Gas and Electricity Connections Industry Review 2008-09

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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 sets out the latest developments in the gas and electricity connections market in 2008/09. In the 2008/09 period around 630,000 connections were made with a total value of around £710 million.

The operation of the connections markets are important to customers who require a gas and or an electricity supply. As competition is not yet developed enough to ensure that customers receive a good level of service, it is Ofgem’s role to monitor service standards. Therefore, this document also provides an overview of the level of service customers are receiving.

In this year's review we consider the development of competition in both markets and set out the key trends emerging. We also set out how licensed companies have complied with their connections related obligations. We have included in this document an overview of the significant recent steps we have taken through the Electricity Distribution Price Control Review to improve the level of service that customers receive from their Electricity Distribution Network Operators and to support the development of competition in this emerging market. The changes in this respect, which have taken a considerable amount of effort by the whole industry (including licensees, independents and customers) to develop, are the main changes in our connections policy following the publication of last year’s document.

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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. However, the construction, owning (and operating) the network assets required to extend the network or connect to the existing network is a 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 the gas and electricity connections markets. Competition has grown rapidly in the gas connections area, 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 the electricity connections market has developed much less rapidly.

In last year’s CIR¹, we set out our concerns about the development of competition in the electricity connections market. We flagged up our intentions to take action through the Distribution Price Control Review process (DPCR5) and sought views on the extent of changes required through the DPCR5 process. Concerns have been persistently raised about poor performance, including delays in completing connection works. We have therefore taken steps through DPCR5 to review further the changes that are required to the electricity connections market. This has been an important policy area for DPCR5. We recently published our Final Proposals² which set out in detail the changes we have made and an overview is provided in this document.

**Associated documents**

- Electricity Distribution Price Control Review – Final Proposals (145/09)  

- Electricity Distribution Price Control Review – Initial Proposals – Incentives and Obligations (93/09)  

- Past connections Industry Review Documents 2004 – present  
  [http://www.ofgem.gov.uk/Networks/Connectns/ConnIndRev/Pages/ConnIndRev.aspx](http://www.ofgem.gov.uk/Networks/Connectns/ConnIndRev/Pages/ConnIndRev.aspx)

¹ Connections Industry Review 2007-08 (143/08)  

² Electricity Distribution Price Control Review – Final Proposals (145/09)  
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Summary

The construction, ownership, and operation of the network assets required to extend the network or to connect to the existing network is a competitive activity. Ofgem³ has sought to promote competition in the provision of connections to gas and electricity distribution networks with a view to allowing customers access to good quality connections service at value for money, and in the expectation that competition might also bring forward innovation in the technology, processes and commercial arrangements used in the connections markets.

The quality of service provided and the cost of obtaining connections is an important matter for consumers. In 2008-09 there were around 630,000 new connections and the direct value of the market was over £710 million, the lions’ share of which (almost £650 million) relates to electricity connections. The level of service that customers receive when sourcing a connection is very important. For example, delays in getting connections, especially in the build phase, can have a 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. Delays in getting a connection can slow the supply of new houses to the market.

The number of new and modified connections dropped considerably from 2007-08 to 2008-09 in both the gas (a 19 per cent drop) and metered electricity (a 23 per cent drop) markets, most likely due to the economic downturn.

Competition

The gas connections markets opened to competition in 1998, followed two years later in electricity. A customer seeking a new or modified connection can contact their local network provider (electricity DNO or gas GDN), can have the connection assets installed by an independent provider (electricity ICP or gas UIP), or they can approach a licensed independent Operator (electricity IDNO or gas IGT). For the second year running the share of new entrants in the gas connections market exceeded the market share of the GDNs. In contrast, market penetration of new entrants in the metered electricity connections market has risen to 11 per cent, compared to seven per cent in 2007-08 and six per cent in 2006-07. While this is an increase in competition in the electricity market, independents’ market share remains low. We are concerned at the slow pace at which competition is developing and in Distribution Price Control 5 (‘DPCR5’) Final Proposals we introduced new mechanisms aimed at encouraging more competition in the electricity connection market. One such mechanism is that DNOs can earn an unregulated margin on connection in market segments where DNOs can demonstrate that competition is effective. New charging arrangements for independent operators have been introduced and will be further refined and harmonised in April this year, and this should further facilitate competition. We are also currently investigating Electricity North West Limited regarding allegations of abuse of a dominant position under Section 18 of the Competition Act.⁴

