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Dear Rebecca,

14th November 2008

Gas and Electricity Connections Industry Review 2007-08

Please find attached the response from British Gas to your connections review document published on 16th October 2008.

Executive Summary

We believe that some parts of the market are competitive, some are not and some, we believe, never will be. This is due to; legislative (New Roads and Street Works Act), regulatory (domestic load connections allowance) and commercial (value and geographic density) factors.

We support the development of competition but are keen to see stronger regulation in those markets that are not competitive. This means greater oversight is required by Ofgem of Independent Gas Transporters (IGTs) and the Gas Distribution Networks (GDNs) activities. For example the ability of the GDNs to unilaterally vary contractual terms is wholly inappropriate in a monopoly market.

The domestic load connections allowance is a major concern not just from a connections perspective but from a wider perspective of existing users including the fuel poor financing the connections for new users. We urge Ofgem to consider the appropriateness of this cross subsidy prior to the next gas distribution price control review.

Background

British Gas operates within the multiple domestic new housing, single non-domestic and to a limited extent the single one-off domestic and multiple non-domestic connections markets.

The majority of our connections work is procured via Gas Distribution Networks (GDNs) and Distribution Network Operators (DNOs). We do also procure some services from Independent Gas Transporters (IGTs) and also operate as a Utility Infrastructure Provider (UIP) in the gas connections market.

The Ofgem review focuses mainly on the single connections market although it examines differences between development of competition in gas and electricity. It expresses the view that competition is well developed in the gas market against negligible progress in electricity. In our view competition in gas connections exists in the domestic multiple and high end Industrial and Commercial markets and to a limited extent in the SME market. However we do not believe competition exists at all in the domestic one-off connections market due to the market distortions of the domestic load connections allowance that is only provided to the GDNs and the application of the New Roads and Street Work Act.

Where competition has been implemented effectively in the gas market there should be lessons as to how the introduction of a standards and liabilities framework should be applied in order to develop competition in the electricity market.

Consultation Responses Sought

Gas Connections

Domestic Market

It is widely acknowledged that large parts of the domestic connections market will never be subject to competition such that consumers will see any significant benefits.

This is due to the following factors:

1. The New Roads and Street Works Act places Utility Infrastructure Providers (UIPs) at a disadvantage to the networks companies as the timescales for road opening notices are different and provide a competitive advantage to the networks.

2. The costs borne through low volumes and lack of geographic density make this market segment unattractive.

3. The domestic load connections allowance (DLCA) provides in many instances a free service with which it is impossible to compete. The DLCA must be reviewed as a matter of course, irrespective of the impact of it on the connections market. This cross subsidy we believe costs existing consumers including the fuel poor as much as £50m per annum. Correct allocation of this cost may focus industry on the extent to which uneconomic connections and disconnection activity is undertaken thus reducing costs overall to consumers.

So in many cases customers and suppliers have no alternative that to use the GDNs services. In our view these monopoly service providers have far too much freedom. For example they are able to impose terms and conditions without consultation and negotiation or even appeal to Ofgem.

In 2006 British Gas withdrew from the one-off domestic connections market, largely due to the poor service offered by the GDNs. Our aim was to provide a value added service whereby we would manage the complete connections and meter installation process on behalf of the customer. However despite resource intensive escalation and query management of the GDNs we were unable to ensure the GDNs provided a consistent level of service that was acceptable to our customers.

British Gas would therefore call for tighter regulation in the domestic market including the introduction of a maximum lead time for the completion of works so as to align the standards with the electricity connections market.

Non-Domestic Market

A high percentage of non domestic work is generally one-off connections therefore it will currently fall into 'non-contestable' activity procured from the GDN. British Gas would like to see increased visibility of charges and improved service levels associated with non-contestable work. A potential detailed review of standard and non standard definitions may also help to alleviate some of the concerns in this area.

We also note that IGTs are not able to obtain a Connected System Exit Point (CSEP) for a single service and we see this as a specific barrier to competition in the non-domestic market.

