



SP Transmission and Distribution

Review of Competition in Gas and Electricity Connections

Response by SP Transmission and Distribution to Ofgem's February 2007

Proposals Document

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Review of Competition in Gas and Electricity Connections

Response by SP Transmission and Distribution to Ofgem's February 2007 Proposals Document

SP Transmission and Distribution¹ ("SPT&D") welcomes the opportunity to respond on the issues raised in this paper. For a number of years we have been at the forefront of the process of opening up competition in electricity connections and have played an active role in the Electricity Connections Steering Group. Our distribution service areas (SP Distribution and SP Manweb) are two of the most contested Distribution Network Operator (DNO) areas for electricity connections in Great Britain. Our main points are as follows:

Promoting Competition

- Ofgem has placed insufficient emphasis on developing a "level playing field" throughout GB. The Proposals have the greatest impact on those DNOs that have proactively embraced competition.
- The proposal to switch off the Licence Condition for IDNOs is discriminatory. In already developed markets it creates further barriers that actually limits, rather than promotes, competition. We strongly recommend that IDNOs should be subject to the full Licence Condition.

Licence Condition

- We support the introduction of formal Licence standards and reporting requirements, and the move to simplified definitions as this will help to improve transparency. However the licence drafting will require careful attention.
- If there are material changes to the licence conditions as currently drafted then we would expect another consultation round before a formal Section 11 notice is issued.
- A full set of formal reporting guidelines (RIGs) linked to the new licence condition will be required.

Standards of Service

An unintended consequence of the proposed simplified definitions will be a requirement on DNOs to provide "complicated" LV or HV offers to a 15-day / 20-day deadline rather than a 50-day deadline. This tightening of POC quote timescales for a significant

¹ SP Transmission & Distribution is the licence holder for SP Transmission Ltd, SP Distribution Ltd and SP Manweb plc.

proportion of jobs must be addressed by setting the timescale for any jobs that involve reinforcement of diversionary works to 50 days.

Customer Awareness

- We agree that increasing customer awareness and improving customer interfaces are essential and believe that Ofgem has an important part to play by improving the access to and quality of information that it provides to new industry participants.
- In our experience customer requirements are very diverse and it is important to take care not to over-simplify information given to the customer. A “one size fits all” approach is not appropriate in every circumstance.

Impact on DNOs

- Ofgem has not taken into account the impact of these Proposals on DNOs that are already supporting fully established and competitive markets. These DNOs face considerable cost and effort to enhance their IT systems and processes, and also to support market participants at the pre POC phase to accommodate the new arrangements.

Unmetered Electricity Connections

- We support Ofgem’s proposal for a set of minimum performance benchmarks for the SLA, which are derived from average performance across DNOs. However there are too many minimum performance benchmarks for unmetered electricity connections. Seventeen benchmarks covering two standards (covering fault repair and new works) are excessive.
- The performance of DNOs is heavily dependent on the cooperation and coordination of the Highway Authority (HA) and its nominated contractors. We recommend that those HAs that are not prepared to participate through an SLA should be identified separately and excluded from reported overall performance.

SP Manweb Competition Act Commitments

- The proposed standards are not consistent with the SP Manweb Competition Act Commitments. We are therefore considering a request to Ofgem to either vary SP Manweb’s Commitments, or release SP Manweb from its Commitments.

Our detailed comments on the chapters on electricity connections are set out in the following sections.

Chapter 3 Metered electricity connections: Introduction of a licence condition

Introduction of Licence Condition

We support the introduction of formal Licence standards and reporting requirements. The move to simplified definitions will help to improve transparency but we are concerned about unintended consequences that arise from these.