³ 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.
⁴ http://www.ofgem.gov.uk/About%20us/enforcement/Investigations/CurrentInvest/Pages/CurrentInvstgtns.aspx
Regulation

Where there are natural monopolies, or where competition is not yet effective, it is our role to protect customers by appropriate regulation. Regulation can also help prevent incumbents from gaining unfair advantage over their competitors by discriminating against them in the provision of monopoly 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 connections framework has included Mandatory Gas Performance Standards. These set out the requirement on IGT and GDNs to quote for work and to complete works within particular timeframes. There are financial penalties for failure to meet these standards. On average performance by GDNs against the gas guaranteed standards continued to be good in 2008-09, average IGT performance however fell, influenced in part by ESP Networks achieving only 60 per cent against one of the standards. Performance of some companies against the accuracy of quotations standard has also raised concerns as National Grid Gas East of England and IPL found a high proportion (32 per cent and 40 per cent respectively) of quotations reviewed to be inaccurate. While we do continue to receive some requests from gas customers for Ofgem to determine disputes, it is clear that there is a better standard of service in the gas market, when compared to the electricity market, perhaps because of the greater degree of competition.

Electricity connections related licence conditions and voluntary performance standards have been in place for some time. As in 2007-08, DNO performance in 2008-09 against the voluntary unmetered key performance indicators (‘KPIs’) was disappointing, especially that of EDF Energy’s London and Southern network companies. On average performance against licence conditions relating to the quality of service DNOs provide to independents remained high. However, we continue to have concerns that a significant number of competitive connections are falling outside the scope of the reporting requirements for Standard Licence Condition (SLC) 15.

We continue to receive a significant number of complaints from electricity customers and ICPs about delays in getting connections and the generally poor service they receive from incumbent DNOs. In 2008, we undertook an investigation into EDF Energy’s compliance with its licence obligation to provide connection offers in the three month timeframe (SLC 12). As a result of our investigation we fined the company £2 million. We have also commenced four more investigations (Scottish Hydro Electric Power Distribution, Central Networks East and Central Networks West and Electricity North West ) in relation to compliance with SLC12 and we are concerned that performance in this respect has been poor. The combination of these concerns means that we need to continue to closely monitor the operation of the electricity connections market.

It is clear that competition is not yet developed enough to rely on it to protect electricity customers and so we have looked to introduce further regulation. It was decided in DPCR5 Final Proposals to introduce standards of performance in relation to metered and unmetered electricity connections, these will enhance customer protection measures and improve the level of service to all electricity connection customers.

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1. Introduction

This chapter begins with an introduction to the connections industry, explaining the background to the evolution of competition and the key players in the market. It also provides an overview of the changes we have progressed through the Electricity Distribution Price Control Review. It describes the annual 2008-09 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 the construction of new assets required to extend the network or connect to the existing network. The installation (construction) of assets to support new connections is distinct 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 promoting competition in the electricity connections market.

Connections sourced from a host distributor

1.3. Customers who wish to have a new connection to a distribution network have three options available to them. First, the customer can approach the local incumbent distributor and ask the incumbent to quote for and install the necessary 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 and requiring multiple connections or a developer of a large commercial development.
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 facilities 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 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 from the point of connection to the incumbent’s network, 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 an
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.

