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Gas and Electricity Connections Industry Review 2007-08

Document type: Review

Ref: 143/08

Date of publication: 16 October 2008 – Revised 20 July 2009

Deadline for response: 13 November 2008

Target audience: Business and domestic customers seeking gas and electricity connections and their representatives, distribution network licensees, independent connection providers and other interested parties.

Overview:

This document is a revised version of the 2007-08 Connections Industry Review originally published on 16 October 2008. A corrigenda has been published on the Ofgem website detailing all revisions.

This document sets out the latest developments in the gas and electricity networks connections market in 2007/8. The connections markets are important – last year around 750,000 new connections were made at a direct cost of over £775m. The potential value and impact on customers and the economy of a lack of effective competition and regulation are even greater. Problems or delays in connecting to the energy networks can cost businesses and domestic customers dearly.

This year's review looks at the development of competition and the effectiveness of regulation of service standards. Competition in gas connections continues to be significantly more developed than in electricity where there is little evidence of any effective competition and where service standards are relatively poor. We have identified areas where service standards or reporting of service standards by network companies could be improved. We are inviting views on how we should address the issues in this document. This will inform our work, including on the new regulatory framework that will apply for electricity distribution connections from April 2010 which forms part of the current distribution price control review.

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Context

Our principal objective is to protect the interests of consumers. We do this by promoting effective competition wherever appropriate and through regulation where necessary. Some aspects of the distribution of electricity and gas to business and domestic customers are natural monopolies – because it is cheaper and more efficient to have one single company owning and operating the network than several competing companies with competing networks. But building, owning (and operating) the network assets needed to extend the network or connect to the existing network is a potentially competitive activity. Customers could benefit from competition in connections through lower prices and better service (for example faster connection installations). Ofgem has worked over a number of years to promote competition in gas and electricity connections. Competition has grown rapidly in gas, to the extent that more than half of all connections are now installed by Independent Connections Providers or Independent Gas Transporters rather than the former monopoly incumbent network provider. However, competition in electricity connections has developed much less rapidly.

Recognising concerns about the pace of development of competition, we initiated a Review of Competition in Gas and Electricity Connections in May 2006. The review resulted in a number of initiatives designed to make competition more effective and to improve the service standards customers could expect in non-contestable activities. We used a mix of new licence conditions and voluntary performance standards. We gave the electricity Distribution Network Operators an opportunity to improve performance under these measures before taking further action. But in our Initial Consultation Document on the Electricity Distribution Price Control Review (DPCR5), we noted that if performance did not improve, there would be an opportunity to include additional measures as part of the next price control settlement.

This document reports on progress against these initiatives and on wider trends, and will help us to decide whether to take further action in the context of DPCR5. It also addresses a specific 2008-2013 Corporate Strategy and Plan deliverable to report on progress in implementing the Connections Review proposals.

Associated Documents

- Connections Industry Review 2007-08 Appendices
http://www.ofgem.gov.uk/Networks/Connectns/ConnIndRev/Pages/ConnIndRev.aspx

- Connections Industry Review 2006-07 (215/07)
http://www.ofgem.gov.uk/Networks/Connectns/ConnIndRev/Pages/ConnIndRev.aspx

- Review of Competition in Gas and Electricity Connections Proposals Document (26/07)
http://www.ofgem.gov.uk/Networks/Connectns/CompinConn/Pages/CompinCnnctns.aspx

- Ofgem Corporate Strategy and Plan 2008-2013 (34/08)
http://www.ofgem.gov.uk/About%20us/CorpPlan/Pages/CrprtPlnning.aspx

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Summary

Many of the activities of electricity and gas network companies are natural monopolies, where it is more efficient for a single company to provide the service than several competing companies. But building, owning (and operating) the network assets needed to extend the network or connect to the existing network is a potentially competitive activity. Ofgem[1] has sought to promote competition in the provision of connections to gas and electricity distribution networks.

Promoting effective competition in the connections market and (where appropriate) regulation of the connections market is important to protect customers. Last year there were around 750,000 new connections and the direct value of the market was over £775m. But this underestimates the potential scale of harm to customers and the economy if competition in the connections market isn't effective. Delays in getting connections can have a much more significant impact on businesses and domestic customers. They can delay the speed at which new retail businesses can open their doors or new products can be offered to customers. And delays for domestic properties can slow the supply of new houses to the market

The gas connections markets opened to competition in 1998 and the electricity connections market in 2000. A customer seeking an alternative to the incumbent network provider can have the connection assets installed by an Independent Connections Provider (ICP), or by a licensed Independent Distribution Network Operator (IDNO) / Independent Gas Transporter (IGT). These arrangements have been put in place with the aim of giving customers access to reasonably priced and good quality connection services. Over the past year, the share of new entrants in the gas connections market has continued to grow from 56% to 58%. This report asks for information to help us assess what lies behind this growth in competition and whether customers have benefited through lower cost connections and/or improved service. By contrast, on average market penetration of new entrants in the electricity connections market stands at only 8%. This raises serious questions about the effectiveness of competition in electricity connections. We would welcome views on why competition in electricity connections appears to be developing much more slowly than in gas and the impact on customers. We will consider this information as we draw up the regulatory framework for 2010-2015 and consider how we treat any profit margins earned by the incumbent from their connection businesses in the next price control.

Where there are natural monopolies, or where competition is not yet effective it is our role to protect customers by appropriate regulation. Regulation is also important in ensuring that incumbents cannot gain unfair advantage over their competitors in contestable services by discriminating against them in the provision of monopoly

[1] Ofgem is the office set up by the Gas and Electricity Markets Authority to assist it in discharging its functions. Everything done by Ofgem is done in the name of the Authority. The terms "Authority" and "Ofgem" are used interchangeably in this document.

services. It is important that we keep this regulatory framework under review to ensure it protects customers and does not stifle or prevent new entrants, or the expansion of existing independent providers.

Since May 2005 the gas framework has included Mandatory Gas Performance Standards. These set out the requirement on incumbent Gas Distribution Networks (GDNs) to quote for work and to complete works within a particular timeframe. There are financial penalties for failure to meet these standards. This year saw a significant improvement against these standards among the previously worst performing GDNs. Since last year a mix of new electricity connections related licence conditions and voluntary performance standards have been put in place. The first year of reporting confirms anecdotal evidence received by Ofgem that a number of issues remain. Notably, service standards remain disappointing in the provision of unmetered connections such as streetlights (where standards are voluntary). Also, reporting of data with respect to non-contestable services is patchy, which may be serving to mask poor performance. We also continue to receive a significant number of complaints from large customers and ICPs about long delays in getting connections and the generally poor quality of service they receive from incumbent DNOs. In 2007-08, we found that two DNOs had discriminated in the provision of non-contestable services, and in September 2008 we launched a formal investigation against another DNO group for potential breach of a licence condition relating to the requirement to Offer Terms for Use of System and Connection.

In our initial electricity distribution price control review consultation paper published in March we set out our position on the possible treatment of connections in the forthcoming regulatory period. We are currently considering the responses relating to connections along with this year's CIR results. Both sources of information will inform our work on the next regulatory settlement for electricity distribution network operators (DNOs).

We would welcome views on any of the issues raised by our review but would particularly welcome views on:

- The practice of IGTs making adoption payments (payments by IGTs to ICPs to take ownership of assets installed by ICPs) and the impact this has on competition in the gas connections market- see Chapter 2
- Whether mandatory standards and/or competition are the cause of relatively high and improved gas connection quality of service amongst last year's poorer GDN performers, and whether similar measures should be applied to the electricity connections industry - see Chapter 3
- Why competition in metered electricity connections has not developed as quickly as in gas connections, and what actions we should take - see Chapter 4
- The appropriateness of the current metered electricity connection service standard regime- see Chapter 5
- The appropriateness of the current voluntary unmetered electricity connection service standard regime, given disappointing DNO performance - see Chapter 6
- Whether our Good Practice Review targeted the appropriate areas, and whether the DNOs' reports of their own performance in implementing good practice meet with their customers' and other market participants' perceptions - see Chapter 7

Responses to these questions should be submitted by Thursday 13th November.

1. Introduction

- This chapter begins with an introduction to the connections industry, explaining the background to the evolution of competition and the key players
- It also sets out the background to the Review of Competition in Gas and Electricity Connections we conducted in 2006 and 2007 (the Connections Review), and describes the annual 2007-08 Connections Industry Review (CIR) process and key changes from last year.
- Finally it describes the structure and contents of the remainder of this document

Introduction to the Connections Industry

Overview of competition in connections

1.1. Many of the activities of electricity and gas network companies have characteristics of a natural monopoly and are regulated by Ofgem. Some network activities are not natural monopolies- such as construction of new assets needed to extend the network or connect to the existing network. The installation (construction) of assets to support new connections is a distinct activity from operating those assets once they have been built. As discussed below, Independent Connections Providers (ICPs) compete with network operators to construct a connection (including constructing any network extension required for new developments), but only licensed distribution network operators can operate the assets once they have been installed. Therefore connection installation and asset operation are two distinct activities, with different but related competitive dynamics.

1.2. Where effective competition is possible, it is generally a much better way to protect consumers' interests than regulation. We have sought to promote competition in both the installation of connections to gas and electricity distribution networks, and the subsequent operation of those assets. Competition in the gas connections market has developed steadily since 1998 and since 2000 Ofgem has been developing competition in the electricity connections market.

Connection sourced from a host distributor

1.3. Customers[2] who wish to have a new connection to a distribution network have three options on how to get connected. First, the customer can approach the local incumbent distributor and ask the incumbent to quote for and install the necessary

[2] The customer could be anything from an individual domestic customer or small business customer, to a housing developer developing a new housing estate and requiring multiple connections or a developer of a large commercial development

assets to facilitate the connection. The incumbents are known as Gas Distribution Network Operators (GDNs) in gas and Distribution Network Operators (DNOs) in electricity. The customer may be a single householder or business premise, but could be a developer, in the case of a new housing estate or commercial development. The incumbent GDN/DNO will install the connection, although they may choose to sub-contract some of the construction work. In the case of a single premise, the connection assets may be just the service pipe/wire from the existing network to the premise in question. However for larger new connections, such as a new housing estate, this may include more extensive shared pipes / wires serving many new premises. The GDN/DNO will charge the customer an upfront connection charge as contribution towards the capital cost of installing the connection assets (a connection charge). The GDN will then operate the assets once they are installed, in return for annual distribution charges, known as Distribution Use of System (DUoS) charges, that customers pay through their supplier as part of their electricity or gas tariff.

