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Registered in England No. 4912774

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Dear Sirs

Response to Connections Industry Review 2007-08

Further to your recent consultation document regarding the Connections Industry Review 2007/08, we have please in detailing the response by Power On Connections Ltd.

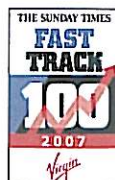
Overview of Power On Connections in the industry.

Power On Connections was formed in 2003 solely to provide electricity new connections under the auspices of Ofgem's Competition in Connections initiative. During the past five years Power On Connections has gained a large amount of experience and knowledge in the industry. It provides representation on the Metered Connections Customer (User) Group and in turn contributes directly to the work of the Electricity Connections Steering Group (ESCG) and has been involved in the numerous consultations Ofgem has produced during this period.

Power On Connections view of the overall market

Our overall opinion reflects the views of Ofgem, that competition in Electricity Connections has not flourished in the same way as it has in Gas and we believe this is due to a number of overriding issues that have slowed Electricity Competition;

1. Over the past five years Ofgem has produced a number of consultation documents with a similar theme relating to competition in electricity connections. Power On Connections and the MCCG members have responded to each of these consultations outlining the need for improvement in competitive connections and yet still competition has not significantly materialised and the majority of suggested actions have yet to be implemented.
2. It is our opinion that the DNO's have been allowed to set the pace and agenda with respect to improvements and development of competition



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in electricity connections and this is the major reason why competition in electricity connections has been stalled.

3. The DNO's have not embraced competition in an open manner as Transco did in the gas sector. Therefore we believe it is now time for Ofgem to be much firmer in the implementation of actions to achieve true competition.

Response to specific Ofgem questions

We have attached our response to the specific questions posed by Ofgem, where we believe we have the experience to offer an insight. We are also collating a number of statistics from ICP perspective on the performance of individual DNO's and once this information is available we will forward to Ofgem for comparison against the information provided by the DNO's.

We trust the information is useful for your consultation and would urge Ofgem to take decisive action to ensure competition in electricity connections expands to the same levels as the gas industry.

Yours Faithfully



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Response to specific questions raised by Ofgem in the Connections Industry Review 2007-08

Chapter 3 Q1 – 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.

Whilst we have no experience of working in the gas industry, we attended a recent National Grid/Transco presentation at the ECSG meeting, regarding lessons learned from the implementation of competition in gas. It was clearly apparent that from day one the mindset of the then single GDN was to embrace competition and determine how things could be overcome to allow competition to occur. This is in direct contrast to the current approach of the DNO's.

Each industry will have slightly different technical requirements but if the mindset of the incumbent is to embrace competition then competition will flourish. This mindset was not achieved by chance and there were specific reasons why Transco adopted this mindset, in particular Ofgem's strong approach to Transco to ensure competition evolved.

Chapter 4 Q1 – Why has competition 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 theories for the relatively slow growth of competition in electricity connections;

In general response to this question we would refer you to our response to Chapter 3 Question 1. With respect to the two points we respond as follows;

- 1. The relative price control in gas gives IGT's a relatively high revenue compared to their underlying operating cost, whereas margins are slimmer for IDNO's?**

We believe the price control is transparent, uniform and furthermore consistent to both GDN and IGT alike. This level of consistency is not apparent in the DNO/IDNO price controls and the DNO's once again therefore are controlling the agenda and blocking adequate competition. Customers have clearly spoken in the gas market where the conditions are level for all parties, Ofgem needs to ensure this balance is established in electricity connections therefore allowing customers the choice.

- 2. 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 should be implemented to address them?**

There are numerous barriers stalling competition in the electrical connections industry and these are most definitely real and not perceived. As identified previously, every step taken to facilitate competition is met with opposition from the DNO's. Whilst we accept

there has been progress in certain areas, we believe that unless Ofgem take a much stronger position with the DNO's, rather than allowing them to dictate the pace of when issues are resolved, then true competition will still not be able to flourish.

Ofgem needs to take firm and decisive action to achieve a mindset change within the DNO's to truly embrace competition and allow customers the choice. Currently the DNO's are able, too easily in the view of Power On, to create barriers to entry that slow and therefore stifle competition, whilst the DNO's then position themselves in a continuing dominant position when competition finally arrives, as they have done over the last ten years.