**Figure 1.1- Competition in the installation of connection and operation of the network**

<table>
<thead>
<tr>
<th>Network operator or affiliate (GDN/IGT or DNO/IDNO)</th>
<th>Network operator</th>
<th>Independent (IGT/IDNO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer approaches incumbent for connection</td>
<td></td>
<td>Customer approaches IGT/IDNO for connection</td>
</tr>
<tr>
<td>Incumbent installs connection assets, charging customer upfront for cost of installing assets</td>
<td></td>
<td>IGT/IDNO installs connection assets, charging customer upfront for capital cost of installing assets</td>
</tr>
<tr>
<td>Incumbent then operates and maintains assets for on-going transportation revenue</td>
<td></td>
<td>IGT/IDNO then operates and maintains assets for on-going transportation revenue</td>
</tr>
<tr>
<td><strong>No competition for incumbent</strong></td>
<td></td>
<td><strong>Competition for incumbent in asset installation and operation</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Connection/installer</th>
<th>Network operator</th>
<th>Independent (IGT/IDNO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer approaches ICP for connection</td>
<td></td>
<td>Customer approaches ICP for connection</td>
</tr>
<tr>
<td>ICP installs connection assets, charging customer upfront for capital cost of installing assets</td>
<td></td>
<td>ICP installs connection assets, charging customer upfront for cost of installing assets</td>
</tr>
<tr>
<td>ICP transfers assets to incumbent who operates and maintains assets for on-going transportation revenue</td>
<td></td>
<td>ICP transfers assets to IGT/IDNO who operates and maintains assets for on-going transportation revenue</td>
</tr>
<tr>
<td><strong>Competition for incumbent in asset installation and operation</strong></td>
<td></td>
<td><strong>Competition for incumbent in asset installation and operation</strong></td>
</tr>
</tbody>
</table>

**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. At present, 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’. 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. In addition, there are a number of areas in 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, for example, to streetworks legislation. In such cases, 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 the UK. Central Networks, CE Electric, Scottish Power, and
SSE own two DNOs each, while Electricity North West owns one and EDF Energy owns
three. 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 six licensed IDNOs. These are Independent
Power Networks Limited, The Electricity Network Company Ltd, Energetics Electricity
Limited, ESP Networks Limited, EDF IDNO and ECG Distribution Limited. These IDNOs do
not have a DSA and operate on a national basis.

Connections in DPCR5

1.11. Connections has been an important policy area for DPCR5. We have liaised
extensively with industry stakeholders to develop a package of changes through the DPCR5
process. The key issues we considered relate to the following:

- the introduction of new connections related standards of performance that are designed
to improve the level of service that customers receive from their host DNO. This is

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8 Standard Licence Condition 15
9 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 they have to apply for a licence from the local authority under Section
50 of the NRSWA in respect of each works project
supported by a new licence condition that requires DNOs to meet the standards in at least 90 per cent of cases

- the introduction of a quotation accuracy scheme that enables domestic customers and small commercial customers to challenge the accuracy of their quotation
- measures to improve the connections service DNOs provide in return for allowing them to earn a regulated margin of four percent on competitive connections, and
- the introduction of competition tests which enable DNOs to demonstrate the steps taken to facilitate competition in their area(s) and more defined market segmentation that identifies which market segments can attract a connections margin.

1.12. A high level overview of these changes is set out below. For a more in-depth discussion of these changes, please refer to our Final Proposals document.  

**Connections standards**

1.13. It was decided in DPCR 5 Final Proposals to introduce new standards of performance. Standards aimed specifically at metered and unmetered electricity connections. Through liaison with industry stakeholders we have developed a package of standards that cover the full lifespan of obtaining metered or unmetered connections. Activities covered include:

- quotations and budget estimates,
- price accuracy reviews
- connections scheduling
- commencement and completion of works, and
- unmetered fault repair.

1.14. In certain circumstances, where a standard is not met the DNO will be required to make a compensation payment to the customer. We will also introduce a new licence condition that requires the DNOs to meet these standards in at least 90 per cent of cases in each of the following segments:

- all metered standards relating to budget estimates and quotations
- the rest of the metered standards, and
- all unmetered standards.

1.15. Where this licence condition is breached it could result in enforcement action being taken by the Authority.

1.16. We are giving all DNOs until 1 October 2010 to fully implement, and be able to record and report, their performance against the standards.

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10 Electricity Distribution Price Control Review Final Proposals:
Connections Industry Review 2008-09 29 January 2010

Connections competition tests

1.17. It was decided in DPCR5 Final Proposals to encourage DNOs to do all they can to stimulate effective competition in connections we will allow them to earn an unregulated margin on their competitive activities if they pass competition tests. We will judge whether a DNO has passed the tests having consulted and after looking at a range of indicators typically used by competition authorities (including Ofgem) when assessing whether competition is effective. These will include:

- market shares
- price
- service quality, and
- barriers to entry.