Independent Distribution Companies

1.4. Alternatively, a customer – and particularly where the customer is a property developer - may choose to approach an independent Distribution Licensee for a connection. In gas these are more commonly known as Independent Gas Transporters (IGTs) and in electricity, Independent Distribution Network Operators (IDNOs). Typically, IDNOs/IGTs install and operate networks to multiple connections such as new-build housing estates rather than one-off connections. The independent network often covers the last few hundred metres to the point of connection, and is embedded in the local incumbent distributor's network area. Connections to independent networks are more common in gas than in electricity. The physical connection works (installation of assets) required to connect independent networks are typically undertaken by the IGT/IDNO itself or by a connections provider that may be affiliated to the respective IGT/IDNO. The operation of the assets is then undertaken by the independent distribution licensee itself.

1.5. The IGT/IDNO will typically charge the "customer"- typically a property developer - an upfront connection charge as a capital contribution towards the cost of installing the assets, and, once the connection is live, will recover ongoing transportation (DUoS) charges from the occupier of the property. The IGT/IDNO DUoS charges are regulated under the respective gas/electricity Relative Price Control regimes, so that the total annual distribution charges paid by the IDNO/IGT connected customer are linked to those paid by customers connected directly to the incumbent's network. Specifically, with the exception of some legacy networks, the Relative Price Control regimes generally cap the charge that an IGT/IDNO levies at no more than that which a customer would have paid if they were connected directly to the incumbent's network. Therefore the customer does not necessarily benefit from lower transportation charges by choosing an IGT/IDNO. However, customers may benefit from procuring the connection via an IGT/IDNO network if the IGT/IDNO charges lower upfront connection charges, or provides a better service and/or a faster connection time.

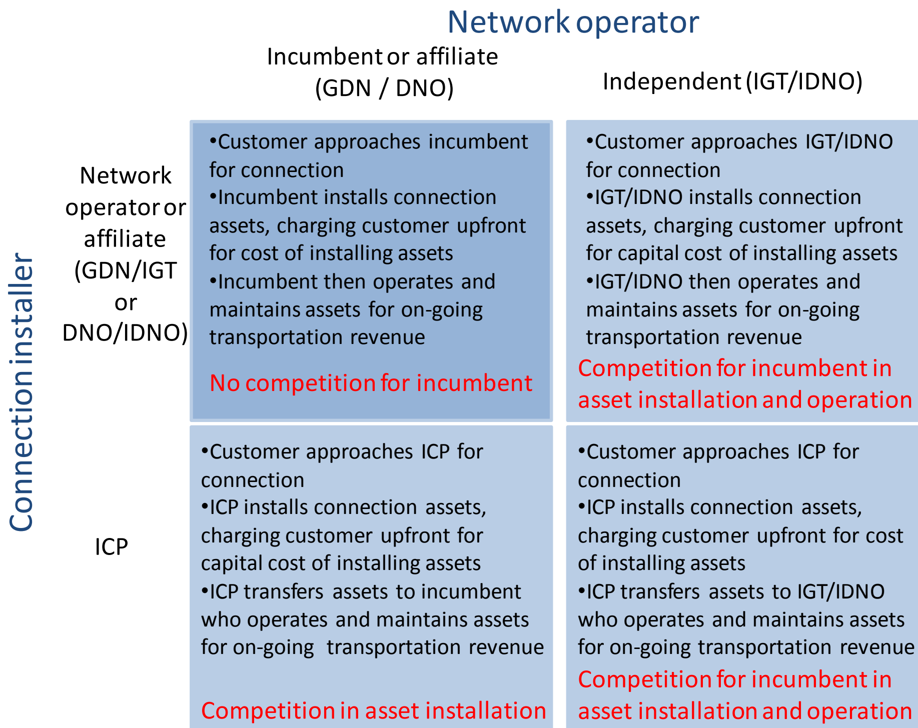
Third party Connection providers

1.6. Thirdly, a customer may also choose to use an alternative connections provider, known as an Independent Connections Provider (ICP) to build the connection. The ICP may be an affiliate of the incumbent distributor or of an independent distributor, or may be a wholly independent third party. ICPs are accredited by Lloyds Register[3] to undertake connection works on gas and electricity networks.

1.7. A customer may directly approach an ICP to install the connection to either an incumbent GDN/DNO network or an IGT/IDNO network, and would typically do so where the ICP charges a lower connection charge, or offers a better quality of service such as a faster connections. However, ICPs do not have distribution licences, so will not be licensed to operate the connection once it is installed. Therefore the ICPs must transfer ownership of the connection assets to a licensed distributor – a process which is referred to as 'adoption' of the asset. In some instances the distributor may make a payment to the ICP/customer at the time of the transfer of the assets, and where a payment is made, this is known as an 'adoption payment'. Therefore the ICPs' remuneration may be made up from a combination of connection charges levied on customers and adoption fees paid by licensed distribution operators- see Chapter 2 for a more detailed discussion of this point with reference to gas.

[3] For an overview of accreditation schemes and list of accredited parties see Lloyds Register Website http://www.lr.org/Industries/Utilities/Standards/Schemes//

Figure 1- Competition in installation of connection and operation of the network



Role of the host distributor in supporting competition

1.8. There are limits to the scope of activities in which IDNOs/IGTs and ICPs can compete with the incumbent. Certain gas and electricity activities, such as deciding the point of connection to the incumbent's network, can only be carried out by the host distributor and are referred to as 'non-contestable'[4]. Therefore it is important for the evolution of competition in connections that the incumbent does not abuse its monopoly power in the provision of non-contestable services, and Ofgem has taken measures to prohibit the incumbents from discriminating unduly against competitors in the provision of these non-contestable services[5]. In addition, there are a number of areas of the market where competition has been slow to develop so far, and other areas, such as the provision of one–off connections to the incumbent network, where independents may not be competitive due to streetworks legislation[6]. In such cases,

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[4] see Appendix 9 for full list of contestable activities
[5] Standard Licence Condition 15
[6] Under Schedule 4 of the Electricity Act 1989, DNOs and IDNOs are 'Statutory Undertakers' for the purposes of the New Roads and Street Work Act 1991 (NRSWA) giving them a statutory right to carry out street works. ICPs are not Statutory Undertakers which means that

regulation of performance standards is critical to ensure that the needs of customers are well met and that customers are protected.

Key gas connection market players

1.9. There are eight GDNs in the UK. National Grid Gas sold four of its local gas distribution networks in 2005, but retains ownership of four GDNs. Scotia Gas Networks owns two GDNs and Northern Gas Networks and Wales & West Utilities own one each. There are five active IGT groups/businesses in the UK: East Surrey Pipelines, Gas Transportation Company, Energetics Gas, Inexus and Scottish and Southern Pipelines. All GDNs and IGTs are licensed gas transporters and can both provide gas connections and own and operate gas networks.

Key electricity connection market players

1.10. There are fourteen DNOs in GB. Each DNO operates within a specific area, known as Distribution Services Areas (DSAs). The majority of connections by DNOs will be undertaken within their DSA, but it is possible for DNOs to undertake connections outside of their DSA. For instance SSE has built and operates networks out of area. There are five licensed IDNOs. These are Independent Power Networks Limited, The Electricity Network Company Ltd, Energetics Electricity Limited, ESP Networks Limited and ECG Distribution Limited. These IDNOs do not have a DSA and operate on a national basis.

The Review of Competition in Gas and Electricity Connections

1.11. In May 2006, Ofgem initiated a Review of Competition in Gas and Electricity Connections (the Connections Review). A number of the initiatives relating to competition and service levels in gas connections were addressed in the recent Gas Distribution Price Control Review.[7] Given that the new electricity DPCR5 will not take effect until April 2010, we sought to take forward the electricity connections initiatives via other routes.

1.12. In February 2007 we proposed a mix of measures designed to promote increased competition and improved service standards in electricity connections[8], and in our Corporate Strategy and Plan 2008-2013, we undertook to publish an update on the implementation of these proposals. We have addressed this commitment by including progress reporting in this document.

they have to apply for a licence from the local authority under Section 50 of the NRSWA in respect of each works project

[7] No 32/08 - Electricity Distribution Price Control Review, Initial Consultation Document

[8] No 26/07 – Review of Competition in Gas and Electricity Connections Proposals document

1.13. The key February 2007 measures reported on in this document are as follows:

- formal standards for the provision of non-contestable services. Progress on the implementation of Standard Licence Condition 15, including initial performance reporting against this licence condition is set out in Chapter 5
- service levels relating to connections and fault repairs for unmetered supplies. Reporting on service levels and the implementation of the Key Performance Indicator regime is set out in Chapter 6
- progress in the extension of 'rent-a-jointer' and triangular agreement schemes for the provision of unmetered connections is also discussed in Chapter 6
- the performance of DNOs in implementing good practice in electricity connections, in accordance with the good practice measures identified in the February consultation is set out in Chapter 7, and
- improving the scope of contestability. This work is being carried out under the auspices of the Electricity Connections Steering Group (ECSG), so is discussed in Appendix 9, Work of the ECSG.

The 2007-08 Connections Industry Review Process

1.14. At the end of May 2008 Ofgem wrote to each of the licensed gas and electricity distribution companies requiring them to provide information for the 2007-08 CIR[9]. Each company was provided with a spreadsheet template to complete and return. Copies of the blank spreadsheet templates can be found at www.ofgem.gov.uk under Networks -> Connections -> Connections Industry Review.

About this document

1.15. This document is the 5th in an annual series of Connections Industry Review (CIR) publications published by Ofgem. It discusses trends in gas and electricity connections.

1.16. Following the practice of previous years, the CIR publication presents data collected by Ofgem from industry participants as part of the annual Connections Industry Review Process. However, as a result of the inclusion of an update on the Connections Review implementation, the 2007-08 publication contains more detail than in previous years, particularly with regard to service standards. The document also differs from the publications of previous years in that it seeks to comment on the development of competition and to draw out the policy issues arising.

1.17. The document is in two volumes:

[9] This information request was made under SLC 6 (formerly 24) of the electricity distribution licence (DNO's and IDNOs), SLC A26 of the GDN licence and SLC 24 of the IGT licence.

- **Volume 1** contains the main chapters which summarise the key data and draw out the key policy issues arising
- **Volume 2** contains a number of additional appendices with more detailed background information and / or data.

