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Dear Roger,

Review of Competition in Gas and Electricity Connections – Proposals Document

SSE welcomes the opportunity to comment on Ofgem's proposals for further developing competition in gas and electricity connections.

We note that the Gas Distribution Price Control Review is currently considering the treatment of one-off domestic charges and network extensions. We also note that, at this stage, there has been insufficient evidence for the need to develop a framework to support competition in gas diversions, although this should not preclude the development of voluntary arrangements or bilateral approaches.

With regard to competition in electricity connections, as well as competing for such business within our traditional distribution service areas we are active in building networks 'out of area'. We are therefore keen to ensure a level playing field in provision of competitive connection information. As such, we have been an active participant in seeking to develop competition in areas of the connections markets where it is of clear benefit to stakeholders.

Our response to the specific questions raised in Ofgem's proposals document is attached as an appendix to this letter. In addition we have a specific concern with regard to Ofgem's proposal (in para 5.9) that all DNOs should publish a list of approved contractors. In our view this is a role for the Lloyds Register scheme and not for individual DNOs.

In summary, whilst we are supportive of Ofgem's proposal to embed the current voluntary standards within a new licence condition, I would like to reiterate our concern over the proposal to reduce both the EHV and Generation target from the current statutory 90 day limit. We are strongly of the view that this timescale is essential for both EHV schemes, that invariably require complex system reinforcement, and for all generation schemes, that require much greater technical analysis than demand. Furthermore, we do not believe that maintaining this 90 day limit will adversely effect the further development of competition, particularly if our suggestion of a two-stage offer process for EHV connections is implemented.

As discussed previously, we are strongly of the view that competition cannot be measured by market share alone. As the performance measures, reporting processes and best practices are developed and bedded in, more suitable measures will have to be developed that can assess whether or not market participants are delivering.

If you have any queries on the above, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'MJ Burns', followed by a period.

Malcolm J Burns
Regulation Manager

SSE Response to Ofgem's Review of Competition in Gas and Electricity Connections Proposal Document

Chapter 3. Metered electricity connections: Introduction of a licence condition

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

Whilst we have previously argued that the current voluntary standards can provide an effective means of enabling competition when all parties co-operate we do accept that poor performance by a few industry players continues to bring these standards down. In an emerging competitive market, we believe that it is important for all parties to have confidence in the operation of that market and in the quality of data being provided to Ofgem. On balance therefore, we would be supportive of a proposal that formally embeds the current voluntary standards into a new licence condition.

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

Whilst we are supportive of embedding the current voluntary standards into a new licence condition, we do have concerns over Ofgem's proposed licence condition as the scope, performance targets and timescales proposed go further than the current voluntary standards.

With regard to the scope, we do have concerns over the proposal to embed standards for final connections within the new licence condition which extends the scope of the current voluntary standards. Completion of final connections or carrying out partial connections requires interaction between the customer and the DNO. Whilst we welcome the fact that the licence condition, as drafted, is subject to all conditions precedent being met, in our view these could be extensive and subject to interpretation. For example, for final connections a caveat will be required if the DNO has to order plant, the delivery of which may be outside their control. Also, a partial energisation may still require an outage which is outside the control of the DNO. As such, we believe that such standards are better suited to a code of practice rather than a licence condition.

With regard to the performance targets, we are concerned that the current proposals include a 90% absolute target (for both demand and generation) which has not been justified by analysis of existing performance. If an absolute target is to be set then we believe a glide path is required to allow DNOs to achieve the 90% over a period of time (say, 3 years).

With regard to timescales, we have previously argued that 90 days is an essential backstop for complicated schemes as these generally require system reinforcement and thus detailed assessment and approval. We continue to be strongly of the view that this should be maintained for the newly defined EHV connections classification. Indeed, we wrote on the 31st January suggesting that the concerns expressed by ICPs over the current standards could be overcome if they adopted a two-stage offer process, providing a first quote to the customer of the contestable works at an early

stage and then a second quote for the non-contestable element once it becomes available. We can see not reason why this would not be acceptable to ICPs.

Furthermore, with regard to generation connections, we continue to be firmly of the view that all generation quotations require at least 90 days to respond to. Again, in our letter of 31st January we noted that the technical challenges for connection of generation are significantly greater than for demand and require much greater analysis by the DNO. We have seen no evidence that generator connections are being held up because of the existing 90 day timescale. Furthermore, we have seen no evidence that generators are interested in any reduction in this 90 day backstop.

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

In general, we believe that the structure and drafting of the licence is reasonably clear.

However, we are concerned about the definitions of final connections and partial energisation. If Ofgem insist on embedding targets for these activities within the new licence condition then we believe that they will need to be more clearly defined.

Chapter 4. Promotion of Convergence and good practices in electricity connections

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

We welcome any initiative that advocates good practice and ensures consistency across the whole of the connections industry. We will proactively work with Ofgem and the rest of industry, via the ECSG, to develop and implement the package of best practice principles outlined in the proposals document.

As discussed at the ECSG meeting of 21st January, we are fully supportive of streamlining the disputes resolution process. However, we continue to have reservations over the proposal to introduce a networks ombudsman as we believe this would be incompatible with the formal determinations process as laid out in Section 23 of the Electricity Act. Nevertheless, as we have stated on many occasions, we would be happy to explore further how customer service issues, rather than connection disputes, could be addressed without recourse to the formal disputes process. We believe this should be further explored via the ECSG.

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

We believe standardising certain mandatory sections of the connections application process would be a good starting point to simplifying the overall process. We agree that the ECSG is the correct forum to carry out this review and intend to be proactive within that group in developing a more streamlined process.

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

We agree with the principle of developing robust reporting arrangements to assess DNO performance in providing connection information. In general we agree that reporting arrangements are required for each of the areas outlined in the proposals

document. As a member of the ECSG, we will work with Ofgem in developing the necessary reporting arrangements.

At this stage, we are unsure whether or not specific guidelines will be required. We believe that as the reporting requirements are developed within the ECSG the need (or not) for specific guidelines will become clearer.

Chapter 5. Unmetered Electricity Connections

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

We believe that the proposed minimum benchmarks are a pragmatic starting point for the unmetered connections SLA. We agree that the ECSG should discuss whether the SLA needs further refinement with regards to definitions and reporting procedures.

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

On the understanding that the intention is to remove an artificial barrier to competition, not change the current rules regarding jointing, then we do agree what the scope of contestability should be based upon contractor accreditation rather than the 1 metre rule.

Appendix 6 – Draft Licence Modification

We have some concern that the proposed clause 7 requiring the licensee to provide ‘specified connection information’ to the Authority is too loose. Where is such information to be specified?

As discussed above, we are concerned about the definitions of final connections and partial energisation which, we believe, will need to be more clearly defined.

Appendix 7 – Draft RIA

Question 1: Do you agree with our assessment of the risks, costs and benefits attributable to the two options for taking forward the current voluntary standards of service?

The draft RIA is relatively high level with no actual monetary values attributable to the costs or benefits of either option.

Question 2: What costs/benefits would your organisation incur in the event that we adopt option 2?

As noted in the proposals document, all DNOs and IDNOs are likely to incur set-up costs to accommodate the revised definitions and performance targets. We will also incur set-up costs for the developing the new reporting arrangements, including system changes and additional manpower, if option 2 is adopted. Until the reporting arrangements are fully developed we will not know what these costs will be.

We are strongly of the view that any additional cost on DNOs should be recoverable through the price control mechanism.