1.18. Ofgem acknowledges that there are cases where there could be no competition through no fault of the incumbent DNO. Therefore the margins will only apply to those segments of the market where competition can be developed in practice. We will consult on our ‘minded to’ position (whenever assessing whether a DNO has passed the defined competition test) before reaching our final decision. We will also conduct a full competition review of any outstanding market segments that have not passed the test by the end of December 2013 and may refer any matters of concern to the Competition Commission.

Post DPCR5 implementation issues

1.19. Whilst we have set out in DPCR5 Final Proposals the main policy changes we will make through DPCR5, there are a number of matters that need to be taken forward to implement and support the overall package. These include:

- The development of a Regulatory Instructions and Guidance (RIGs) document to provide detailed guidance on the operation of the standards, the overarching licence condition, and the associated reporting requirements, and

- The development of a charging template to support the quotation accuracy review scheme and to provide those customers that are not eligible to raise a quotation accuracy challenge, with more detail on how their connection costs have been derived. This will enable customers to cross-check their quotation against the DNOs’ published template.
Modifications to Connection Charging Methodologies.

1.20. Under SLC 13, DNOs are required to publish approved methodologies describing the basis of their charges for connection to and use of the distribution system.\textsuperscript{11}

1.21. DNOs can propose changes to the methodologies at any time. They are also obliged by SLC 13.2 to review their methodologies at least annually and make such changes as would allow the methodology to better meet the relevant objectives set out in SLC 13.3, these objectives are:

- that compliance with the methodology facilitates the discharge by the licensee of the obligations imposed on it under the Act and by the licence
- that compliance with the methodology facilitates competition in the generation and supply of electricity, and does not restrict, distort, or prevent competition in the transmission or distribution of electricity
- that compliance with the methodology results in charges which reflect, as far as is reasonably practicable (taking account of implementation costs), the costs incurred by the licensee in its Distribution Business, and
- that, so far as is consistent with the above, the methodology, as far as is reasonably practicable, properly takes account of developments in the licensee’s Distribution Business.

1.22. Up to date copies of the DNO charging methodology statements and charging statements are available from the DNOs’ websites.

Structure of charges project

1.23. In tandem with our work on DPCR5, we have been continuing work on the structure of charges project. The purpose of this project is to introduce a common distribution charging methodology to ensure that use of system charges are more cost reflective across the 14 DNOs. While DPCR5 sets the revenues that can be collected from all customers, the charging methodology determines how that revenue is collected from different customer groups.

1.24. DNOs had a formal requirement to deliver common use of system charges at lower voltages for implementation from 1 April 2010. We approved the common use of system charging methodology for lower voltages in November 2009, and charges based on the new

\textsuperscript{11} SLC 14 also requires DNOs to produce charging statements listing their charges. These are published separately, and are subject to a different approval (the Authority approves the form only) and change process (changes must be made with three months notice to the Authority).
models will be introduced from 1 April 2010 along with common arrangements governing how changes may be made to the common methodology, which will allow parties materially affected by the use of system charging methodology to propose changes to it. The structure of charges project has been ongoing for a number of years and incorporates key developments in more cost reflective charges to customers, particularly in relation to generator charging and charges to IDNOs.

1.25. DNOs do not have a similar formal licence requirement covering a common connection charging methodology (the method for determining charges should already be common), but have been working together with industry parties on producing a common statement of the connection charging methodology which builds on best practise and seeks to improve the methodology by making it as transparent and clear as possible. We expect this work to be formally brought to Ofgem shortly seeking to modify the DNOs’ existing connection charging methodologies.

Interim IDNO charging

All DNOs have brought forward interim IDNO charging methodology modifications prior to the introduction of the common distribution charging methodology. These modifications introduce IDNO specific charges for the first time and have been applied retrospectively from 1 April 2009.

The 2008-09 Connections Industry Review process

1.26. In June 2009 Ofgem wrote to each of the licensed gas and electricity distribution companies requiring them to provide information for the 2008-09 CIR. 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

1.27. This document is the 6th in an annual series of Connections Industry Review (CIR) publications published by Ofgem. It discusses trends in the gas and electricity connections markets and highlights performance against connections related licence obligations as well as summarising connections related investigations and determinations that we have conducted throughout 2008/09.