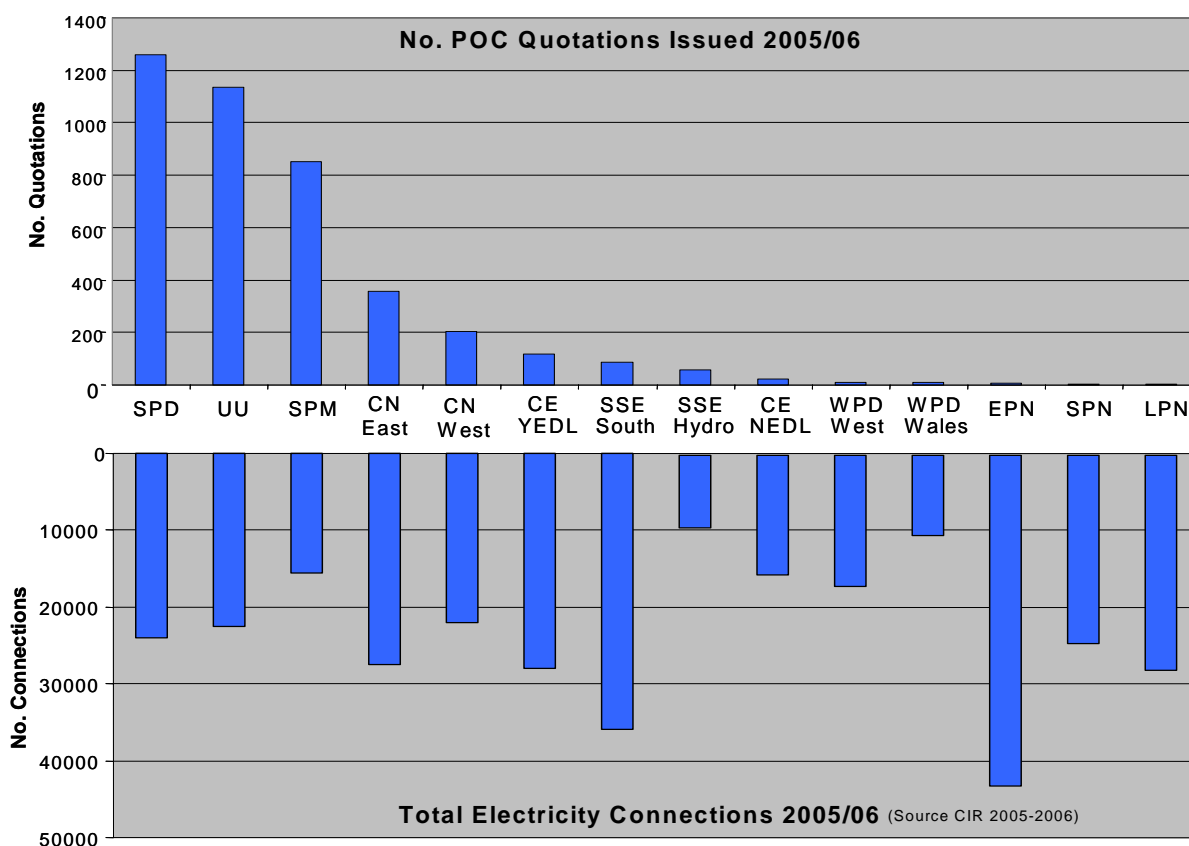
If there are material changes to the licence conditions as currently drafted then we would expect another consultation round before a formal Section 11 notice is issued.

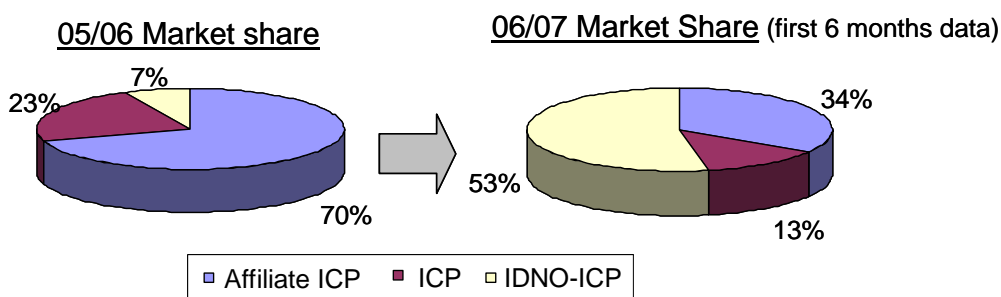
Ofgem plans to have a formal licence condition with informal guidance. The impact of a lack of clear and formal guidance will be inconsistent reporting. We recommend that if formal standards are introduced through a licence condition then there must also be clear definitions underpinning these that are linked to the licence condition. An approach similar to the RIGS for distribution and transmission RRP is required.

Promotion of Competition

One of our main concerns with Ofgem’s proposals is that Ofgem has placed insufficient emphasis on developing a “level playing field” throughout GB. The proposals have the greatest impact on those DNOs that have pro-actively embraced competition. Competition in electricity connections is already well established, particularly in our distribution service areas, as shown in the graphs below.

POC Quotations issued and Total Electricity Connections in 2005/06



Contestable Connections won in SP Distribution area

Note: SP Manweb experiencing similar trend with 6 month lag

These graphs show that competition is already fully established in several distribution service areas (SP Distribution, SP Manweb and United Utilities) with IDNOs and out-of-area DNOs winning in excess of 50% of contestable works.