1.18. Following this Introduction, Volume 1 of the document is structured as follows:

- ***Gas connections - Chapter 2***. This chapter summarises key developments in the gas connections markets, where the number of new / modified connections installed by new entrants (58%) exceeds that installed by incumbents. We set out our concerns that this increased market share may not necessarily reflect higher service levels or efficiency delivered by new entrants
- ***Gas Transporter performance against Guaranteed Standards- Chapter 3***. The chapter reviews GDNs' and IGTs' performance against mandatory standards introduced in May 2005. It highlights relatively high levels of performance and the significant improvements made by poorer performing GDNs in the last year. It questions whether levels of performance are driven by the mandatory nature of standards and/or competition and what lessons can be learnt from the gas connections industry and applied to the electricity connections industry
- ***Metered electricity connections- Chapter 4***. This chapter summarises key developments in the metered connections markets, where competition remains limited. It also seeks consultation responses on why competition has been slow to develop in electricity connections compared to gas connections, and what measures should be taken to address this situation
- ***Metered electricity connections: performance against standards - Chapter 5***. This chapter summarises DNO performance against the new licence conditions designed to ensure that DNOs do not act anti-competitively in the provision of non-contestable services to prevent or limit competition in the provision of contestable services. The chapter highlights the fact that there are a number of areas where reporting is incomplete, possibly due to different interpretations of the standards by different DNOs
- ***Unmetered electricity connections- Chapter 6***. There are a significant number of unmetered connections in electricity. Street lighting is the most common form of unmetered connection, although unmetered connections include other forms of "street furniture" such as bus shelter lights and traffic lights. The customer is typically a local authority. The market in unmetered connections has different characteristics to that in metered connections and different performance standards apply. The chapter highlights disappointing performance to date against voluntary standards
- ***Electricity connections: Good Practice Review - Chapter 7***. In Chapter 4 of our February 2007 Connections Review proposals document we set out a number of "good practices" which we expected DNOs to be conforming to by 2008. Chapter 7 provides an update on their progress in conforming to these "good practices"
- ***Investigations and determinations (gas and electricity) - Chapter 8***. Ofgem investigates and enforces compliance with certain connections related licence conditions (Investigations).We also determine in connections related disputes (Determinations), where the disputes cannot be resolved by the parties concerned or by energywatch (since 1 October there have been new consumer

arrangements which replace energywatch- see Chapter 8). This chapter summarises Investigations and Determinations activity in 2007-08.

1.19. Volume 2 of the document contains the following appendices:

- ***Appendix 5*** provides background to the connections industry structure in gas and electricity, explains the role in competition played by Independent Connections Providers and Utility Infrastructure Providers, and explains the standard DNO and GDN licence conditions relevant to connections
- ***Appendix 6*** presents more detailed tables and figures with additional disaggregated data on the gas connections market, along with more detailed tables and figures with disaggregated data on the GDNs' and IGTs' performance against gas connections performance standards
- ***Appendix 7*** presents more detailed tables and figures with disaggregated data on the metered electricity connections market and on the DNOs' performance against metered electricity connections performance standards
- ***Appendix 8*** presents more detailed tables and figures with disaggregated data on the unmetered electricity connections market (including unmetered Key Performance Indicators)
- ***Appendix 9*** presents an update on the work of the Electricity Connections Steering Group (ECSG). The ECSG advises Ofgem on the measures that are required to support the development of competition in the electricity connections market. Since 2001, the ECSG has been instrumental in driving forward practical measures to facilitate contestability in electricity connections, such as agreeing the new licence conditions and performance standards that resulted from the Connections Review in 2006/07, and
- ***Appendix 10*** presents more detail on the Good Practice Review.

1.20. We have asked for consultation responses by Wednesday 12th November. We recognise that this allows slightly less than the normal six week response time, but we are keen to be able to review responses prior to issuing our December DPCR5 policy paper

2. Gas Connections

- This chapter summarises latest developments in the gas connections market
- Last year, only 42% of connections were installed by incumbent GDNs or their affiliates, with ICPs or IGTs installing 58% of connections between them
- The total gas connections market in 2007-08 was worth just over £100m, excluding ICPs
- It is not clear whether the nature of regulation, including the IGTs' Relative Price Controls may be distorting the development of competition in connections between IGTs and GDNs, and we are seeking consultation responses on this issue

Total number of gas connections

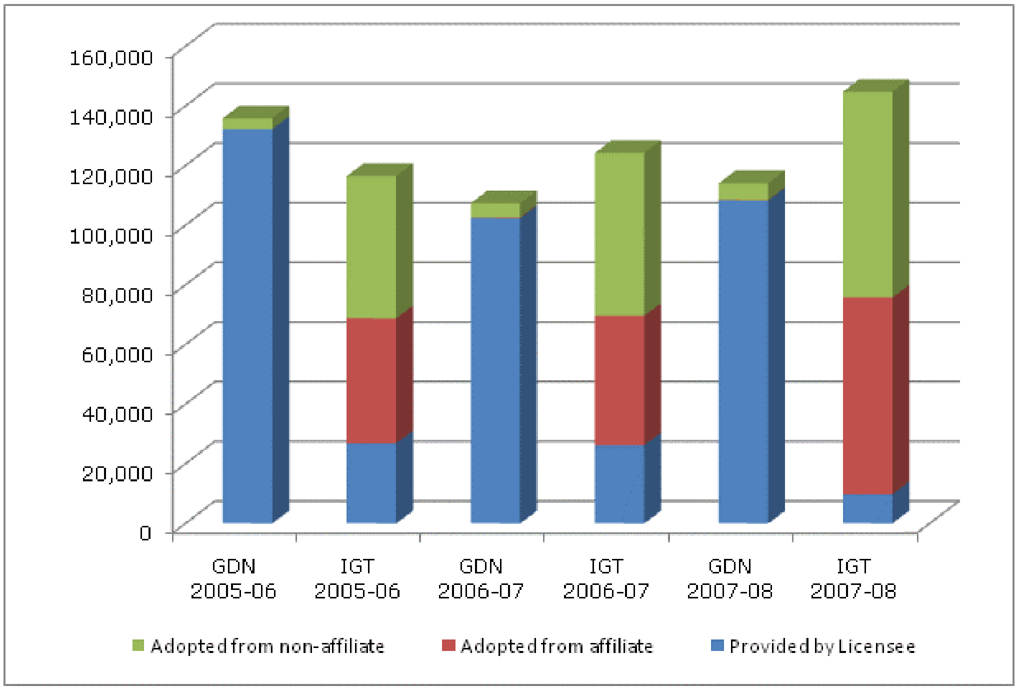
2.1. In 2007-08 258,800 new and modified[10] gas connections were undertaken in aggregate by GDNs and IGTs. This compares to 231,600 connections in 2006-07, although it should be noted that the 2006-07 figure relates to new connections only.

2.2. The key points (see Figure 2.1) are that:

- only 109,500 out of the 258,800 connections (42%) were installed by the incumbent or one of their affiliates without the involvement of ICPs or IGTs
- nearly 56% (144,700 out of 258,800) of all connections were to IGT networks
- unaffiliated ICPs were responsible for installing 74,600 (29%) of all connections, and
- unaffiliated ICPs have a much larger share of connections to IGT networks (48%) than to GDNs (only 5%). This may be because IGTs will generally make an adoption payment to the ICP, making it more attractive to an ICP to transfer the assets to an IGT than a GDN once they have installed them. By contrast, GDNs have no incentive to make adoption payments due to the nature of their price control- see later discussion of adoption payments.

[10] A modified connection is an existing connection that has been changed. Modified connections include increases in capacity which may include contestable elements but also 'service alterations' which are generally not contestable. Figures submitted by National Grid Gas cover new connections only and do not include modified connections

Figure 2.1- Historical summary of gas connection totals reported by GDNs / IGTs[11]



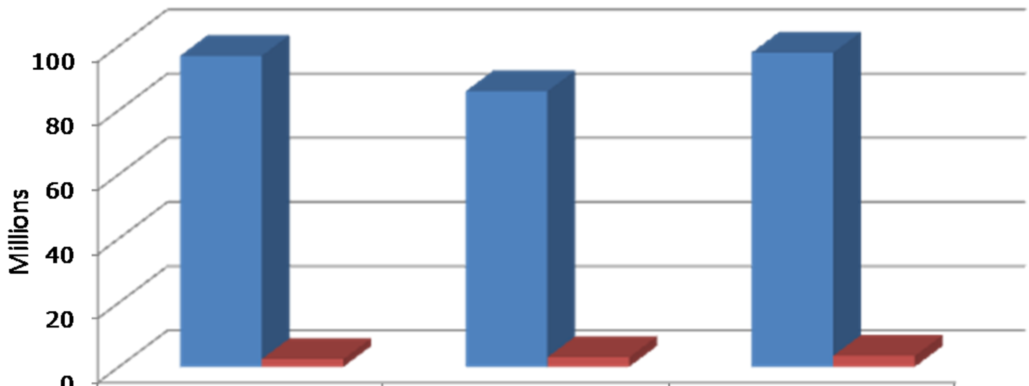
Total market size

2.3. In 2007-08 the approximate total value of charges made by GDNs and IGTs for new and modified connections was £101 million, up nearly 14 per cent compared to charges levied by GDNs and IGTs in 2006-07. However, the 2007-08 figure includes modified connections, whereas in previous years we have only requested data on new connections. These figures includes charges for both the contestable and non-contestable elements of works and services.

2.4. This figure does not include charges levied by ICPs, since we have no powers to collect such data from ICPs. Therefore total charges levied on end customers will have been higher than £101 million.

[11] The underlying data used in this table can be found in Table A6.1 of Appendix 6.

Figure 2.2 - Historical summary of gas connection charges[12]



	2005-06 (£m)	2006-07 (£m)	2007-08 (£m)
GDNs	96.9	85.9	97.9
IGTs	2.4	3.0	3.4

Adoption payments

2.5. An adoption payment is a payment made by a licensed GT to an ICP (which could be an affiliated ICP or a third party) to "adopt" a network built by the ICP. Since unlicensed ICPs cannot operate networks, adoption of network is central to facilitating the entry of entities without GT licences into the market for building new connections.

2.6. GDNs are not permitted to include any adoption payments that they make in their Regulated Asset Value (RAV), and cannot recover these costs from regulated revenues. This provides a strong disincentive for GDNs to offer adoption payments to ICPs, and hence discourages GDNs from giving ICPs money that can be used to subsidise the new connectees connections costs, whilst recovering the balance from all customers through distribution use of system charges.

2.7. Given that a GDN’s revenue control is set in absolute terms, rather than on a per customer basis, they have a disincentive to make adoption payments, since adoption payments add to cost but not revenue. By contrast, the nature of an IGT's Relative Price Control means that for each additional customer, they receive additional revenue. Therefore the nature of their existing price control may incentivise IGTs to make adoption payments in a way that the GDNs' price controls do not. IGTs’

[12] In previous year's reports, the reported value of connection charges for IGTs included adoption payments. These have been stripped out of the data reported in Figure 2.2.

Relative Price Controls may also allow them more revenue than they need to cover their costs (as the GDN price control is set to recover costs such as the 10m allowance, repex[13] and some legacy costs which IGTs do not bear). This means that IGTs can effectively subsidise connection charges and adoption payments to ICPs through their Use of System charges which are capped by the Relative Price Control regime.