1.28. Following the practice of previous years, this year’s CIR publication presents data collected by Ofgem from industry participants. We include detailed information on compliance with connections related obligations and we also discuss the policy that had progressed through the DPCR5 process.

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12 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.
1.29. We are not seeking commentary on the development of competition in this year’s document. We raised a number of questions in last year’s publication which were designed to give us clarity on the steps necessary to support competition and improve service levels that apply in the electricity connections market. We took this work forward through the DPCR5 process. We are not planning further wholesale changes in the connections market at this point in time as it will take time for the changes set out in DPCR5 Final Proposals to be implemented.

1.30. Going forward, we expect to adapt the CIR to set out, in particular, reporting against the various measures that we have developed through DPCR5. The CIR could include the majority of customer related information that distributors report against (for example, interruptions data). We are yet to finalise our thinking and we will work with industry to explore the extent of changes that we may wish to make in this respect.

1.31. This document is in two volumes:

- **Volume 1** sets out the competitive market for connections and summarises the key market trends data. We also include data on compliance reporting we have received against various connections related obligations that apply to DNOs and GDNs, such as performance against customer service standards.

- **Volume 2** contains a number of additional appendices with more detailed background information and/or data.

1.32. Volume 1 of the document is structured as follows:

- **The competitive market for connections - Chapter 2.** This chapter summarises key developments in the metered and unmetered electricity connections markets. Competition in both segments of this market remains limited. We also summarise key developments in the gas connections markets, where the number of new/modified connections to IGT networks (51 per cent) exceeded new/modified connections to GDN networks for the second year running.

- **Performance against customer service standards - Chapter 3.** This chapter discusses gas and electricity compliance issues. On the electricity side, we summarise performance against SLC15 and SLC19 of the electricity distribution licence. We also set out last year’s performance against the connections 30 and 40 days standards and the voluntary unmetered key performance indicators. On the gas side, we set out performance against the gas connections standards of performance. We also provide a high level overview of the connections related investigations we have taken forward and summarise the determinations we have made in both markets.

1.33. Volume 2 of the document contains more detail on the data summarised in volume 1 and 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, contains maps of DNO and GDN areas.
Appendix 6 presents more detailed tables and figures with disaggregated data on the metered electricity connections market.

Appendix 7 presents more detailed tables and figures with disaggregated data on the unmetered electricity connections market.

Appendix 8 presents more detailed tables and figures with additional disaggregated data on the gas connections market.

Appendix 9 presents more detailed tables and figures with additional disaggregated data on the GDNs' and IGTs' performance against gas connections performance standards, as well as DNOs and IDNOs performance against SLC 15 and the unmetered KPIs.

Appendix 10 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.
2. The competitive market for connections

This chapter summarises latest developments in the electricity and gas connections market. A more detailed overview is included in the accompanying appendix document.

- Only six per cent of electricity connections were to IDNO networks, while 51 per cent of gas connections were to IGT networks.
- In gas, 42 per cent of connections were installed by incumbent GDNs or their affiliates, with UIPs or IGTs installing 57 per cent of connections between them.
- In electricity, 90 per cent of connections were installed by incumbent DNOs or their affiliates, with ICPs or IDNOs installing just 11 per cent of connections between them.
- The total gas connections market in 2008-09 was worth just over £67 million, excluding charges levied by UIPs.
- The total electricity connections market in 2008-09 was worth just over £646 million, excluding charges levied by ICPs.

Comparison of the gas and electricity markets

2.1. In 2008-09 a total of 634,346 connections were made to Licensee distribution networks and licensees levied charges of £713 million, this compares to around 750,000 connections and £775 million in 2007-08. The decrease in the overall number of connections may be due to the effects of the economic downturn experienced during the 2008-09 reporting period.

2.2. Figures 2.1 and 2.2 below compares the size of the gas and electricity markets in that period. Electricity connections made up 67 per cent of total connections and 91 per cent of charges. This compares to 66 and 87 per cent in 2007-08.

2.3. The larger number of electricity connections, and the higher cost of these connections may also partially explain why service quality and the cost of connections in the electricity industry attracts more complaints and generally receives more attention than in the gas industry.

Figures 2.1 and 2.2 - Comparison of market size (total connections and total charges)
Total number of new and modified metered electricity connections

2.4. In 2008-09 261,332 new and modified\(^\text{13}\) electricity connections were undertaken in aggregate by DNOs and IDNOs. This compares to 339,581 connections in 2007-08.