We would also like to see the introduction of a requirement to provide reporting to the levels of service provided to each customer segment not just the level of service provided across all

customers. For example there is no reporting as to the level of service provided to British Gas in comparison with the level of service provided across all customers.

There is also concern that the current GDN licensing arrangements for road openings create an unnecessary obstacle for competition. The GDNs have statutory licence conditions that enable them to apply for a road opening notice within 7 days, whilst a UIP needs to apply for a 28 day road opening notice period. These capabilities need to be aligned.

1. *Is this data reasonably representative of connection charges levied by GDNs and IGTs, and adoption payments made by IGTs and GDNs?*

We would agree that the connection charges detailed in the review are generally in line with the charges we see levied by the GDNs and IGTs. In order to facilitate competition in this market we would look for the GDNs and IGTs to provide greater transparency as to the make up of these charges so that better comparisons of costs can be made between GDNs and IGTs.

2. *Are adoption payments the main reason why ICPs have a much higher market share in connections to IGT networks than GDN networks? Are there other factors that account for the fact that only 5% of connections to GDN networks are installed by ICPs?*

We do not fully understand why ICPs have a higher market share in connections to IGT networks than GDN networks. We believe there should be greater transparency of costs and charges between GDNs and ICPs as this could help identify any excessive revenues being achieved by the DNs.

We believe that greater visibility is also required when GDNs are quoting for connection activity. The connection costs need to be separated from transportation costs as at present it is not fully understood as to why quotations from UIPs & ICPs are generally higher than the GDNs when an IGT / IDNO is not adopting the assets.

3. *What factors enable IGTs to make adoption payments of these magnitudes? Do they have lower costs of operation, or are other factors at play, such as the degree of headroom in the relative price control?*

We believe that Ofgem should implement much tighter regulation on the IGTs. The high levels of adoption payments paid by the IGTs would suggest that overall regulation of IGT charges are insufficient and require thorough review.

4. *What factors lead IGTs to charge lower connection charges? Are ICPs/IGTs more efficient at installing the connection or are other factors at play?*

We believe IGTs are able to recover a higher proportion of the connection costs via ongoing transportation charges, therefore a direct comparison between IGT and GDN costs is not possible. We believe better transparency of the make up of connection charges is required to give customers and suppliers better information upon which to base decisions as to which connection provider to use.

5. *What impact does the contrasting nature of GDN and IGT price controls have on competition in gas connections?*

The current IGT price controls are complex and do not provide sufficient transparency to reach specific conclusions as to whether customers are benefiting in the long term with regard to the prices charged for gas connections.

We have more general concerns with the charging methodology and prices charged by IGTs for all services where we are unable to clearly reconcile prices charged with a specific methodology. An example of this is the charge made for an estimated opening meter reading

where in some cases this is as much as £15 which on the face of it would not appear to be cost reflective.

If increased transparency was provided by the IGTs we would be able to carry out better comparisons between the IGTs and GDNs connection charges.

GT Performance Against Guaranteed Connection Standards

Consultation Responses Sought

> *We seek consultation response on whether stakeholders agree that performance standards are as high as reported, and what lessons can be learnt from the gas connections industry and applied to the electricity connections industry.*

We agree that the implementation of standards together with penalties for failure has helped to secure improvements in the level of service provided to customers in the gas connections market.
We would also recommend the following improvements:

- Implementation of standards for maximum completion timescales into the gas connections market
- Implementation of penalties for failing to meet standards in the electricity connections
- Separate reporting of performance for specific groups of customers i.e. suppliers
- In the electricity market the separate reporting of performance of the service provided by the DNOs to any of its own group of businesses separate to the services provided to external businesses

Metered Electricity Connections

Consultation responses sought

> *We are seeking responses on why competition has been slow to develop in electricity connections compared to gas, and what measures if any, should be taken to address this issue. In particular, we seek responses on the following possible explanations for the relatively slow growth of competition in electricity connections:*
>
> *The Relative Price Control operating in gas gives IGTs relatively high revenues compared to their underlying operating cost, whereas margins are slimmer for IDNOs?*

We agree that the Relative Price Control in gas gives IGTs relatively high revenues compared to their underlying operating cost. We look to Ofgem to review the price controls applicable to IGTs with a view to ensuring customers on IGT networks receive value for money.