Our experience in fully competitive markets is that there is a considerable cost overhead on DNOs to (i) support market participants prior to POC requests being submitted, and (ii) setting up systems and processes to manage several thousand POC requests. We require full cost recovery of these additional costs.

The graphs also highlight that competition is very patchy and there appear to be barriers in some areas that need to be addressed. Ofgem must address this issue as a priority. We recommend as a first step that Ofgem meet with all market participants specifically to establish why competitive markets have only developed in certain DNO areas.

Switching off the Licence Condition for IDNOs

We are very concerned at the proposal to switch off of the Licence Condition for IDNOs. Ofgem's principal objective is to protect the interests of consumers wherever appropriate by promoting effective competition with the main thrust being to identify and remove barriers to effective competition. In the electricity connections market, full competition has been established in several distribution service areas. It would therefore be disproportionate, indeed discriminatory, to bring in arrangements that further tilt the market against the host DNOs.

We understand that Ofgem's rationale for switching off the licence condition for IDNOs is to limit their workload in markets where competition is limited. In our view, this proposal is not proportionate and leads to serious barriers on DNOs competing on a fair basis with IDNOs. The impact of Ofgem's proposal is to restrict rather than promote competition.

Proposed Definitions and Standards of Service

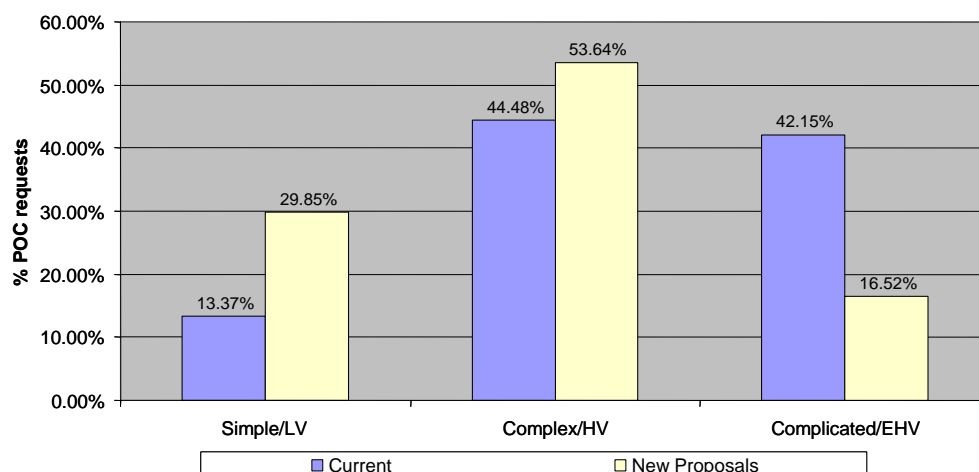
(i) Impact of simplified definitions: Definitions must be clear and reflect the requirements of the marketplace. Our current performance against the voluntary POC standard (i.e. Simple,

Complex and Complicated) is well over 90% however an unintended consequence of the simplified definitions is set out in the diagram below, which shows the impact of the definition change for SP Manweb’s area. There will be a significant tilting of schemes into the more onerous timescale categories compared with existing classifications i.e. DNOs will be required to provide “complicated” LV and HV POC quotes to a 15-day / 20-day deadline rather than a 50-day deadline.

The consequence is that the 90% performance target will not be achievable. Failure to comply with this target may not necessarily indicate poor DNO performance, particularly given the high volume of competitive applications in SP’s areas compared with elsewhere.

This tightening of POC quote timescales for a significant proportion of jobs must be addressed by setting the timescale for any jobs that involve reinforcement of diversionary works to 50 days.

Impact of Simplified Definitions



(ii) Generation connections: All generation connection designs involve detailed analysis and require 50 working days irrespective of the connection voltages. DNOs need to assess the technical impact of the embedded generation on the local distribution infrastructure, addressing issues like reverse power flow through transformers, voltage control and fault level etc. This work takes time. We therefore recommend that the proposed LV generation connection timescale be changed from 20 days to 50 days.

(iii) Partial energisation: The timescales proposed are far too onerous and we recommend that they are changed to the same timescales as final connection works as follows:

- LV partial energisation - Change from 5 WD to 10 WD, and
- HV partial energisation - Change from 10 WD to 20WD

(iv) EHV POC information: The effort involved in defining POC information for complicated connections is extensive and, from our experience, is likely to involve considerable interaction with the party requesting the POC. We are concerned that the EHV ‘Notify POC’

timescale is too onerous unless (a) the POC information to be provided is clearly defined, and (b) there are clear rules for stopping / starting the “clock”.