2.5. Figure 2.1 shows that of the 261,332 connections undertaken in 2008-09, 5 per cent were to IDNO networks, compared to 95 per cent to DNO networks. This is a relative improvement from 2007-08, where only 3 per cent of connections undertaken were to IDNO networks, compared to 97 per cent to DNO networks. Overall, market penetration of new entrants in the electricity connections market\(^\text{14}\) has risen to 11 per cent, compared to seven per cent in 2007-08 and six per cent in 2006-07.

Table 2.1- Total number of metered electricity connections market share calculation

<table>
<thead>
<tr>
<th>Connections by:</th>
<th>DNO 2007-08</th>
<th>IDNO 2007-08</th>
<th>DNO 2008-09</th>
<th>IDNO 2008-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licensee</td>
<td>294,161</td>
<td>308</td>
<td>222,693</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>87%</td>
<td>0%</td>
<td>85%</td>
<td>0%</td>
</tr>
<tr>
<td>Companies affiliated to the licensee</td>
<td>19,727</td>
<td>3,961</td>
<td>11,143</td>
<td>12,133</td>
</tr>
<tr>
<td></td>
<td>6%</td>
<td>1%</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>Third Parties</td>
<td>14,108</td>
<td>5,979</td>
<td>12,911</td>
<td>678</td>
</tr>
<tr>
<td></td>
<td>4%</td>
<td>2%</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>Total</td>
<td>327,996</td>
<td>11,585</td>
<td>246,747</td>
<td>14,585</td>
</tr>
<tr>
<td></td>
<td>97%</td>
<td>3%</td>
<td>94%</td>
<td>6%</td>
</tr>
<tr>
<td>Industry Total</td>
<td>339,581</td>
<td>261,332</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>100.00%</td>
<td>100.00%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.6. The IDNO totals for 2007-08 and 2008-09 include 1,337 and 1,774, connections to out of area networks operated by SSE, respectively. We are not able to distinguish whether these were installed by the licensee or an affiliate.

2.7. Figure 2.3 (below) shows that the level of activity by independent providers varies significantly from DSA to DSA. independents have a relatively high market share in the ENW and SP Distribution DSAs, while incumbent DNOs or their affiliates typically installed almost all of the connections in the NEDL, WPD, EDF and SSE DSAs. Where networks were run by IDNOs the majority of connections were undertaken by their affiliates.

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\(^\text{13}\) 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.

\(^\text{14}\) Connections installed by IDNOs and ICPs.
2.8. In areas where ICPs already had a relatively high market share in 2007-08 the proportion of connections installed by ICPs rose in 2008-09 (despite the overall number of connections dropping). This is particularly noticeable in the SP Distribution and ENW areas where ICPs installed 18 and 32 per cent of connections respectively in 2008-09 compared with 11 and 23 per cent in 2007-08. In the CN West area the proportion of connections installed by ICPs dropped from 10 to 8 per cent.

2.9. In the IDNO areas where 100 per cent of connections to IPL’s networks were installed by third parties in 2007-08 none were installed in 2008-09, also the proportion of connections to Energetics and ENC networks installed by third party ICPs fell.

**Total charges** for metered electricity connections

2.10. In 2008/09 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 was £589.07 million, this compares to £620.67 million in 2007-08. The reduction in total charges reflects the drop in total connections undertaken.

2.11. Of the charges made for new and modified connections approximately £590 million (99.9 per cent) was levied by DNOs. £58,200 (0.01 per cent) was levied by IDNOs, up from only 0.002 per cent of charges in 2007-08.