> *There remain significant barriers to competition in electricity, whether real or perceived, which prevent effective competition from IDNOs and ICPs. If so, we seek consultation responses on the nature of the barriers, and what measures we should consider implementing to address or remove them?*

We agree that competition in the electricity connections market has been slow to develop. We believe there is less understanding and transparency of information when compared with the gas connections market. We would look for better regulation of this market including forcing the DNOs to provide greater visibility of the make up connection charges and stronger incentives on DNOs to provide a good service including penalties for failure.

Metered electricity connections: performance against standards

Consultation responses sought

Why has there been limited reporting against the SLC 15 performance standards, and what measures should be taken to address this issue?

1. *There are standards relating to the provision of non-contestable services where the connection is being provided by an alternative provider. However, the vast majority of contestable activity is still carried out by the incumbent and not all of this activity is covered by service standard reporting. We would welcome feedback on whether it is appropriate to extend the scope of service standard requirements / reporting to the provision of connections not currently covered, and if so, what form the scope extension should take? For instance, we have 30 and 40 day standards for straightforward connections, but no comparable service standards with regard to non-straightforward connections (i.e. the majority of larger connections)*

British Gas supports the extension of the service of standards requirements / reporting to the provision of connections not currently covered.

2. *Data generally suggests that standards are being met. However, this is not consistent with the fact that we receive significant numbers of complaints with regard to service quality from end customers, ICPs and IDNOs. Why is there an apparent inconsistency between reported standards, and the level of complaints received? How should this issue be addressed?*

The high level of complaints received may suggest that the current standards are not set at a level where customer's reasonable expectations are being met. Analysis of the reasons for complaint may point to specific standards that require change.

Unmetered electricity connections

Consultation responses sought

In the light of this generally disappointing performance, Ofgem seeks views from interested parties on whether they believe that it is appropriate to continue with the current voluntary arrangements, or whether Ofgem should seek to introduce either financial incentives (as part of DPCR5) or specific licence conditions with regard to performance standards in unmetered connections.

British Gas believes that the voluntary arrangements are not working and suggest that Ofgem introduce financial incentives including penalties for failure for non performance of performance standards in unmetered connections.

Electricity connections : Good Practice Review

Consultation responses sought

1. *In the light of experience, did Ofgem's Good Practice Review target the appropriate areas?*
2. *Do the DNOs' reports of their own performance in implementing the Good Practice measures (as per our checklist) accord with their customers' and other market participants' perceptions of their performance? (See Appendix 10 for details of the checklist items, and the traffic light scores for each checklist item.)*

We have limited experience on co-ordinating electricity infrastructure, however, we do have concerns over the relationships between DNO's and IDNO's.

Where we work with IDNOs for the provision of duel – lay [gas & electricity] infrastructure on behalf of new housing developers on almost every occasion a quotation is provided by the IDNO for the 'on-site' construction within 10/15 days. The point of connection quotation however, which is the responsibility of the host DNO, in our experience takes on average 45 days to be produced. This we believe, adds an unreasonable delay to the quotation process. Within the gas market other parties are able to provide quotations to connect to the main network and we would urge Ofgem to review the connection and adoption framework within electricity to allow other parties to provide this service.

We would also urge Ofgem to review the standards applicable to the point of connection quotation and implement penalties for failure of this standard to ensure DNOs have the appropriate incentives in place to ensure competition is not unduly impaired.

If you have any specific questions regarding this response please contact me on 07979 563580.

Yours sincerely

Kevin Woollard
Regulatory Manager