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Dear Mr MacFaul

Following publication of the Connections Industry Review 2007 – 08 document reference 143/08, we would like to lodge the following non-confidential response. Our response concentrates on the metered connections aspect of the review as we are not as well placed to comment on the unmetered developments and the progress made there. I have marked paragraphs which address answers to the questions you ask in appendix 1 of the document.

The Connections Industry Review 2007 – 08 again shows how slow competition in the provision of electricity connections is developing. It is encouraging to see the gas connection market continue to develop and clearly a competitive framework exists between GDN / IGT and ICPs that can only be beneficial for customers.

C2 Q1. The connection charges levied by IGTs may not reflect the historical nature of the GDN calculation and if they allow ICPs to undertake activities that GDN would normally perform, cost and subsequently charge themselves, then all parties benefit from efficiencies that otherwise may not be realised

C2 Q2. Competition is not entirely due to any adoption payments but more so the ease in which ICPs and IGTs can operate in the market place alongside the GDNs. Although it is accepted that the ability of an IGT to make a payment to an ICP for adoption gives an incentive to the ICP to transfer assets to them, it is generally the ability of the ICP to deliver a service to a developer that secures them a connections contract in the first place and then why transfer assets to a GDN for no consideration. The ICP relies on repeat business by delivering a quality service and not singularly on the cost of the connection which they may but not necessarily have subsidised with future adoption payments.

C2 Q4. IGTs are able to make adoption payments purely because their business models are different to GDNs and are generally more efficient without legacy issues to contend with. This leads to lower operating cost. The challenge is for the GDN to lower their cost base to compete and use the relative price control to pass on efficiencies to customers.

C3 Q1. We are not in a position to comment on the reported performance standard achievement as being reflective but the more competitive gas market is driving higher standards as participants compete against the number of competitive connections undertaken. Until DNOs are measured against SLC 19 in the same way as SLC 15 high or low standards of performance across DNOs are anecdotal.

It remains disappointing to read of the low level of electricity connections undertaken by ICPs and IDNOs, but the beacon of light over a ten fold increase in connections to IDNO networks is good to see but this may be due to IDNO accessibility rather than a drift away from developers sourcing connections from ICPs.

C4 Q1. It is generally the nature of the connection market that the developers' first approach is made to the incumbent licensee and usually to their DNO connection business seeking a statutory connection offer where there has been no separation of contestable and non-contestable charges at port of first call. Subsequent requests for separation provide opportunity to distort the charges potentially making it unattractive for developers to seek a contestable quotation from an ICP particularly when the licensee is able to undertake all the works without hindrance. The slimmer margins experienced by IDNOs makes them more selective over networks they adopt.

Adoption payments pay an insignificant role in persuading developers to appoint an ICP when IDNOs make all the payments to affiliates or related undertakings. The DNO offering adoption payments is doing so in response to IDNOs operating in their distribution services ensuring that developers / ICPs benefit whoever adopts assets. If an ICP is operating in a DNO area which does not offer adoption payments they still need to work with the DNO for the non contestable works and may have to pay the adopting IDNO additional non contestable charges potentially negating any adoption payment made. The level of market penetration by IDNOs is governed by the ability of the IDNO to undertake the connection not so much on the level of adoption payment.

The CIR shows that competition remains most buoyant in three DNO areas that historically have embraced competition and to some extent it is those that are subject to criticism when things go wrong. The DNOs where there is a lack of competition can largely handle the small number of adoptions from non affiliate business once they are over the initial hurdle.

The performance statistics against SLC 15 is interesting reading. That the DNOs do not consider it has carried out any works in certain categories is indicative of the problem applicants have in extracting contestable and non-contestable separation from enquiries. While the reporting period is short (6 months) the comment in clause 5.5 is pertinent. Customers are supplied with a fully inclusive quote with little or no breakdown. DNOs do not accept the choices customers have and decide that a large proportion of enquiries fall outside the scope.