(v) Transmission works: An exemption from the defined timescales should apply in all cases where transmission works are involved.

Licence Drafting

The licence drafting will require careful attention to ensure that various matters are addressed including:

- Connections which require reinforcement / diversions
- Competent POC application
- Obligations on customers prior to connections / energisation (e.g. conditions precedent)
- Limiting the scope to connections which do not require reinforcement / diversions at voltages exceeding EHV
- Clock start / stop / pause. For example, the clock should start for generation POC quotes only after payment has been made for any relevant feasibility studies carried out by the DNO at the request of the market participant

In addition to the points made above, the licence condition requires significant further work to make it fit for purpose. For example:

- Paragraph 1 is completely general in scope, but should explicitly exclude applications under S16 of the Electricity Act. This exclusion only appears later in the condition.
- Similarly, the reference to standards not applying where insufficient information has been provided appears outside the list of standards themselves.
- The definition of ‘specified information’ would require itemisation of timescales for every single service provided under paragraph 5 i.e. thousands per year in SP’s case.

Impact on DNOs

(i) Immediate Implementation: Ofgem require the DNOs to implement the best practice improvements set out in this document straight away. This is a major concern, as it will lead to vastly more work for DNOs that are supporting fully competitive markets. In our own situation, we will have to make further changes to our IT systems and associated processes and these will take time to implement.

(ii) Performance Assessment: DNOs that are supporting fully competitive markets will require considerable time to implement the Proposals. An assessment of performance at the end of March 2008 is therefore too early. We recommend that DNO performance is not reviewed until at least a year after implementation of the new Licence Condition.

(iii) Costs: In established markets, where DNOs have to provide support to market participants and process thousands of POC requests, it is a fact that there is a significant cost in establishing and operating IT systems and related processes.

In addition to these costs, our experience is that considerable engineering effort is now spent with consultants/developers/IDNOs discussing and responding on potential developments before any POC requests are submitted. It is also notable that many of these potential developments are extremely speculative.

Ofgem must take due account of all costs, which are a function of the scale and success of the marketplace, by providing full cost recovery.

SP Manweb Competition Act Commitments

SP Manweb has agreed to commitments in relation to competition in connections in order to bring the Competition Act investigation to a close. These commitments reflect existing POC categories and voluntary standards that are inconsistent with the new standards. To comply with both sets of commitments cause confusion while further adding to the cost and complexity of our systems and processes. We are therefore considering making a request to Ofgem to vary SP Manweb's Commitments, or release SP Manweb from its Commitments.

Chapter 4 Promotion of convergence and good practices in electricity connections

Increasing Customer Awareness

We agree that increasing customer awareness and improving customer interfaces are essential and we believe that Ofgem has an important part to play by improving the access to and quality of information that it provides to new industry participants.

We would expect the first place any new contractor entering the market to check would be Ofgem's website and we therefore recommend that more emphasis is placed on providing ease of access to information on this website.

Good Practice

We support the promotion and sharing of good practice and agree that a package of best practice principles is required for managing connections requests and customer interfaces. Measures should include enhanced website development, documentation, processes, guidance etc. and an effective dispute resolution process.

Consistency of Approach

Consistency of approach is very important. This would include standardising:

- Application forms
- Charging methodology (being considered by DNO's through the Commercial Operations Group)
- Quotation format
- Inspection and audit regimes, and
- Asset adoption (i.e. commissioning, asset records, legal title etc.)

It is important to be pragmatic and not "cherry pick" every initiative. In our experience customer requirements vary considerably. We deal with a diverse range of customers covering developers (i.e. ICPs, IDNOs and managing consultants) and we have had to tailor our processes and service to meet specific customer requirements at considerable effort and cost. Consistency of approach will help limit this workload.

At the same time, whilst retaining consistency, it is also important not to over-simplify information given to the customer. For example, each DNO has different network characteristics and different technical standards to be taken into account. A "one size fits all" approach is not appropriate in every circumstance.

Chapter 5 Unmetered electricity connections

Trial unmetered SLA

We support Ofgem in continuing the SLA. As we have said previously, formal detailed guidelines are required (RIGs) to ensure consistency of reporting, as it is clear that this is not the case at present.