2.8. IGTs paid approximately £36 million in adoption payments in 2007-08. Around £21 million of this was paid to affiliates or related undertakings while around £15 million was paid to other parties. GDNs did not make any adoption payments, probably for the reasons set out above.

Key trends in adoption payments and connection charges

2.9. We have reviewed trends in connection payments and adoption payments charged by / made by GDNs and IGTs over the last three years (2005-06, 2006-07 and 2007-08). While we recognise that there are some timing issues associated with calculating average charge / connection installed[14] and average payment / adopted connection, these issues should be reduced by looking at the values over multi-year periods.

2.10. We note that:

- IGTs reported average adoption payments of around £250-£300 / connection over the three year period, whereas GDNs have not made significant adoption payments, and
- IGTs appear to levy significantly lower connection charges per connection reported than GDNs. However this may be because some of the GDNs' reported connection charge revenue may relate to charges for non-contestable upstream reinforcement on GDN networks to support connections to an IGT network.

2.11. Although the figures are not fully comparable, we note quite marked differences in the level of charges per connection over the three year period:

- All Connections: GDNs report an average connection charge of around £800 / connection[15], whereas IGTs report an average connection charge of around £200 / connection[16], and

[13] Repex is replacement expenditure on assets that are at the end of their life, including service pipes which are replaced by the GDN without direct charge to the individual customer.
[14] For instance upfront connection payments may mean that the connection payments are reported in the year before the connection completion is reported.
[15] We consider that we have used a conservative approach to calculating the average charge per connection by GDNs, as we have divided reported revenue by all connections, including

- Domestic connections: GDNs report an average connection charge of around £950 / connection compared with a connection charge of around only £150 / connection for IGTs.

Consultation responses sought

2.12. In the light of this data, and other data presented in this year's CIR we would like to seek feedback from the industry on the following questions:

- Is this data reasonably representative of connection charges levied by GDNs and IGTs, and adoption payments made by IGTs and GDNs?
- 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?
- 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?
- What factors lead IGTs to charge lower connection charges? Are ICPs/IGTs more efficient at installing the connection or are other factors at play?
- What impact does the contrasting nature of GDN and IGT price controls have on competition in gas connections?

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those made by affiliates / ICPs where GDNs may not have reported the revenue collected made by the affiliate / ICP. However this represents only about 5% of GDN connections

[16] This may be an over-estimate of the average charge, as we have included all charges reported by IGTs, but divided only by connections built directly by the IGT. This allows for the fact that the IGTs may not have reported all charges collected by affiliates or ICPs, but may have reported some

3. GT performance against Guaranteed Connection Standards

- ➔ This chapter summarises the performance of GDNs and IGTs against connections related Guaranteed Standards
- ➔ The key findings are that prescribed standards have been met a relatively high proportion of the time by both GDNs and IGTs
- ➔ All GDNs met all targets at least 90% of the time - the minimum target prescribed in their licences. By contrast, some IGTs failed to achieve some targets 90% of the time.

3.1. Connections related Guaranteed Standards of performance were introduced into both the Gas (Standards of Performance) Regulations 2005[17] and GDNs' D10 Licence Condition[18] at the time of National Grid's Distribution Network (DN) sales in 2005.

3.2. In total there are 14 standards of performance which are set out in both the Regulations and the Licence, eight of which relate to connections. These eight standards set out the requirements to quote for work and to complete works within a prescribed number of days, or to agreed timescales.

3.3. All the standards of performance apply equally to GDNs and IGTs, but the potential compensation/penalties differ. The Regulations require all GDNs and IGTs to pay compensation to the relevant customer each time the GT fails to meet the required standard[19]. However, only GDNs face possible enforcement from Ofgem if the company fails to meet any of the standards at least 90% of the time. These different arrangements apply because incumbent monopoly power was the primary concern at the time of DN sales. Similarly, it was not thought proportionate to place a standards of performance licence obligation on IGTs given that IGTs generally do not serve one-off customers.

3.4. GDNs are required to pay compensation only in respect of service requests by end customers and not if they have failed to meet a standard when serving an ICPs or IGTs. However, GDNs have agreed (on a voluntary basis) to make the same compensatory payments as prescribed in the Regulations to ICPs and IGTs when they fail to meet the standard required in respect of end customers.

3.5. The industry's performance against 7 of the 8 connections standards is set out in Table 3.2. Performance against GS 7 is not reported in this table as no refunds were issued in 2006-07 or 2007-08- please see Appendix 6 for further information.

[17] Statutory Instrument 2005 No.1135
[18] Standard Special Licence Condition D.10 of the Gas Transporters licence.
[19] Details of the compensation payable, which varies from incentive to incentive, are set out in Appendix 6

3.6. A detailed breakdown of the performance of each GDN against all 8 standards is set out in Appendix 6. The key findings are that:

- overall, performance has been relatively high, with GDNs meeting the standard 97% of the time (up from 93% last year) and IGTs meeting the standard 96% of the time (down from 97% last year)
- the most marked increase in performance was by the worst performing GDNs. In 2006-07, on average the worst performance of any GDN across the 7 relevant standards was 73.7 per cent, but by 2007-08 this had improved to an average of 95.2 per cent, and
- GDNs are subject to potential enforcement action if they meet any target less than 90% of the time – they all beat this target. Some IGTs, who make compensating payments to customers, but are not subject to potential enforcement action, did not meet all standards at least 90% of the time.

3.7. These results could provide evidence of the positive impact of mandatory standards and penalties, particularly the threat of enforcement action on poorly performing licensees. But they may also show the positive effect of increasing competitive pressures on standards.

3.8. Information about all Guaranteed Standards, including those that do not relate to connections can be found on the Ofgem website under Gas Distribution –> Quality of Service.

Consultation responses requested

3.9. 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.

Table 3.2 - Summary performance against Guaranteed Standards, 2007-08

		GDN				IGT			
Guaranteed Standard	**Description**	**Average percentage achieved**		**Worst licensee percentage**		**Average percentage achieved**		**Worst licensee percentage**	
		2006-07	**2007-08**	**2006-07**	**2007-08**	**2006-07**	**2007-08**	**2006-07**	**2007-08**
GS4	Provision of standard connection quotations =<275kWh per hour within 6 working days	97.90	97.90	92.90	97.00	87.00	96.10	60.00	87.90
GS5	Provision of nonstandard connections quotations ≤ 275 kWh per hour within 11 working days	95.50	97.20	73.60	93.00	100.00	82.80	100.00	71.40
GS6	Provision of nonstandard connection quotations >275 kWh per hour within 21 working days	95.50	95.80	76.30	93.30	100.00	100.00	100.00	100.00
GS8	Response to land enquiries within 5 working days	99.30	99.00	77.80	98.60	n.a	n.a	n.a	n.a
GS9	Offering a date for commencement and substantial completion of connection work (≤ 275 kWh per hour) within 20 working days	94.60	98.90	66.50	95.80	100.00	98.40	100.00	83.30
GS10	Offering a date for commencement and substantial completion of connection work (> 275 kWh per hour) within 20 working days	85.10	96.40	41.70	93.20	n.a	100.00	n.a	100.00
GS 11	Completion of the work on the agreed date	94.60	96.90	86.80	95.70	100.00	100.00	100.00	100.00
Average over all relevant standards		94.6	97.4	73.7	95.2	97.4	96.2	92.0	90.4

4. Metered electricity connections

- ➔ This chapter summarises the latest developments in the market for metered electricity connections
- ➔ Competition in electricity connections is much less mature or effective than in gas connections, with the vast majority of connections still completed by the incumbent DNO. There is little evidence of significant market penetration by IDNOs or ICPs, and little competition to incumbents by DNOs operating out-of-area.
- ➔ We are seeking consultation response on why competition has been slow to develop in electricity connections compared to gas connections, and what measures should be taken to address this situation

Total number of new and modified metered electricity connections

4.1. In 2007-08 339,600 metered electricity connections were undertaken, compared with 321,100 connections in 2006-07. This does not necessarily represent an increase in connection activity, given the change in reporting to include modified[20] as well as new connections.

4.2. The key points to note are that in 2007-08:

- the involvement of independent players was much lower in electricity connections than in gas connections. Over 92% of connections were completed by the incumbent or their affiliate, without the involvement of ICPs or IDNOs
- ICPs installed only 6% of metered electricity connections, compared to 29% of gas connections, and
- only 3% of connections were to IDNO networks, compared to 56% to IGT networks. However, we note that there has been a 10 fold increase in ICP installed connections to IDNO networks, albeit from a low base.

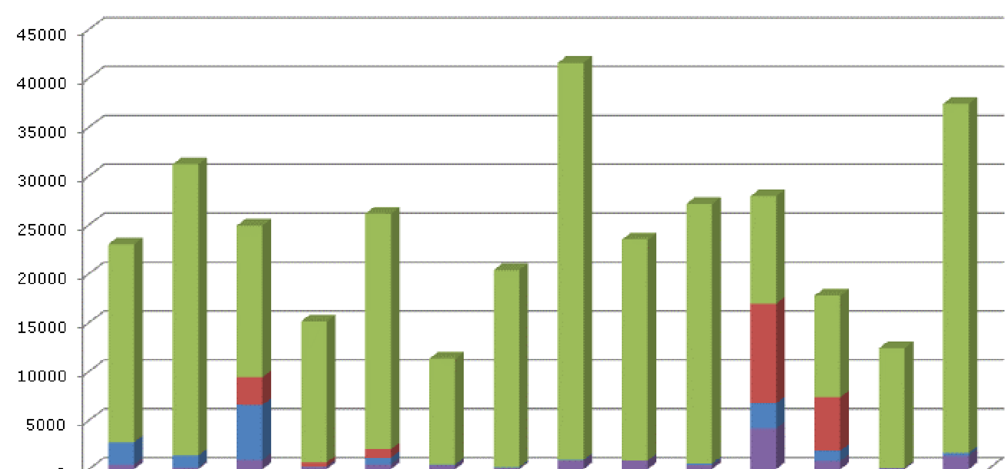
[20] Modified connections include increases in capacity which may include contestable elements but also 'service alterations' which are generally not contestable

Table 4.1 - Total number of metered electricity connections

Connections by:	DNO 2006-07	IDNO 2006-07	DNO 2007-08	IDNO 2007-08
Licensee	280,402	527	294,161	308
Companies affiliated to the licensee	22,475	4,082	19,727	3,961
Third Parties	13,035	563	14,108	5,979
Total	315,912	5,172	327,996	11,585
Industry Total	321,084		339,581	

The IDNO total for 2007-08 includes 1,337 connections to SSE networks made outside SSE's DSA area. We are not able to distinguish whether these were installed by the licensee, an affiliate or an ICP.