Examples that demonstrate this attitude are listed below;

- Certain DNO's in the late 90's first accept Competition in Connections, but insist you have Lloyds CES accreditation, however the CES scheme required you to demonstrate competency in Electricity Connections before obtaining CES. Therefore you could only achieve CES if you were a direct contractor for the DNO (these are hardly likely to compete with the DNO) – 2002 Partial Accreditation was finally developed thus allowing true new entrants.
- Brownfield Developments – Not accepted by the DNO's as competitive – After a couple of years of pushing – Now accepted as competitive
- Fully Funded Reinforcement – Not accepted as competitive by the DNO's in the original competition consultation, causing a number of years delay due to further consultation – Now competitive after three/four years delay.
- Live Jointing – Initially blocked by DNO's due to safety reasons, yet certain DNO's allow it four/five years before others allow it. How can this occur, the safety case is the same across the country? – Now live jointing is theoretically allowed but with limited access – In years to come after painstaking work and further delays this will probably be broken down to allow full competition.
- Partially Funded Reinforcement – Blocked by the DNO's – After a number of years this will hopefully become competitive, but as yet it is still not competitive.

Whilst the DNO's will argue that these things are complicated and therefore various factors need to be satisfied before the market is opened up in a safe manner. The protracted timescales that have been taken to resolve these matters, in no way reflect the work required to resolve these risks/issues. Therefore we believe the mindset of the DNO is to find reasons why things can not be achieved rather than looking for solutions or proposals of how they could be achieved.

Specific Barriers that remain unresolved include;

- A lack of access to full DNO records
- A number of DNO's still do not provide good quality design and standards information to allow the ICP to operate effectively in the area.
- Final connections are undertaken by the DNO and so the ICP's overall service levels are still dictated by the DNO.

- Non Contestable charges are not cost reflective in a number of DNO's, therefore making it difficult to compete with the host DNO
- Multiple trade tests still required by DNO's
- Inspection regimes in certain DNO's are still not inline with Ofgem guidelines
- DNO's do not apply the same rigour to their own in house business as they insist from ICP's.

These barriers have been identified to Ofgem for a number of years and yet still the DNO's manage to maintain their position.

Chapter 5 Q1 – Why has there been limited reporting against SLA 15 performance standards and what measures should be taken to address the issue?

Ofgem should consider the points raised in the above question and undertake an exercise to determine which DNO's still resist a number of these points and which one's have finally embraced them. We believe there will be a correlation between the amount of competitive activity reported by the DNO and the number of issues embraced by the particular DNO.

Chapter 5 Q2 – 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 this activity is covered by service standard reporting. Therefore we seek 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 straight forward connections, but no comparable service standards with regard to non-straightforward connections (i.e. the majority of larger connections).

We would welcome any introduction of standards that would ensure customers obtained an improved service level in the industry whilst also ensuring the processes are in place to allow the customer to have choice of who undertakes the work. Whilst we would not want to see these standards delayed, we would expect the DNO's to have first embraced competition and ensured that all the barriers currently present which restrict customer choice are removed first.

One of Ofgem's principle objectives in the Electricity Act 1989 is to protect the interests of consumers through the introduction of competition.

We believe this is served by opening markets to competition and choice for the customer, rather than developing greater regulation to monitor an incumbent monopoly whose track record for embracing competition is limited to say the least.

Whilst there is clearly a customer involved in each of these networks allowing an incumbent and monopoly greater access to the market place before competition is actually established can not be beneficial to the long term competitive market.

Chapter 5 Q3 – 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?

We believe there are three factors which explain this inconsistency;

1. Whilst the DNO's may or may not be complying with the License Condition Standards there are also a number of other activities which need to be completed during the life of a connection project and these activities have no standards against them i.e.;
 - work pack to the DNO inspection engineer,
 - completion of legal paperwork,
 - production of MPAN's,
 - dealing with site specific requests,

Therefore if a DNO is likely to breach a license condition standard, there will be a tendency focus on this activity and allow other activities to fail to avoid reporting a failed standard. However the overall projects are still jeopardised by the other failures to the same extent as one of the license standards and thus customers are still dissatisfied with the level of service provided by the DNO. The difference is there is no clear monitor of this failure.

2. The statistics do not represent a true reflection of the Customers/ICP's experience and we are currently collating statistics from our experiences with each of the DNO's and will send these under separate cover to Ofgem. We believe these will demonstrate a variance to the levels of compliance to the standards reported by the DNO's.
3. Since the introduction of the standards a number of the DNO's have become more pedantic in their application/ design approval process, this has now made the process cumbersome to operate within and given the DNO the opportunity to mask their real performance by refusing applications/approvals for minor points or requesting additional information that then give them longer timescales to process the applications/approvals.

Chapter 6 Q1 – In light of 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 license conditions with regard to performance standards in unmetered connections.

Whilst we are not involved directly in unmetered connections, unless associated with a larger scheme, our overall experience would suggest that where license conditions have been implemented then performance against these specific standards has improved, albeit we still believe further improvements are required. Therefore we believe specific license conditions for unmetered connections are required, but that Ofgem should learn from the implementation of the existing LC15 standards and they must be all encompassing. Otherwise parts of the service will still fail and therefore the customer will still not receive the level of service they are expecting from their service providers.