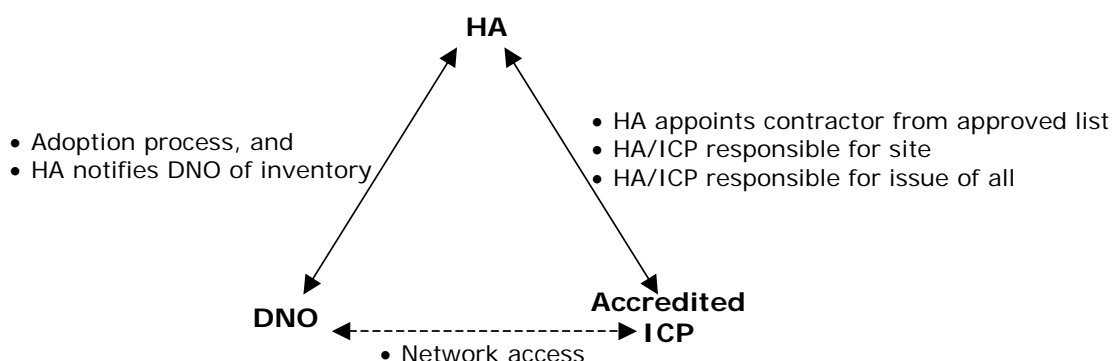
The ability of DNOs to provide service is dependant on the cooperation and coordination of the HAs and their nominated contractors. We strongly recommend that those HAs that are not prepared to participate through an SLA should be identified separately and excluded from reported overall performance. We also believe that it is important to consider if HA expectations of service versus cost are realistic.

Improvements in performance require investment by DNOs, HAs and contractors. Overall we believe that performance improvement should be undertaken in three stages as follows:

- (i) Marginal improvements can be delivered through improved efficiency (DNO /HA/ Contractor) and more effective liaison.
- (ii) Incremental improvements can be delivered through standardisation of the DNO/HA processes and work management systems.
- (iii) Major improvements require additional DNO resources. However a premium service will require to be funded.

Triangular Contract Arrangements

We support the triangular contract arrangements, set out below, as it provides a solution to competition in unmetered connections. The network access agreement minimises DNO involvement while addressing DNO resource constraints and places clear responsibility on the HA / contractor to manage their work efficiently.



Benchmark Targets

UMS standards have been monitored for the last 18 months. In terms of performance we welcome Ofgem’s approach to linking targets to performance. We support an approach that is based on a minimum target that is initially set at the average DNO performance. In order to

ensure that robustness of this standard, we suggest that any extreme DNO outliers should be removed when setting the average.

There are too many minimum performance benchmarks for unmetered electricity connections. We agree that minimum performance benchmarks are required, but seventeen benchmarks for two standards (covering fault repair and new works) is excessive. At present in SP Distribution's area we have to work with nineteen local authorities and highway agencies. The number of agencies we have to work with and high number of performance benchmarks lead to an exceptional workload. In order to minimise DNO workload in managing these agencies, whilst improving on the service provided, we recommend that a simplified set of benchmarks is used as a basis for reporting and that this should be set out in the SLA.

The One Metre Rule

The one-metre rule was introduced as a prudent first step to full contestability. We note Ofgem's comments that the scope of contestability should not be based on the one metre rule but driven by contractor accreditation. It is important that contractor accreditation includes staff skills and competence with a complete and robust contractor safety management system. Accreditation is not the only issue. It is also essential to address that the following:

- Management responsibility
- Legal liability
- Operational procedures for work outwith a "controlled environment", and
- Compliance with ESQCR Regulation 25 on the consent to connect.

Before extending the scope of contestability, we recommend that market demand is confirmed (e.g. through the take-up of the triangular agreement).

Appendix Responses to Specific Ofgem Questions**Chapter 3 Metered electricity connections: Introduction of a licence condition****Q1: Do you agree with our proposals to introduce a licence condition?**

We support the introduction of formal Licence standards and reporting requirements, and the move to simplified definitions as this will help to improve transparency. However the licence drafting will require careful attention to ensure that various issues are addressed including:

- Connections which require reinforcement / diversions at “a higher voltage level”
- Competent POC application
- Obligations on customer prior to connections / energisation (e.g. conditions precedent)
- Limiting the scope to connections which do not require reinforcement / diversions at voltages exceeding EHV
- Clock start / stop / pause

With the introduction of a formal licence condition with standards, it is essential that there are clear definitions (‘RIGs’) underpinning them. These would cover such detail as work categories, key events in the connections process, and exclusions / exemptions. The licence condition as drafted requires considerable further work. We have also commented above on the levels of standards proposed, which are unduly onerous for a DNO with high levels of competitive activity.