Figure 4.1 - Breakdown of metered electricity connections by DSA (2007-08)



	CN West	CN East	ENW	NEDL	YEDL	WPD S. Wales	WPD S.West	EDFE EPN	EDFE LPN	EDFE SPN	SP Dist.	SP Manweb	SHEPD	SEPD
Provided by Licensee	20,248	29,784	15,507	14,423	24,098	10,840	20,151	40,612	22,604	26,556	10,997	10,406	12,234	35,701
Adopted from affilliate	0	0	2,831	383	855	0	0	0	0	0	10,194	5,464	0	0
Adopted from non-affilliate	2,273	1,240	5,622	1	699	69	60	72	5	162	2,578	1,039	21	267
IDNO and out of area DNO	477	161	949	296	475	401	143	883	879	411	4159	847	108	1396

4.3. Figure 4.1, shows that the level of activity by ICPs and IDNOs varies significantly from DSA to DSA. In ENW's area, approximately 23.6% of connections were installed by unaffiliated ICPs installing connections to ENW's network, and a further 3.8% of connections were to IDNO networks. Therefore in total, independents had a 26.4% market share. Independents also had a relatively high market share in SP's Scottish DSA, where ICPs installed 11.0% of connections to SP Distribution's network, and IDNOs had a 7.9% market share. By contrast, in the WPD DSAs, SSE DSAs (SHEPD and SEPD combined) and EDFE DSAs, independents generally had market shares of 2-4% in total, and the incumbents or their affiliates typically installed over 99% of connections to their own networks.

4.4. The lack of market penetration by independents in electricity compared to gas has occurred despite the fact that there is a similar system of Relative Price Controls for IDNOs which incentivise independents to grow their customer base, and similar regulatory treatment of adoption payments which disincentivises DNOs from making adoption payments[21].

Total charges for metered electricity connections

4.5. In 2007-08 the approximate total value of charges made by DNOs and IDNOs for new and modified connections, including both non-contestable and contestable works and services[22] was £620 million, up almost 13% from £550 million in 2006-07. The reported value of electricity connections charges is 6 times the reported size of gas connections charges[23]. Clearly the market in electricity is sizeable, and when compared with gas, lack of market size cannot explain the slow progress of establishing competition.

4.6. Of the charges made for new and modified connections only £8,000 was levied by IDNOs. This low figure may reflect the level of adoption payments/rebates made by IDNOs in respect of adoption of assets at new developments. The remainder of the charges were levied by DNOs. As with gas connections, this "total charges" figure does not show the total value of the market as we have no powers to collect data from ICPs.

Table 4.2- Total charges made by DNOs / IDNOs in 2007-08 (£ millions)

	DNO	IDNO	Total
Charges (£m)	620.65	0.01	620.66

Adoption payments

4.7. In 2007-08 IDNOs paid approximately £1.3 million in adoption payments. All of these were made to affiliates or related undertakings. Three DNOs made adoption

[21] Electricity DNOs have a volume driver in their price control, so more customers will lead to more DUoS revenue, whereas gas GDNs do not have a volume driver, so more customers does not lead to more DUoS revenue
[22] In their financial accounts most DNOs treat connection charge receipts (often referred to as 'contributions') as cost reducing items rather than as revenue but DNOs are required to show total connection charge receipts in regulatory returns
[23] This reflects, at least in part, the lack of a free Domestic Load Connection Allowance in electricity connections compared with gas. Domestic gas customers within 23 m of an existing main get the first 10m of a connection on public land provided free of charge. The costs of the individual connection are included within the Regulated Asset Value (RAV) and recovered from the generality of customers

payments in 2007-08, these payments were worth nearly £4.1 million. Just over £3 million of this was paid to affiliates or related undertakings while just over £1 million went to one or more unrelated third parties.

4.8. Given the very limited number of IDNO connections, we have not analysed trends in IDNO adoption payments per customer and connection cost per customer.

Consultation responses requested

4.9. 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?

- 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?

5. Metered electricity connections: performance against standards

- Some elements of connections activity are non-contestable (i.e. can only be provided by the local DNO). DNOs have a duty not to act anti-competitively in the provision of these non-contestable services. Specifically, they have a duty to facilitate competition in connections by carrying out the non-contestable activities in appropriate timescales (SLC 15), and not discriminate in favour of their in-house connections business or against any other party (SLC 19). This chapter summarises DNO performance against SLC 15 and SLC 19, and some additional performance standards related to simple domestic and non-domestic metered connections
- There are a number of areas where reporting is incomplete, possibly because of different interpretations of the standards by different DNOs, and where we need to work to ensure more effective reporting. Where there is reporting, DNOs generally report that standards are being met. However, this is against a background of Ofgem continuing to receive a number of complaints from contractors and customers, and investigating a number of DNOs for potential breaches of licence conditions relating to different aspects of non-contestable service provision (see Chapter 8).

Performance against Standard Licence Condition 15 [Formerly 4F[24]] (Standards for the provision of Non-Contestable Connection Services)

5.1. SLC15 requires DNOs to provide a range of non-contestable services within specified time limits in at least 90% of cases (measured for each category of service across a regulatory year). In addition DNOs must use reasonable endeavours to meet the requirements in every case i.e. 100% of the time. The condition came into effect on 1 October 2007 and hence was only in force for the third and fourth quarters of the 2007/08 regulatory year. It replaced a previous voluntary standards regime.

5.2. SLC15 covers three key areas of non contestable connection services:

- providing quotations and point of connection information
- responding to design submissions, and
- completing final works/energisations

[24] Standard Licence Condition 4F came into effect on 1 October 2007 and was renumbered as Standard Licence Condition 15 (SLC15) as part of the distribution licence review in spring 2008.

5.3. Satisfactory performance in these areas is considered essential to allow effective competition in areas of connections services which are contestable since an ICP or IDNO must rely on the DNO's services in formulating its own offers to end customers and in fulfilling the connection contracts it enters into.

5.4. We have data on the initial performance of each DNO from October 2007 – March 2008. We note however, that the reporting to date has limited value. As illustrated in Table 5.1 below, in a significant number of instances, no activity was reported against standards. For instance, EDFE SPN reported against only one of the 14 standards. On average the 14 DNOs reported relevant activity against only 42% of the standards[25].

5.5. We have some concerns that a significant number of connections are falling outside the scope of the reporting requirements including instances where customers may feel constrained to have elements of contestable work carried out by the DNO. This is an aspect we will keep under review.

5.6. In general, where there was reported data, standards were met:

- 11 out of 14 DNOs met all the SLC 15 requirements. Three DNOs (CN West, CN East and ENW) did not achieve the target 90 per cent compliance for all standards (see Table 5.1), and
- on average DNOs met the required standard between 95% and 100% of the time - i.e. more than the target 90% of the time.

5.7. Since the reported data does not relate to a full year, failure to meet the 90% target does not constitute a licence breach. However, where performance in respect of any standard fell below 90 per cent for this period we reviewed the measures the licensees are taking to secure future compliance. For regulatory years 2008/09 onwards licensees will be required to meet the 90% requirement across the year as a whole.

5.8. We note that we continue to receive quite a number of complaints from market participants that DNOs fail to facilitate competition appropriately.

5.9. Appendix 7 shows more details of the performance standard definitions, and detailed individual DNO performance against each standard.

[25] i.e. in aggregate they reported against 83 standards of a possible 196 (14 standards x 14 DNOs)

Table 5.1 - Summary table showing breakdown by DNO

	1a	1b	1c	1d	1e	1f	2a	2b	2c	3a	3b	3c	3d	3e	All
CN West	×	n.a.	✓	✓	✓	n.a.	✓	✓	×	n.a	✓	n.a.	n.a.	n.a.	6/8 (75%)
CN East	×	n.a.	×	✓	×	n.a.	×	✓	✓	✓	✓	n.a.	n.a.	n.a.	5/9 (56%)
ENW	✓	✓	✓	✓	✓	n.a.	✓	✓	n.a.	×	✓	n.a.	×	✓	9/11 (82%)
NEDL	✓	n.a.	✓	n.a.	n.a.	n.a.	n.a.	✓	n.a.	✓	✓	✓	n.a.	n.a.	6/6 (100%)
YEDL	✓	n.a.	✓	n.a.	n.a.	n.a.	n.a.	✓	n.a.	✓	✓	✓	n.a.	n.a.	6/6 (100%)
WPD S. Wales	n.a.	n.a.	✓	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	✓	n.a.	n.a.	n.a.	2/2 (100%)
WPD S.West	n.a.	n.a.	✓	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	✓	n.a.	n.a.	n.a.	2/2 (100%)
EDFE EPN	✓	n.a.	✓	n.a.	✓	✓	✓	✓	n.a.	n.a.	✓	n.a.	n.a.	n.a.	7/7 (100%)
EDFE LPN	✓	n.a.	✓	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2/2 (100%)
EDFE SPN	n.a.	n.a.	✓	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1/1 (100%)
SP. Dist	✓	n.a.	✓	n.a.	✓	n.a.	✓	✓	✓	✓	✓	n.a.	n.a.	n.a.	8/8 (100%)
SP Manweb	✓	n.a.	✓	✓	✓	n.a.	✓	✓	✓	✓	✓	n.a.	n.a.	n.a.	9/9 (100%)
SHEPD	✓	n.a.	✓	n.a.	n.a.	n.a.	n.a.	✓	n.a.	✓	n.a.	n.a.	✓	n.a.	5/5 (100%)
SEPD	✓	n.a.	✓	✓	n.a.	n.a.	n.a.	✓	n.a.	✓	✓	n.a.	n.a.	✓	7/7 (100%)
All Licences	9/11 82%	1/1 100%	13/14 93%	5/5 100%	5/6 83%	1/1 100%	5/6 86%	10/10 100%	¾ 75%	7/8 88%	11/11 100%	2/2 100%	1/2 50%	2/2 100%	75/83 (90%)

Where n.a. is reported next to a standard it signifies that the DNO in question did not consider it had carried out any works during the period which fell within the scope of the reporting requirements. Where percentages are shown, instances of n.a. are excluded from the calculation.

Standard Licence Condition 19 (Formerly 4C)

5.10. Under SLC19 electricity distribution licensees are prohibited from discriminating between classes of persons (individuals and businesses) in the way they provide use of their distribution networks and in providing connections to those networks. This prohibition interacts with other requirements in the licence and in legislation which require distributors to guard against anti-competitive behaviour.

