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Dear sirs

Response to: Review of Competition in Gas and Electricity Connections Proposals Document

This letter is written for and on behalf of GTC Pipelines Ltd (GPL), an Independent Gas Transporter (IGT), and The Electric Network Company ENC, an Independent Distribution Network Operator (IDNO), both subsidiary companies of GTC.

The first consultation on competition in connections was published by Offer, the predecessor organisation to Ofgem, in December 1998. Since that time there has been much debate, many consultations and forums in different guises. Progress to bring about competition in connections has been punctuated through delays brought about by procrastination and filibustering. By and large, DNOs have only implemented changes as a consequence of formal obligations being introduced or following the threat of action, implied or otherwise.

For example, the introduction of adoption arrangements, G81 standards for contestable works, implementation of voluntary standards and the introduction of live jointing arrangements have all taken far longer than they should have done and have had patchy success. Perhaps this should come as no surprise; DNOs have a vested interest in maintaining their monopoly status in the connections market.

It is with this background that we review Ofgem's proposals document. Our overall view is that, whilst we welcome proposals to introduce long overdue formal performance standards, there are still many issues to address and which we believe should have been addressed by this review. Any drivers to bring about change must be robust. Relying on voluntary arrangements has had little success.

Particular areas that we need to address in respect of electricity are:

- Accessibility of DNO network records to identify potential points of information.
- Charges for the provision of point of connection information.
- Arrangements to facilitate self connection.

Provision of Network Information

Access to point of connection information and the timescales for providing such information have been, and continue to be, a contentious area in the connections market. To date Ofgem have completed two investigations under the Competition Act 1998. In Section 4 of Ofgem's publication on their investigation of United Utilities¹, Ofgem analysed in detail the importance of, and the issues around, providing timely and accurate point of connection information and concluded in paragraph 4.19:

"... the provision of POC information is a fundamental input to the process of calculating and providing a quotation for electricity connection services."

We agree.

Also, the investigation into SP Manweb² resulted in SP Manweb making formal commitments to the Authority in respect of the provision of point of connection information.

Further work is still required to develop robust arrangements for the access to, and the provision of, point of connection information. Developers and ICPs have commented to Ofgem, through workshops, correspondence and meetings, on the importance of minimising delays in providing point of connection information. The current process, where the DNO provides point of connection information to parties in response to specific requests, creates delays and introduces further costs.

In their investigation into United Utilities, Ofgem recognised the type and level of information held by DNOs in respect of their distribution systems. We believe that such relevant network information should be more readily available to authorised parties undertaking connection works. One way of providing such information could be through a web based solution.

Although DNOs publish information on their networks in their long term development statements, they do not provide information at the HV and LV levels of the distribution system. We believe that providing relevant information on the HV and LV system would be a significant step forward in facilitating competition in connections and streamlining the connections process.

Such an arrangement would parallel those in gas where relevant parties are able to have access to mains records. This arrangement has been working in respect of gas arrangements for a number of years.

Charges for Point of Connection Requests.

We are concerned at the way charges for point of connection requests are calculated and levied. We believe the approach adopted by some DNOs is not always reflective of the costs and can inhibit the competition in connections process. We have written to Ofgem previously on this issue setting out our concerns in more detail.

¹ Ofgem publication **281/04** – No grounds for action decision of the Gas and Electricity Markets Authority following an investigation of an alleged infringement of the Chapter II prohibition by United Utilities Electricity PLC and United Utilities Networks.

² 234/05b – Commitments from SP Manweb plc to the Gas and Electricity Markets Authority pursuant to section 31A(2) of the Competition Act 1998

Self Connection

Another area of significant concern is the delay often experienced in the undertaking of final connection works and in the adoption of such works. Such delays are further exacerbated when DNO representatives fail to keep agreed appointments. (Many DNOs put provisions in their adoption agreements that require ICPs to pay abortive costs where the ICP fails to meet its commitments. However, such DNO agreements make no reciprocal provisions in respect of the DNO's failures).

The final connections process could be further improved by developing arrangements to allow ICPs and DNOs to self connect. Such arrangements already exist in respect of gas connections.

Safety is of paramount importance: it is also an emotive issue. In developing such arrangements, safety needs to be fully considered and addressed. We are concerned that parties use the safety argument as a shield to inhibit the development of competition. The focus should be on developing solutions to safety concerns rather than on using safety as a means of defending the status quo. In developing arrangements we would welcome the involvement of the HSE.

In undertaking the auditing of contestable works, DNOs appear to be applying higher hurdles and more stringent checks than they do when the same contractor is working directly for the DNO. Checks and audits carried out by DNOs on ICPs should be consistent with the checks and audits that the DNO carries on contractors working for the DNO, particularly where contractors have relevant accreditations.

Taking the Process Forward

We support the promotion of convergence and good practices in electricity connections. In taking the process forward it is important that objectives, milestones, timescales, and most importantly, ownership for delivery, are clearly defined. Whilst we recognise the ECSG as a useful discussion forum it has no powers to introduce arrangements or to enforce compliance with its recommendations. This is demonstrated through earlier work by the ECSG where recommendations have only been adopted piecemeal, if at all. Therefore, if Ofgem is to use the ECSG to undertake such work, Ofgem needs to be clear on what mechanism it will use to agree and implement recommendations. If implementation of recommendations from the ECSG is optional then the value of the work is diminished (as may the commitment of parties to commit resources to such work).