**Table 2.2 Total charges made by DNOs / IDNOs (£)**

<table>
<thead>
<tr>
<th></th>
<th>2006-07</th>
<th>2007-08</th>
<th>2008-09</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DNO Charges (millions)</strong></td>
<td>549.22</td>
<td>620.66</td>
<td>589.59</td>
</tr>
<tr>
<td><strong>IDNO Charges (millions)</strong></td>
<td>1.11</td>
<td>0.01</td>
<td>0.06</td>
</tr>
<tr>
<td><strong>Total (millions)</strong></td>
<td>550.33</td>
<td>620.67</td>
<td>589.65</td>
</tr>
</tbody>
</table>

It should be noted that these “total charges” figures do not show the total value of the market as we have no powers to collects data from ICPs.
We are unaware whether SSE’s out of area connections were installed by the licensee, an affiliate or a third party.
Total number of unmetered electricity connections

2.12. In 2008-09 162,881 unmetered connections were undertaken by DNOs (with charges of £57 m levied) of which only about 2,200 (or one per cent) were installed with the involvement of ICPs. IDNOs undertook 1,465 unmetered connections (or one per cent of all unmetered connections) but did not report any unmetered connections charges, this could be because the unmetered connections provided were to new developments and the costs of connecting the unmetered assets were discounted from the adoption payment paid to the UIP developing the site rather than charged.

2.13. Overall, market penetration of new entrants\(^\text{17}\) in the unmetered electricity connections market has risen to 2 per cent, compared to 0.6 per cent in 2007-08.

Table 2.3 – Total number of unmetered electricity connections

<table>
<thead>
<tr>
<th>Connections by:</th>
<th>DNO 2007-08</th>
<th>IDNO 2007-08</th>
<th>DNO 2008-09</th>
<th>IDNO 2008-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licensee</td>
<td>165,620</td>
<td>236</td>
<td>152,105</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>99%</td>
<td>0%</td>
<td>93%</td>
<td>0%</td>
</tr>
<tr>
<td>Companies affiliated to the licensee</td>
<td>789</td>
<td>0</td>
<td>8,500</td>
<td>1,372</td>
</tr>
<tr>
<td></td>
<td>0%</td>
<td>0%</td>
<td>5%</td>
<td>1%</td>
</tr>
<tr>
<td>Third Parties</td>
<td>751</td>
<td>0</td>
<td>2,276</td>
<td>93</td>
</tr>
<tr>
<td></td>
<td>0%</td>
<td>0%</td>
<td>1%</td>
<td>0%</td>
</tr>
<tr>
<td>Rent-a-jointer / Tri-partite</td>
<td>16,900*</td>
<td>0</td>
<td>10,434*</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>10%</td>
<td>0%</td>
<td>6%</td>
<td>0%</td>
</tr>
<tr>
<td>Total</td>
<td>167,160</td>
<td>236</td>
<td>162,881</td>
<td>1,465</td>
</tr>
<tr>
<td></td>
<td>100%</td>
<td>0%</td>
<td>99%</td>
<td>1%</td>
</tr>
<tr>
<td>Industry total</td>
<td>167,396</td>
<td>236</td>
<td>164,346</td>
<td>0</td>
</tr>
</tbody>
</table>

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

“Rent-a-jointer” and Tri-partite Arrangements

2.14. 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 2008-09 a total of 8,329 (5 per cent) connections were completed under "Rent-a-Jointer" or equivalent schemes. In all of these cases the DNO was the provider of both the contestable and non contestable works. This was a reduction in

\(^{17}\) Connections installed by IDNOs and ICPs.
the number of connections completed under this sort of scheme as DNOs reported 16,000 (10 per cent) rent-a-jointer connections in 2007-08. No rent-a-jointer connections have yet taken place on IDNO networks. This drop in the number of jointers being rented could be due to an increase in jointing skills in the independent companies.

2.15. 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. In 2008-09 a total of 2,105 (1.3 per cent) connections were completed under tri-partite arrangements on DNO networks. In all cases the contestable portion of the works were undertaken by an ICP. This is an increase in connections completed under tri-partite arrangements since only just under 1,000 (0.6 per cent) connections were completed under such schemes in 2007-08. While the number of connections being undertaken under tri-partite arrangements has increased slightly in 2008-09, we would usually expect this percentage to be higher in a competitive market.

2.16. To date no connections to IDNO networks have taken place under tri-partite arrangements.

2.17. The small number of connections being undertaken through tri-partite schemes could suggest that barriers exist for ICPs and LAs who seek to enter into these sorts of arrangements. Customers have bought to our attention issues such as a lack of transparency around the charges levied by DNOs, and overly onerous contracts and we continue to discuss the situation with market participants. The availability of tri-partite arrangements in unmetered connections will be one issue included in the competition tests that DNOs must pass before they are able to access an unregulated margin for this segment in the DPCR5 period. It should also be noted that we have not ruled out referring DNOs to the Competition Commission where the competition tests are failed.