5.11. Paragraph 19.3 of SLC19 specifically prevents discrimination by an electricity distributor in the provision of non-contestable connections services as between its in-house connections business, the connections business of an affiliate and any independent connections provider. This is important because ICPs could be thwarted in their efforts to provide competitive quotes and connection dates to customers if the incumbent distributor holds up the provision of information and works on non-contestable elements.

5.12. Paragraph 19.4 requires licensees to provide Ofgem with information about their compliance in this regard. For 2007/08 we asked distributors to provide quantitative data on their performance in providing non contestable quotations, design approvals and final works, to each of the three categories of business referred to above. The reporting criteria were broadly aligned with the non-contestable service standards specified under SLC 15. Although this yielded some useful information, it was difficult to obtain comparative data on the provision of non-contestable services within the distributors' own organisation since it is unusual for these to be administered separately where the distributor is carrying out all of the works.

5.13. The returns did indicate that:

- where distributors were able to identify the time taken to provide quotations for non-contestable services to internal businesses it took, on average, longer than to provide a quotation to an external ICP
- it takes significantly longer to provide quotations for higher voltage connections, with overall average times ranging from 4 days for an LV connection to 68 days for an EHV connection
- there was no significant difference in the average time taken by distributors to approve designs submitted to them by affiliates and by ICPs, and
- in most cases the average time in days taken to issue an approval was less than 10 days. However, two DNO reported averages over 20 days.

5.14. As DNOs now provide quantitative performance returns under SLC 15 (formerly 4F) we will consider introducing qualitative aspects to the SLC 19 return in future, possibly asking distributors to set out a description of the measures they take to guard against discrimination in the provision of non-contestable connection services.

30 and 40 day standards

5.15. In addition to other reporting requirements DNOs are required to provide Ofgem with information on the number of straightforward domestic and non domestic metered connections which they completed within 30 days and 40 days respectively. For this purpose a straightforward connection is defined as a connection where only a new service line (LV, up to 1kV, electrical line or equipment) is required - this predominantly refers to situations where there is a proximate existing electricity main to which the new service line can be jointed.

5.16. In 2007-08 DNOs reported that a total of 49,499 straightforward domestic connections had been completed (15 per cent of total connections) and that of those straightforward connections 99.8 per cent had been completed within 30 working days. They also reported that a total of 16,016 straightforward non domestic connections had been completed (5 per cent of total connections) and that of those straightforward connections 99.8 per cent had also been completed within 40 working days.

5.17. For historical reasons this reporting requirement is contained within the electricity distribution quality of service regime, having superseded an element of the 'overall standards of performance' which were in place until 31 March 2005. The reporting criteria are set out in the quality of service regulatory instructions and guidance[26] and in summary are:

- the 30/40 day period is counted from the 'commencement date', and
- the commencement date is the date on which all of the following conditions are satisfied:
    - the applicant has formally notified the DNO of the connection requirement
    - the applicant has accepted the terms for connection offered by the DNO
    - the applicant has made any required payments, and
    - third party consents have been obtained where necessary

Consultation responses requested

5.18. Our analysis raises a number of questions about the adequacy of current service standard requirement / reporting. In particular we seek responses on the following questions:

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

[26] http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=11&refer=Networks/ElecDist/QualofServ/QoSIncent

- 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)
- 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?

6. Unmetered electricity connections

- ➔ This chapter summarises latest developments in the market in unmetered electricity connections. Streetlights are the most common form of unmetered connection, but there are other unmetered connections including other "street furniture" such as bus shelter lights and traffic lights
- ➔ Competition remains very limited in unmetered connections, with only about 1,000 connections out of 167,400 involving an ICP or an IDNO.
- ➔ There are currently no incentives or penalties for failure to meet prescribed benchmark service standards by incumbents. Following dissatisfaction with customer service levels in past years from customers such as Local Authorities, Ofgem has agreed with the DNOs that they will report against a series of KPIs for unmetered connection service standards. This is the first year of reporting against these standards, and reporting is voluntary. DNO performance against these standards has been disappointing, and we are seeking responses on what steps Ofgem should take to address this situation.

Total number of unmetered electricity connections

6.1. In 2007-08 167,200 unmetered electricity connections were undertaken (with charges of £54 million levied), of which only about 1000 were installed with the involvement of ICPs or IDNOs. Whilst this represents a 5 fold increase over the previous year, competition in unmetered connections remains very limited.

6.2. Rent-a-jointer and tri-partite arrangements (explained below) provide customers (who are normally Local Authorities (LAs)) with greater choice and the potential for improved service levels in installing new unmetered connections. However take up has been relatively low and has generally involved the LA hiring a DNO jointer under more flexible terms, rather than offering a genuine alternative to engaging the DNO.

Table 6.1 - Total number of unmetered electricity connections, DNO networks

<table>
<tr><th>Connections by:</th><th>2006-07</th><th>2007-08</th></tr>
<tr><td>DNOs</td><td rowspan="2">168,714</td><td>165,620</td></tr>
<tr><td>Companies affiliated to DNOs</td><td>789</td></tr>
<tr><td>Third Parties</td><td>185</td><td>751</td></tr>
<tr><td>Rent-a-jointer / Tri-Partite</td><td>8,658</td><td>16,900*</td></tr>
<tr><td>Total</td><td>77,557</td><td>167,160</td></tr>
</table>

* Figure not included in total as it is already accounted for in the above rows.

Table 6.2 - Total number of unmetered electricity connections, IDNO networks

Connections by:	2006-07	2007-08
IDNOs	0	236
Companies affiliated to IDNOs		0
Third Parties	0	0
Rent-a-jointer / Tri-Partite	0	0
Total	0	236

"Rent-a-Jointer" and Tri-Partite Arrangements

6.3. The Rent-a-jointer scheme allows ICPs and LAs to engage a DNO jointer for a set period of time to complete pre-arranged live working on unmetered connection projects. In 2007-08 a total of nearly 17,000 connections were completed under "Rent-a Jointer" or equivalent schemes.

6.4. Whilst this represents a reasonable number of new connections, we note that only four DNOs reported that they were involved in Rent-a-Jointer arrangements. We have also been provided with anecdotal evidence by LAs and contractors that issues remain to be resolved to ensure that LAs are able to engage independent contractors quickly and efficiently via this scheme.

6.5. Tri-partite arrangements exist between DNOs, ICPs and LAs. An ICP, usually engaged by the LA, liaises closely with the DNO to arrange when and where live jointing will take place for a particular project.

6.6. A total of only 900 connections were completed under tri-partite arrangements. All of these connections were LV connection to DNOs' networks. Only three DNOs were involved in tri-partite arrangements in 2007-08.

Performance against Key Performance Indicators

6.7. Given the lack of effective competition in the provision of unmetered connections, we are keen to ensure that incumbent DNOs meet appropriate customer service standard benchmarks.

6.8. As illustrated in Chapter 3, GT licences contain penalties for failures to meet Guaranteed Standards with regard to the provision of various connection related activities. As illustrated, in Chapter 5 there are licence conditions on DNOs which require them to meet prescribed standards in the provision of non-contestable works in electricity connections (SLC 15). However, there are currently no specific licence conditions or financial incentives associated with customer service standards in the provision of unmetered services by incumbent DNOs.

6.9. Historically, DNOs have agreed individual Service Level Agreements (SLAs) with their clients (LAs). However, performance metrics varied and not all LAs had SLAs. For the first time in 2007-08, the DNOs reported their performance against a standard set of Key Performance Indicators (KPIs), derived from the specimen unmetered SLA originally issued through the ECSG in 2005- see Appendix 9 for discussion of the role of ECSG. These KPIs relate to street lighting and street furniture services provided by DNOs to LAs and include both connections and fault repair performance.

6.10. DNOs have agreed to report against the KPIs across all their unmetered connections work regardless of whether an SLA is in place for a particular local authority area or not[27]. Where possible, DNOs have been asked to agree reported figures with the LAs concerned but not all returns have been subject to this review.

6.11. The KPIs have been set at a level based on historic performance which should be achievable by DNOs on a consistent basis and establish a datum for future service level improvements. Bearing this in mind, the reported performance levels are disappointing. As illustrated in Table 6.3, DNO average performance was below the benchmark standard for 10 of the 11 standards. On average across all 11 standards, DNOs met the target response time on 71% of occasions, against a benchmark of 76%.

6.12. There were also some incomplete data returns, reflecting two separate issues. First, there have been some ambiguities in the initial reporting definitions, which have led some companies to report that they had no relevant instances to report against some performance standards, e.g. no examples where they were required to make high priority fault repairs. We have been working with the ECSG to correct any ambiguities that have led to reporting gaps. Second, Scottish Hydro Electric Power Distribution PLC (SHEPD) were given special dispensation to begin reporting against these KPIs from 1 April 2008- see footnote 29. Therefore there is no data included for SHEPD for the 2007-08 period. NEDL and YEDL were also given special dispensation to begin reporting against the 'new works' KPIs from 1 April 2008.

[27] In the SHEPD area there are presently no SLAs in place and SHEPD received a dispensation under which they only started recording data against KPIs from 1 April 2008

Table 6.3 - DNO average performance against KPI benchmarks

Performance Standard	Performance standard met - DNO Average %	Performance Benchmark %
Emergency response	70	80
High priority fault repair 50% < 1 working day	49	50
High priority fault repair 90%< 10 working day	87	90
Multiple unit fault repair 75% <10 working days	69	75
Multiple unit fault repair 90% <20 working days	89	90
Single unit fault repair 60% <10 working days	59	60
Single unit fault repair 80% <20 working days	81	80
New works 1- 10 jobs. 60% <15 working days	51	60
New works 1 - 10 jobs. 90% <30 working days	77	90
New works 11 - 50 jobs. 70% < 25 working days	67	70
New works 11 - 50 jobs. 90% <35 working days	78	90
All Standards	71	76

6.13. There was some variation between licensees. Three DNOs, namely CE YEDL, CE NEDL and WPD S. Wales met more than 80% of the relevant standards. However, 5 DNOs, met the KPI benchmark for less than 30% of the standards for which they reported data. In rank order (lowest % of KPIs met first) these were CN East, SP Distribution, SP Manweb, EDFE SPN and EDFE LPN. However, overall the DNOs met the KPI benchmark in only 46% of the metrics for which they reported data (56/123 of the KPIs across all DNOs).

6.14. A more detailed DNO by DNO breakdown of performance against these KPI benchmarks is set out in Appendix 8.

Consultation responses requested

6.15. 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.