IDNOs: The proposal to switch off the Licence Condition for IDNOs is discriminatory. In already developed markets it creates further barriers that actually limits, rather than promotes, competition. We strongly recommend that IDNOs should be subject to the full Licence Condition.

SP Manweb Commitments: The proposed standards are not consistent with the SP Manweb Competition Act Commitments. We are therefore considering a request to Ofgem to vary SP Manweb’s Commitments, or release SP Manweb from its Commitments.

Costs: DNOs must be able to recover the costs of administering a formal standards scheme.

Q2: Do you agree with the proposed scope, performance targets and timescales?

Scope: We agree that the scope for electricity should cover the provision of quotations, design approval/rejection, and completion of final connections.

We are concerned that the proposed new definitions lead to a high proportion of “complicated” jobs being designated as HV and therefore subject to an exceptionally challenging 20 day quotation period. Our position is set out in more detail in our full response.

Performance Targets: We support Ofgem’s objective to improve DNO performance. However, the 90% performance standard is very challenging in certain areas.

Timescales: We recommend the following changes to the proposed timescales to ensure that DNOs are given realistic targets that reflect the complexity and effort required.

LV generation connection	-	Change from 20 WD to 50 WD
LV partial energisation	-	Change from 5 WD to 10 WD, and
HV partial energisation	-	Change from 10 WD to 20WD

An unintended consequence of the proposed simplified definitions will be a requirement on DNOs to provide “complicated” LV or HV offers to a 15-day / 20-day deadline rather than a 50-day deadline. This tightening of POC quote timescales for a significant proportion of jobs must be addressed by setting the timescale for any jobs that involve reinforcement of diversionary works to 50 days.

In addition, an exemption from the defined timescales should apply in all cases where transmission works are involved.

Q3: Is the proposed structure and drafting of the licence condition clear?

Considerable further work is required to make the licence condition fit for purpose. We have commented above on some of the difficulties with the current draft.

Q4: Does the licence condition require a supporting guidance document?

Ofgem plans to have a formal licence condition with informal guidance. The impact of a lack of clear and formal guidance will be inconsistent reporting.

We recommend that if formal standards are introduced through a licence condition then there must also be clear definitions underpinning these that are linked to the licence condition. An approach similar to the RIGS for distribution and transmission RRP is required.

Chapter 4 Promotion of convergence and good practices in electricity connections**Q1: Do you agree with the package of best practice principles?**

We support the promotion and sharing of good practice and agree that a package of best practice principles is required for managing connections requests and customer interfaces.

We fully support an improved consistency of approach. However, in our experience customer requirements are very diverse and so care must be taken not to over-simplify information given to the customer. A “one size fits all” approach is not appropriate in every circumstance.

Q2: Other areas of improvement required to the connection application process?

We agree that increasing customer awareness and improving customer interfaces is essential. In addition to encouraging all DNOs to provide improved customer service through, for example, improved and user-friendly web access, we strongly believe that Ofgem has an important part to play.

The first port of call for any new party interested in entering the new connections market will be Ofgem’s website. An additional and in our view essential area of improvement is for Ofgem to provide full and clear and easily accessible information on its website on the connections application process.

Q3: Do you agree with the reporting arrangements set out in this chapter, are specific guidelines required?

We agree with Ofgem’s proposals for reporting arrangements however this support is subject to formal guidelines being developed for reporting. We recommend therefore that Regulatory Instructions and Guidance (RIGs) are developed similar to that developed for the distribution and transmission Regulatory Reporting Packs. This is essential to ensure consistent reporting between the DNOs.

Chapter 5 Unmetered electricity connections**Q1: Do you agree with the proposed minimum benchmarks for the SLA?**

We agree that minimum benchmarks are required. However we are very concerned that the two standards covering fault repair and new works require 17 minimum benchmarks. There are far too many minimum benchmarks.

Q2: Do you agree that the scope of contestability should be based on contractor accreditation rather than the 1 metre rule?

The one-metre rule was introduced as a prudent first step to full contestability. We note Ofgem's comments that the scope of contestability should not be based on the one metre rule but driven by contractor accreditation. It is important that contractor accreditation includes staff skills and competence with a complete and robust contractor safety management system. Accreditation is not the only issue. It is essential that the following issues are addressed:

- Management responsibility,
- Legal liability,
- Operational procedures for work outwith a "controlled environment", and
- Compliance with ESQCR Regulation 25 on the consent to connect.