We would be happy to discuss our response in more detail with you and further illustrate some of the points we have raised. We will contact you in the near future on this.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mike Harding', with a stylized flourish at the end.

Mike Harding

Regulation and Compliance Manager

GTC (for and on behalf of The Electricity Network Company Ltd)

Annex

Review of Competition in Gas and Electricity Connections Proposals Document

3. Metered electricity connections: Introduction of a licence Condition

Question 1: Do you agree with our proposals to introduce a licence condition?

We agree with the proposal; however, we note that a DNO could meet its overall 90% standard but fail in respect of application made by a particular customer class. Although we note Ofgem's comments in respect of anti-competitive behaviours, we believe that it should be a specific requirement that the performance standards should apply in respect of each different customer groups, For example:

- Requests from customers where DNOs undertake all connection works (contestable and non contestable.
- Requests from ICPs where ICPs undertake contestable works for subsequent adoption by the DNO and, the DNO undertakes the non-contestable works.
- Requests from ICPs where ICPs undertake contestable works for subsequent adoption by an IDNO and, the DNO undertakes the non-contestable works.
- Requests from an IDNO where the IDNO establishes a network and the DNO undertakes the non-contestable works.

We also believe clarification is required as to the difference between a quotation and a budget quotation. We have experience of receiving a budget quotation in response to a request for a formal quotation. A request for a formal quotation should result in a formal quotation being provided. To do otherwise should not be considered as satisfying the standard.

Question 2: Do you agree with the proposed scope, performance targets and timescales?

In general we agree with the proposed scope and performance targets. However, we believe that the licence condition should make provision with respect to the making and keeping of appointments.

Question 3: Is the proposed structure and drafting of the licence condition clear?

It is important that the drafting of the licence condition is robust and clear. As currently drafted we believe further work is required. Commitments given by SP Manweb to the Authority following the Competition Act investigation provide some useful points for consideration. For example, the term "request" used in paragraph 5 may be better defined as a "compliant request". Also, the term "quotation" should be defined to separately identify

- quotations that are given for undertaking works; and
- letters that are in response to a point of connection information request.

In each case the minimum information to be included in a quotation should be described.

Additional comments are given below.

- The term “energisation” may require further work to cover circumstances where the connection is to the distribution system of another licensed distributor.
- The term “extra high voltage” connection should not be defined as having a ceiling of 72kV. This is inconsistent with industry definition of the term. Section 5(e) should refer to extra high voltage connections up to 72kV.
- The term “partial energisation” is ambiguous and needs to be more clearly defined. From the current definition it is difficult to differentiate how a partial energisation differs from a full energisation.

We would be happy to work with Ofgem on the further development of this licence condition. We recognise the time to do this is tight if arrangements are to be implemented from July 2007.

Question 4: Does the licence condition require a supporting guidance document?

We believe that such a document would be useful. However, production of this should not delay the introduction of the licence condition

4. Promotion of convergence and good practices in electricity connections

Question 1: Do you agree with the package of best practice principles?

We support proposals to:

- Streamline the connections process and where appropriate, converge to a single national approach.
- Develop a dispute resolution process.
- Develop a national standard template for non-contestable charges.

However, whilst we recognise the ECSG as a useful discussion forum, it has no powers to compel relevant parties to implement any of its recommendations. Therefore, if the ECSG is to be given the task of developing solutions, robust mechanisms to implement agreed recommendations must be established. For this to happen the scope of works given to the ECSG (or any other forum) along with objectives, milestones and delivery dates must be clearly established and agreed with relevant stakeholders at the outset.

Without such agreement we would be concerned that work undertaken by the ECSG could be wasted and not implemented.

Question 2: Are there other areas of improvement to the connections application process that are required?

We have already commented on this in the main body of our letter.

Network records, along with supporting load information, should be readily available to enable ICPs and IDNOs to make a reasonable assessment on the optimum location and voltage for a point of connection. This information could be available as a web based solution. This would allow for parallel arrangements in place for gas.

Question 3: Do you agree with the reporting arrangements set out in this chapter, are specific guidelines required?

We have no issues with the reporting arrangements. We do not support the development of voluntary compensation or penalty payments. Such payments if required should be mandated. Experience has shown that voluntary arrangements, to date, have not been particularly effective. Areas where payments should be considered are where the DNO fails to keep an appointment.

5. Unmetered electricity connections

Question 1: Do you agree with the proposed minimum benchmarks for the SLA?

At the ECSG on 21 March 2007, it was demonstrated that there appeared to be inconsistencies in the way that local authorities allocated faults to the various fault categories. If such significant variations can occur locally then it is even more likely that they will occur on a national basis. Therefore, we believe that definitions must be clearly defined, and that DNOs and local authorities should be required to agree on how faults have been allocated for reporting purposes. Where agreement is not reached two sets of information should be provided.

In using key performance indicators it is important that they are relevant and have credibility.

Question 2: Do you agree that the scope of contestability should be based on contractor accreditation rather than the 1 metre rule?

We are happy to support that contestability should be based on contractor accreditation rather than on the "1 metre rule". However, parties undertaking such work should have the appropriate training and competence.