energetics
NETWORKEDENERGY

International House
Stanley Boulevard
Hamilton International
Technology Park
Glasgow, G72 OBN

t: 01698 404646
f: 01698 404640

e: info@energetics-uk.com
www.energetics-uk.com

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Ms Rebecca Langford
Connections Team
Distribution
The Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

13th November 2008

Dear Rebecca,

Gas & Electricity Connections Industry Review 2007- 08

Thank you for your invitation to comment on the development of competition in the gas and electricity networks connections market.
In response to the specific points raised in your document: -

Chapter 2

Question 1 – In terms of connection charges the difficulty in using average data in this format is that the GDN connection charge of £800 will arguably include a significant element of reinforcement charges which clearly distorts the comparison to the IGT average.
On the subject of asset adoption payments then the stated figures of £250-£300 per connection is probably representative for the IGT market across the UK.

Question 2 – Asset adoption payments are certainly a significant element but other contributory factors are; the generally positive relationship between GDN's and IGT's, the simplicity (in comparison to the electricity sector) of the tariff structure and the use of aggregated data rather than boundary metering.

Question 3 - The reason that many IGT's can offer these asset adoption payments is that the regulatory regime under the gas market results in positive cash flows for the portfolio of gas assets. With the larger IGT's being owned by major infrastructure managers, the net present value of these cash flows after asset adoption payments is viewed as a reasonable return on investment. Clearly volume plays a significant part in reducing unit operational costs and this is arguably the main reason for the merger/acquisition activity in previous years.

Question 4 – Response as question 1 above.

Question 5 – In our opinion the price control regime does not have a significant impact on the level or effectiveness of competition. The main areas that help the market flourish are purely down to the relative ease of securing a connection to the GDN network, the level of accredited ICP's, the fact that IGT's can earn a reasonable return through securing projects with positive net cash flows which in turn leads to

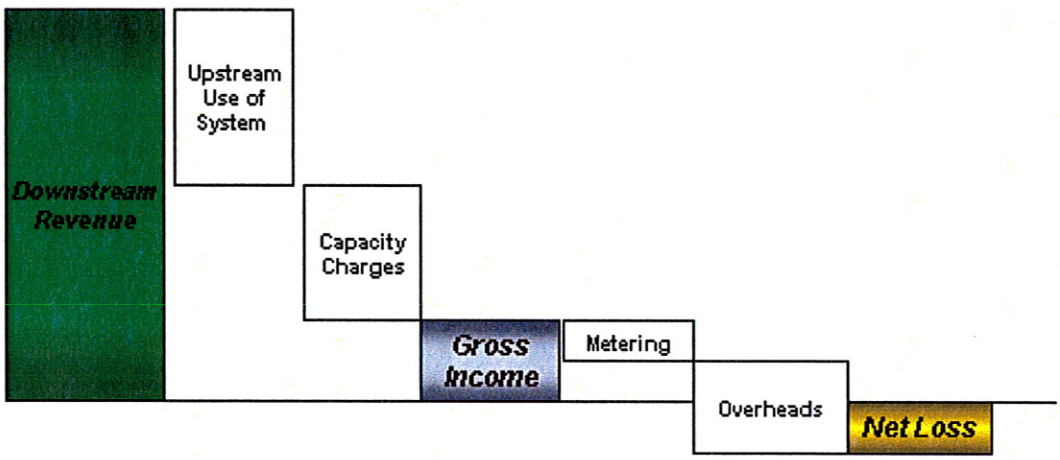
financial benefits for customers (developers). In short, if the property developer can see a financial advantage, he will migrate towards IGT's for asset adoption.

Chapter 3

Question 1 – Our view is that the performance standards are probably correct and certainly we have not experienced service issues from GDN's that would call into question the reported returns. Having said that, our perspective on the market is rather narrow on the understanding that we are the smallest IGT with relatively modest connection volumes.
On the subject of lessons learned that can be applied to the electricity market, the fact that the equivalent standards for electricity have recently moved from voluntary to mandatory should help in the coming years.

Chapter 4

Question 1 – Although it is correct to state that RPC is similarly in place for the independent electricity operators, unlike the gas sector, the resultant net cash flows are often negative and highly variable across many parts of the UK. The reasons for this have been reported to Ofgem on numerous occasions by IDNO's, including ourselves. Referring to the figure below, RPC allows IDNO's to calculate the total Downstream Revenue for a particular development in any DNO network area



From this revenue IDNO's then have to pay the DNO an Upstream Use of System Charge (UoS) and this charge will vary up and down the country and will also vary depending on the voltage level at connection to the DNO network. Furthermore, because DNO's insist on boundary metering and also due to the fact that they do not have specific IDNO tariffs, the DNO will connect either a Low Voltage or High Voltage Half Hourly tariff which attracts a capacity charge. Under RPC IDNO's cannot recover this capacity charge from residential customers and the independents have been lobbying for some considerable time for this practise to cease. As a consequence of boundary metering there is also an annual metering charge. All of the above contribute to low and in some cases negative net cash flows which in turn limits the ability of the IDNO to offer asset adoption payments. We believe this is the principal reason why there is slow growth in competition in electricity connections evidenced by low number of IDNOs and connections. It also accounts for the difference in uptake in the opportunity to participate in the competitive market across the country.

Question 2 – In addition to the above the industry is still plagued with poor performance levels and high charges associated with design approval, connection to host DNO, wayleaves and non-contestable works

Chapter 5

Question 1 – The main reason for limited reporting on some areas is that the level of competition is virtually non existent for all the reasons outlined in our response to the questions under chapter 4.

Question 2 – Our view is that the service standards should be extended to give the industry a better overall view of the performance of the industry and in particular the DNO's. As a starting point the standard can be applied for non-straightforward connections at 60 days and, after receipt of data for future periods, this can be amended to reflect best practise.

Question 3 – Unlike our comment on the gas standards, our experience in dealing with many of the DNO's is that these reported figures do not reflect what is happening in practise. The discrepancy is likely to be the subjective assessment made by the DNO's on when to "start the clock". In many instances we find ourselves going through very detailed discussions with the DNO's and only when every box has been ticked will they formally start the process to produce the output requested.

Chapter 6

Question 1 – On light of the fact there that is no effective competition in this sector, and unlikely to change for the foreseeable future, then our suggestion would be for a licence condition rather than some form of financial incentive.

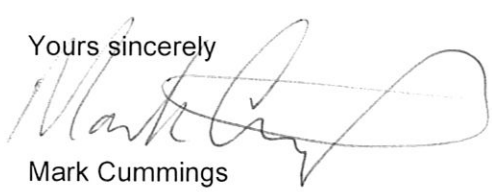
Chapter 7

Question 1 – In general terms the appropriate areas were targeted.

Question 2 – On the understanding that this is basically a self-assessment for the DNO's then it should be no surprise that 95% of the returns show either "reasonable progress" or "universal good practice". At the risk of appearing dismissive, I have to question the value of such as exercise.

Overall, the report has highlighted the same trend over the last 5 years whereby the lack of competition in the electricity sector is glaringly obvious. Despite the same statistics being reported year after year we still ourselves in a stagnant market where DNO's continue to secure circa 92% of network connections and subsequently adopt 97% of all connections. In summary, until such time that Ofgem addresses the glaring disparities in the current upstream UOS and capacity charging methodologies that result in miniscule revenues to the adopting IDNO's, this situation will prevail for some time to come.

Yours sincerely



Mark Cummings
Director Energetics Gas and Energetics Electricity