the host DNO to expect those appropriately accredited contractors to have attended any additional training or education workshops held by the DNO prior to conducting any live jointing activities on contestable assets connected (physically or electrically) to that DNO's distribution system.

Once accredited under the NERS scheme, Lloyds Register publishes the contractor's details on their web site for all interested parties to reference. This appears to be the most sensible approach going forward for the publication of all contractor accreditation as the approach will maintain consistency with that of the contractor accreditation scheme for metered connections work.

Due to the high volume nature of this work and safety and quality concern in this area, we do not believe a blanket removal of the one-metre rule is appropriate without a full impact assessment of all issues. For example, this would create major operational safety issues to a DNO in controlling the overall safety of the general public and external ICP operatives.