Table 6.4 - Summary of DNO performance against KPIs connections

Standard	YE DL	NE DL	EDFE EPN	EDFE LPN	EDFE SPN	SP Dist	SP Manweb	SE PD	EN W	CN East	CN West	WPD S. Wales	WPD S. West	DNOs meeting standard
Emergency response	×	×	×	×	×	×	✓	×	✓	✓	✓	×	×	4/13 31%
High priority fault repair 50% < 1 working day	✓	✓	×	n.a	✓	✓	n.a	×	✓	✓	✓	✓	×	8/11 73%
High priority fault repair 90%< 10 working day	✓	✓	✓	n.a	×	✓	n.a	×	✓	×	✓	✓	×	7/11 64%
Multiple unit fault repair 75% <10 working days	✓	✓	n.a	n.a	×	×	×	×	×	×	×	✓	×	3/11 27%
Multiple unit fault repair 90% <20 working days	✓	✓	n.a	n.a	×	×	×	×	×	×	×	✓	×	3/11 27%
Single unit fault repair 60% <10 working days	✓	✓	✓	✓	×	×	×	×	×	×	×	✓	✓	6/13 46%
Single unit fault repair 80% <20 working days	✓	✓	✓	✓	×	×	×	✓	×	×	✓	✓	✓	8/13 62%
New works 1- 10 jobs. 60% <15 working days	n.a	n.a	×	×	×	×	×	✓	×	×	✓	✓	✓	4/11 36%
New works 1 - 10 jobs. 90% <30 working days	n.a	n.a	×	×	×	×	×	✓	×	×	✓	✓	✓	4/11 36%
New works 11 - 50 jobs. 70% < 25 working days	n.a	n.a	✓	×	✓	×	✓	✓	n.a	×	✓	n.a	×	5/9 56%
New works 11 - 50 jobs. 90% <35 working days	n.a	n.a	✓	×	✓	×	×	✓	n.a	×	✓	n.a	×	4/9 44%
All standards	6/7 86%	6/7 86%	5/9 56%	2/7 29%	3/11 27%	2/11 18%	2/9 22%	5/11 45%	3/9 33%	2/11 18%	8/11 73%	8/9 89%	4/11 36%	56/123 46%

7. Electricity connections: Good Practice Review

➔ This chapter summarises the progress that the DNOs have made in implementing Good Practice in electricity connections. Generally, the returns suggest that although a reasonable degree of progress has been made in implementing Good Practice, significant work remains. We also note that the findings in this chapter reflect the DNOs' views of their performance against Good Practice. This has not been independently verified.

7.1. The Connections Review contained proposals for promoting convergence around Good Practice in electricity connections, with the following objectives:

- to provide consistent service levels for customers without impinging on DNOs' distribution business management
- to facilitate competition in connections by ensuring that ICPs and IDNOs have access to good levels of service and information from DNOs and have recourse to an effective dispute resolution process where this does not occur, and
- to encourage improved levels of service for customers who obtain their electricity connection from the incumbent DNO either by choice or because there is no alternative at their location.

7.2. Whilst it would be inappropriate and infeasible for Ofgem to dictate in detail the way DNOs manage their relationships with their customers or organise their connections businesses, we do expect them to offer a consistently high level of customer service in key areas. We sought to move forward on a consensus basis with DNOs since they should have a good understanding of customer needs in their respective distribution services areas and the way in which they can be met. This approach was also designed to minimise the risk of unintended/perverse consequences of customer service edicts by the regulator.

7.3. Accordingly, following consultation we set out (in Chapter 4 of our February 2007 proposals document) a number of Good Practices, grouped under six headings, which we expected DNOs to be conforming to by 2008. In autumn 2007 we carried out a series of visits to DNO offices to discuss progress on the adoption (or continuance) of the Good Practices, using a 'checklist' based upon the Good Practices outlined in the February 2007 document. In July 2008 we carried out a further survey on good practice features using the 'checklist'[28] devised for the 2007 visits. The results of the July 2008 survey are summarised below. More detailed results of the survey, along with the results of the autumn 2007 visits (which also addressed additional points) are presented in more detail in Appendix 10.

[28] A few additional Good Practice items, in keeping with the theme of the February 2007 document were added to the checklist after the proposals document was published. Those items (marked with an asterisk in the lists at Appendix 10) were therefore not expected to have been put in place by the time of this review.

7.4. In July 2008, we asked each DNO group to report against 38 Good Practice areas on the checklist, which reflect the six groupings. We have summarised the results in Table 7.1, showing the number of green, amber and red 'traffic light' indicators we scored under each of the six headings.

Table 7.1 - Summary findings of Good Practice review (July 2008 returns)

General area	Green indicators	Amber indicators	Red indicators
Improving customer awareness	4	0	0
Managing the customer interface	7	5	1
Streamlining the applications process	1	3	0
Standardising the applications process	1	2	1
Dispute handling	2	8	0
Cost breakdown and POC information	0	3	0
Total	15	21	2

7.5. We have scored the traffic light green where Good Practice is now universal or predominant, amber where it is not yet predominant, but some reasonable progress has been made, and red where it is sporadic to non-existent. Overall, based on the DNOs' reports we judged that the traffic lights were green against 15 checklist items, amber against 21 checklist items and red against 2 checklist items. This indicates that overall, some significant progress has been made in implementing good practice, although significant work-in-progress remains. DNOs appear to be reporting greatest progress in the categories associated with "increasing customer awareness" and "managing the customer interface".

7.6. However, we are well aware that these judgements have been made only on DNOs' views of progress.

Consultation responses requested

7.7. No attempt has been made to independently verify this information at this stage. Therefore we are keen to seek consultative feedback from other stakeholders. In particular, we seek feedback on the following questions:

- In the light of experience, did Ofgem's Good Practice Review target the appropriate areas?
- 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.)

8. Investigations and determinations (gas and electricity)

- In 2007-08 Ofgem commenced or completed a number of investigations into potential breaches of connections related licence conditions in 2007-08. A summary of relevant investigations is set out in this chapter
- Ofgem also has a role to determine connections related disputes (Determinations), where the disputes cannot be resolved by the parties concerned or by energywatch (energywatch is being replaced by a package of measures from October 2008- see link in footnote 32 for more details). This chapter summarises connections determinations made by Ofgem in 2007-08.

Connections Investigations

8.1. Once Ofgem has decided that there are reasonable grounds for suspecting there has been a breach of any of the legislation it has the power to enforce, it may commence an investigation.

8.2. Investigations usually involve several stages. Ofgem may request information from the company complained about and third parties either informally or using its formal powers under the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998 or the Enterprise Act 2002. Once the information has been gathered and analysed, Ofgem will produce a document which sets out the case against the company which is the subject of the complaint. The company will then have the opportunity to respond to the case. Ofgem will consider the company's response before deciding on the appropriate course of action.

8.3. In 2007-08 we conducted the following investigations into connections issues:

- investigation into compliance by EDF with SLC 4C of its distribution licence
- investigation into Central Networks East and Central Networks West possible non-compliance with SLC 4C(2)(a) and (c)2 of their Electricity Distribution Licences, and
- investigation into the alleged non-compliance by SP Distribution Limited with Standard Licence Condition 4C of their Electricity Distribution Licence.

8.4. The following penalties were levied in the same period (2007-08):

- financial penalty decision following a finding of breach by Northern Gas Networks Limited with its obligations under Standard Special Licence Condition D10[29] of the Gas Transporters Licence.[30]

[29] As discussed in Chapter 3
[30] This penalty resulted from an investigation launched in the previous period.

8.5. None of the investigations listed in paragraph 8.3 resulted in the Authority levying a fine:

- in the case of the EDF 4C investigation the Authority found that there was insufficient evidence to find a breach of SLC 4C(2)(a). However, during the course of the investigation it became clear that there were low levels of competition from IDNOs and ICPs in the Licensees' areas
- in the case of the Central Networks East and Central Networks West 4C investigation the Authority considered that both companies were in breach of SLC 4(C)(2)(a) and (c) because they discriminated against IDNOs providing connection services in the provision of non-contestable connection services and information. Central Networks contended that their former policy was justified on safety grounds, but the Authority did not accept that Central Network's policy was a proportionate response to safety concerns. However, the Authority did not impose a financial penalty since the Authority had no grounds to believe that Central Network's policy was motivated by factors other than safety, they co-operated fully with the investigation and acted reasonably quickly to bring the breach to an end, and
- the investigation into SP Distribution Ltd's compliance with 4C was closed. The investigation found no evidence which would support a finding that the Licensee had discriminated against IDNOs.

8.6. In September 2008 we commenced an investigation of EDF Energy Networks (EDFE LPN, EDFE SPN, EDFE EPN) regarding breach of Standard Condition 4D (now SLC12), Requirement to Offer Terms for Use of System and Connection.

8.7. Further information about these investigations can be found at www.ofgem.gov.uk under Enforcement -> Investigations.

Connections Determinations

8.8. There are circumstances in which a dispute between an electricity distributor or gas transporter and a customer may be referred to the Gas and Electricity Markets Authority for a determination. These can arise under statute (particularly the Gas Act 1986 and the Electricity Act 1989) or under the provisions of licences. Where a dispute arises, Ofgem will expect that the parties will seek to resolve it between themselves or (until 1 October 2008) with assistance from energywatch. If these efforts are unsuccessful the matter may be referred to Ofgem for determination.

8.9. Since1 October there have been new consumer arrangements which replace energywatch[31]. Where a domestic or micro business customer dispute cannot be

[31] energywatch is being replaced by a package of measures. For more details see the following link: http://www.ofgem.gov.uk/Media/FactSheets/Documents1/changestoconsumer.pdf

resolved using a company's internal escalation process the customer will have the option to refer the matter to the Energy Ombudsman Service. Customers or the network company will be able to refer the matter to Ofgem for determination if the outcome of the Ombudsman's consideration is unacceptable to either party.

8.10. In 2007-08 Ofgem undertook eight determinations concerning connections to the distribution system. Five of these cases are still in the determination process. Of the three determinations where a decision has been made Ofgem found in favour of the customer in two of the cases.

8.11. Further details of the determinations handled can be found on Ofgem's Electronic Public Register (EPR). A link to the EPR can be found at the bottom of the Ofgem homepage www.ofgem.gov.uk.

Appendices

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Appendix 1 - Consultation responses and questions

1.1. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document. In particular, we would like to hear respondents views as to why competition has been slow to develop in electricity connections, and what measures, if any, should be implemented to develop it.

1.2. We would especially welcome responses to the specific questions which we have set out throughout the document and which are replicated below.

1.3. Responses should be received by Thursday 13th November and should be addressed to:

Connections team
Distribution
Ofgem
9 Millbank
London
SW1P 3GE

Connections@ofgem.gov.uk

1.4. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example under the Freedom of Information Act 2000.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if respondents are asked to put any confidential material in the appendices to their responses.

Chapter two:

Question one:
Is the data we have collected reasonably representative of connection charges levied by GDNs and IGTs, and adoption payments made by IGTs and GDNs?