It would have been useful to describe the services description for the benefit of the casual reader and useful if the information was of a more quantitative nature as the statement in 5.6 lacks evidence. Clause 5.9 makes reference to appendix 7 which does not exist within the published document. It is difficult to conceive that

- 8 DNO have never been asked for a point of connection (cat 2a) information for a connection above 22kVv and below 72kVin the period.
- 4 DNO have not received any design submission applications (cat 2b) in the period.
- No DNO has processed both an HV and LV final energisation request (cat 3d and 3e) in the period.

It would have helped if the number of measurable services was included as the data under cat 1a and 1c only inform the reader that a DNO has reported against the standard.

C5 Q1. Acknowledging that the data does not relate to a full year, so does not constitute a licence breach, it would have helped if comparisons be made between DNOs. For example, has both CN West and East reported an honest failure against 1a but against maybe 1 standard of service whereas others performance could be against many more? How does this tell is whether DNO are putting procedures in place. Ofgem must enforce DNO compliance through the use of more frequent reports and audits. If DNOs have procedures in place monthly or quarterly reporting is not difficult to achieve.

C5 Q2. We would support the introduction of quantitative performance returns under SLC19 as it is here that we believe that DNOs are distorting the market. While Ofgem has found some evidence to confirm this to be the case, our experience is that DNOs present quotations with a lack of separation leading to a principal cause of to competition failing to develop.

C5 Q3. The lack of competition only distorts the clearer picture and the reluctance of customers to bring a formal complaint inhibits Ofgem investigations. Customers know that they still need to work with DNOs and creating disruption on one scheme has a knock on effect to others. Ofgem should consider a more widespread investigation based on the evidence gathered over many years of running a Competition Industry Review.

C4 Q1b. DNOs should be obliged in all but exceptional applications to provide a non contestable quote within SLC 15 timescales with customers confirming within an agreed time their wish for DNOs to proceed with the fuller contestable offer. This would not remove the DNO section 16 obligation but broaden customers / IDNO / ICP access to transparent quotations within acceptable timescales. It may lessen the burden on DNOs which they regularly complain about when in receipt of multiple enquiries. There could be a threshold against which this is introduced, not too dissimilar maybe to the gas market old 23m rule.

CH 2 Q3. In summary the practice of IGTs making adoption payments is, we believe, a commercial decision made by IGTs based upon their valuation of the asset earning potential over its life. The IGT is making an investment for a return and should not acquire this asset for no consideration. Without a capital valuation an IGT business does not grow in value in terms of balance sheet, return on capital and the normal commercial consideration a business needs. Providing that IGT are not “inflating” their charges, our view is that providing the transportation costs remain relatively neutral to the user then this has and continues to promote competition.

Mandatory standards and competition have improved gas connection quality of service and similar measures would facilitate, even force, broader competition to the electricity connections industry. Competition in metered electricity connections has been painfully slow despite the efforts to introduce competition over the last 8 to 9 years. The industry has not positively advocated competition and actively promoted competition by introducing procedures that allow customers / Developers / IDNOs and ICPs to navigate a painless passage through a DNO organisation. Some have done so but the evidence points to others that have made little or no progress to introducing competition. They could not, in all circumstances, argue that they provide a high quality, cost competitive service that has kept competition in their area at arm’s length.

Measures as strong as separating the provision of contestable connection services from the Licensee must be considered in order for competition to develop. Voluntary arrangements have not worked. Contestable services could be provided by ICPs for specified market segments which the DNO promote. The DNO retain the connector of last resort with costs managed through the regulatory regime if a customer elects for the Licensee to provide them. This aligns with my earlier suggestion that SLC19 services align with SLC 15 and providing a non contestable quote as a natural break in the process.

The service standard regime is in a nascent stage requiring Ofgem to audit the DNO procedures to process and measure applications falling in this scope. Extending the performance standard to SLC19 services would be a natural, if unwelcome on the DNO part, progression.

Yours faithfully

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