Question two:
Are adoption payments the main reason why ICPs have a much higher market share in connection 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?

Question three:
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?

Question four:
What factors lead IGTs to charge lower connection charges? Are ICPs/IGTs more efficient at installing the connection or are other factors at play?

Question five:
What impact does the contrasting nature of GDN and IGT price controls have on competition in gas connections

Chapter three:

Question one:
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.

Chapter four:

Question one:
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:

a. The relative price control operating in gas gives IGTs a relatively high revenue compared to their underlying operating cost, whereas margins are slimmer for IDNOs?

b. 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?

Chapter five:

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

Question two:
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. 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 straightforward connections, but no comparable service standards with regard to non-straightforward connections (i.e. the majority of larger connections).

Question three:
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?

Chapter Six:

Question one:
In the 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 licence conditions with regard to performance standards in unmetered connections.

Chapter seven:

Question one:
In the light of experience, did Ofgem's Good Practice Review target the appropriate areas?

Question two:
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.)

Appendix 2 – The Authority's Powers and Duties

1.1. Ofgem is the Office of Gas and Electricity Markets which supports the Gas and Electricity Markets Authority ("the Authority"), the regulator of the gas and electricity industries in Great Britain. This Appendix summarises the primary powers and duties of the Authority. It is not comprehensive and is not a substitute to reference to the relevant legal instruments (including, but not limited to, those referred to below).

1.2. The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002 and the Energy Act 2004, as well as arising from directly effective European Community legislation. References to the Gas Act and the Electricity Act in this Appendix are to Part 1 of each of those Acts.32

1.3. Duties and functions relating to gas are set out in the Gas Act and those relating to electricity are set out in the Electricity Act. This Appendix must be read accordingly33.

1.4. The Authority's principal objective when carrying out certain of its functions under each of the Gas Act and the Electricity Act is to protect the interests of consumers, present and future, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the shipping, transportation or supply of gas conveyed through pipes, and the generation, transmission, distribution or supply of electricity or the provision or use of electricity interconnectors.

1.5. The Authority must when carrying out those functions have regard to:

- the need to secure that, so far as it is economical to meet them, all reasonable demands in Great Britain for gas conveyed through pipes are met
- the need to secure that all reasonable demands for electricity are met
- the need to secure that licence holders are able to finance the activities which are the subject of obligations on them[34],and
- the interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.[35]

[32] entitled "Gas Supply" and "Electricity Supply" respectively.
[33] However, in exercising a function under the Electricity Act the Authority may have regard to the interests of consumers in relation to gas conveyed through pipes and vice versa in the case of it exercising a function under the Gas Act.
[34] under the Gas Act and the Utilities Act, in the case of Gas Act functions, or the Electricity Act, the Utilities Act and certain parts of the Energy Act in the case of Electricity Act functions.
[35] The Authority may have regard to other descriptions of consumers.

Subject to the above, the Authority is required to carry out the functions referred to in the manner which it considers is best calculated to:

- promote efficiency and economy on the part of those licensed[36] under the relevant Act and the efficient use of gas conveyed through pipes and electricity conveyed by distribution systems or transmission systems
- protect the public from dangers arising from the conveyance of gas through pipes or the use of gas conveyed through pipes and from the generation, transmission, distribution or supply of electricity
- contribute to the achievement of sustainable development, and
- secure a diverse and viable long-term energy supply.

1.6. In carrying out the functions referred to, the Authority must also have regard, to:

- the effect on the environment of activities connected with the conveyance of gas through pipes or with the generation, transmission, distribution or supply of electricity
- the principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed and any other principles that appear to it to represent the best regulatory practice, and
- certain statutory guidance on social and environmental matters issued by the Secretary of State.

1.7. The Authority has powers under the Competition Act to investigate suspected anti-competitive activity and take action for breaches of the prohibitions in the legislation in respect of the gas and electricity sectors in Great Britain and is a designated National Competition Authority under the EC Modernisation Regulation[37] and therefore part of the European Competition Network. The Authority also has concurrent powers with the Office of Fair Trading in respect of market investigation references to the Competition Commission.

[36] or persons authorised by exemptions to carry on any activity.
[37] Council Regulation (EC) 1/2003

Appendix 3 - Glossary

A

ACB Affiliated Connections Business

A connections business which is a holding company of a distribution network operator, subsidiary of such a holding company or subsidiary of a distribution network operator (as defined within the Companies Act 1985).

D

DG Distributed Generation

Distributed generation is also known as embedded or dispersed generation. It is an electricity generating plant connected to a distribution network rather than the transmission network. There are many types and sizes of distributed generation facilities. These include Combined Heat and Power (CHP), wind farms, hydro electric power or one of the new smaller generation technologies.

DNO Distribution Network operator (Electricity)

There are 14 Electricity Distribution Network Operators who carry electricity from the transmission system and some distributed generators to industrial, commercial and domestic end users. They have distribution service areas which correspond to those of the former public electricity suppliers (before privatisation in 1990). They are owned by seven different corporate groups.

DPCR Distribution Price Control Review

The price review applicable to electricity distribution network operators. The Fifth price review (DPCR5) is currently being developed.

DSA Distribution Service Area

Electricity DNOs each have a distribution service area. With the exception of embedded independent networks they are monopoly operators within that area and are subject to particular licence requirements accordingly.

E

ECSG Electricity Connections Steering Group

Advises Ofgem on the measures that are required to support the development of competition in the electricity connections market.

EHV Extra High Voltage

Over 22 kV but less than or equal to 72 kV

EPR Electronic Public Register

The online register set up by Ofgem to store records of determinations, Exemptions, Industry Code Determinations, Licences, Metering and Standard Licence Conditions. http://epr.ofgem.gov.uk/

G

GDN Gas Distribution Network (Operator)

There are five Gas Distribution Network Operators who transport Gas from the National transmission system to final customers. Up until June 2005 all eight area networks in the country were owned and operated by National Grid Gas but at that time, four area networks covered by four licences were sold to three other corporate groups, whilst four were retained by National Grid Gas plc under one licence.

GS Guaranteed Standard

The Gas Act 1986 (as amended) ("the Gas Act") provides for the Authority to make regulations for guaranteed standards of Performance. In the light of these provisions, standards of performance for gas transporters were introduced for the first time in April 2002. Guaranteed standards of performance set service levels that must be met in each individual case and are made with the consent of the Secretary of State for Trade and Industry.

GT Gas Transporter

Another word to describe a GDN or IGT

H

HV High Voltage

Exceeds 1 kV but does not exceed 22 kV

I

ICP Independent Connections Provider

An independent connections provider not affiliated to a distribution network operator.

IDNO Independent Distribution Network Operator (Electricity)

In 2007-08 there were four independent electricity distribution network operators. IDNOs own and operate various small networks embedded within DNO networks. IDNOs do not have DSAs.

IGT Independent Gas Transporter

In 2007-08 there were eleven IGT licence holders. IGTs own and Operate various small networks embedded within GDN networks.

IN Independent Network

For the purpose of this document, 'independent network' refers to a network within a host DNO's DSA which is owned and operated either by an IDNO or by another DNO.

Intermediate Pressure

Gas term. Intermediate Pressure is defined as any pressure between 2 bar and 7 bar. It is measured at the inlet to the Primary Meter installation.

K

KPI Key Performance Indicator

A set of benchmarks to be met by DNOs. These are not backed up with any specific licence conditions or financial incentives.

L

Low Pressure

Gas term. Low Pressure is defined as any pressure not exceeding 75 mbar and is measured at the inlet to the Primary Meter Installation.

LTS Local Transmission System

Greater than 7 bar pressure.

LV Low Voltage

Does not exceed 1kV

M

Medium Pressure

Gas term. Medium Pressure is defined as any pressure between 75 mbar and 2 bar. It is measured at the inlet to the Primary Meter Installation

P

POC Point of Connection

The point at which new works are connected to the existing distribution network.

R

Regulatory Year

From 1 April - 31 March.

S

SLC Standard Licence Condition

A Condition of either the Electricity or Gas Distribution licence.

U

UIP Utility Infrastructure Provider

An independent connections provider not affiliated to a gas distribution network operator

Index of Licensee names

Abbreviation	Licensed entity	Group
NEDL	Northern Electric Distribution Ltd	CE Electric UK
YEDL	Yorkshire Electricity Distribution Plc	
BG PL	British Gas Pipelines Ltd	Centrica Plc
EDFE EPN	EDF Energy Networks (EPN) Plc	EDF Energy
EDFE LPN	EDF Energy Networks (LPN) Plc	
EDFE SPN	EDF Energy Networks (SPN) Plc	
ENW	Electricity North West Ltd	Electricity North West
Energetics	Energetics Electricity Ltd	Energetics Networked Energy
Energetics	Energetics Gas Ltd	
CN West	Central Networks West Plc	E.ON UK
CN East	Central Networks East Plc	
ESP PL	ESP Pipelines Ltd	ESP Gas Group Ltd
ES PL	E.S. Pipelines Ltd	
ESP Cons	ESP Connections Ltd	
ESP Nwks	ESP Networks Ltd	
ESP	ESP Electricity Ltd	
Fulcrum PL	Fulcrum Pipelines Ltd	Fulcrum
IPNL	Independent Power Networks Ltd	The Inexus Group
IPL	Independent Pipelines Ltd	
QPL	Quadrant Pipelines Ltd	
ENC	The Electricity Network Company Ltd	International Energy Group
GTC PL	GTC Pipelines Ltd	
NGG NW	National Grid Gas North West Plc	National Grid
NGG WM	National Grid Gas West Midlands Plc	
NGG EE	National Grid Gas East of England Plc	
NGG LDN	National Grid Gas London Plc	
Northn GNW	Northern Gas Networks Ltd	Northern Gas Networks Ltd
Scotld GNW	Scotland Gas Networks Plc	Scotia Gas Networks plc
Southn GNW	Southern Gas Networks Plc	
SSE Hydro	Scottish Hydro Electric Power Distribution Plc	Scottish and Southern Energy
SSE south	Southern Electric Power Distribution Plc	
SSE PL	SSE Pipelines Ltd	
SP Dist.	SP Distribution Ltd	Scottish Power Ltd
SP Manweb	SP Manweb Plc	
Wales & West	Wales and West Utilities Ltd	Wales and West Utilities
WPD S. Wales	Western Power Distribution (South Wales) Plc	Western Power Distribution
WPD S.West	Western Power Distribution (South West) Plc	

Appendix 4 - Feedback Questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

Please send your comments to:

Andrew MacFaul
Consultation Co-ordinator
Ofgem
9 Millbank
London
SW1P 3GE
andrew.macfaul@ofgem.gov.uk