**Total number of gas connections**

2.18. In 2008-09 208,963 new and modified\(^{18}\) gas connections were undertaken in aggregate by GDNs and IGTs. This is a 19 per cent decrease from 258,826 connections in 2007-08.

2.19. 101,358 of gas connections (49 per cent) were to GDN owned networks, of which 88 per cent were connected by the GDNs themselves whilst 12 per cent were connections by third parties to networks owned by GDNs. Less than one per cent of connections to GDN networks were undertaken by affiliates of the GDNs. This mix of

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\(^{18}\) A modified connection is an existing connection that has been changed. This includes position alterations, increases in capacity and diversions.
connections to the GDN networks shows a seven per cent increase in the proportion of connections undertaken by third parties.

2.20. 107,605 of gas connections (51 per cent) were to IGT owned networks, of which nine per cent were connected by the IGTs themselves whilst 49 per cent were undertaken by IGT affiliates. 42 per cent of connections to IGT networks were undertaken by third parties. The mix of connections to the IGT networks shows a six per cent drop in connections undertaken by independent third parties and small increases in the proportions of connections undertaken by the IGTs and their affiliates.

2.21. The proportion of connections being carried out by licensees and companies affiliated to licensees has remained more or less static in the past year. While the overall proportion of third party connections has also remained static, more of these connections were to GDN networks in 2008-9.

Table 2.4 – Total number of gas connections market share calculation – GDN/IGT

<table>
<thead>
<tr>
<th>Connections by:</th>
<th>GDN 2007-08</th>
<th>IGT 2007-08</th>
<th>GDN 2008-09</th>
<th>IGT 2008-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licensee</td>
<td>108,371</td>
<td>9,782</td>
<td>88,695</td>
<td>9,227</td>
</tr>
<tr>
<td></td>
<td>41.87%</td>
<td>4%</td>
<td>42%</td>
<td>4%</td>
</tr>
<tr>
<td>Companies affiliated to the licensee</td>
<td>139</td>
<td>65,934</td>
<td>147</td>
<td>52,723</td>
</tr>
<tr>
<td></td>
<td>0%</td>
<td>25%</td>
<td>0%</td>
<td>25%</td>
</tr>
<tr>
<td>Third Parties</td>
<td>5,573</td>
<td>69,027</td>
<td>12,516</td>
<td>45,655</td>
</tr>
<tr>
<td></td>
<td>2%</td>
<td>27%</td>
<td>6%</td>
<td>22%</td>
</tr>
<tr>
<td>Total</td>
<td>114,083</td>
<td>144,743</td>
<td>101,358</td>
<td>107,605</td>
</tr>
<tr>
<td></td>
<td>44%</td>
<td>56%</td>
<td>49%</td>
<td>51%</td>
</tr>
<tr>
<td>Industry Total</td>
<td>258,826</td>
<td>208,963</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>100.00%</td>
<td>100.00%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.22. Figure 2.4 (above) shows that the level of activity by UIPs varies significantly from LDZ to LDZ. In the GDN areas UIPs have the highest market share in the National Grid West Midlands (69 per cent) and National Grid North West (54 per cent) LDZs. UIPs have the smallest market share in the Wales and West area (2 per cent). Of the GDNs only Scotland Gas Networks and Southern Gas Networks have affiliate businesses providing connection works, in both cases the proportion of works undertaken by the affiliate is just 0.4 per cent.

2.23. In the majority of GDN LDZs there has been a year on year increase in the proportion of connections involving UIPs. This is most noticeable in the National Grid areas where the proportion of connections involving UIPs has risen by an average of 27 per cent. In the two areas where there was a decrease in the proportion of connections involving UIPs this was not significant.
2.24. In the IGT areas largely the proportions of connections involving UIPs remained the same. However, in two IGT areas the percentage of connections involving UIPs reduced while the percentage involving IGT affiliates increased, this resulted in the overall percentage of connections involving UIPs decreasing.
Figure 2.6 - Breakdown of gas connections by (2007-08 / 2008-09)
**Total charges for gas connections**

2.25. In 2008-09, the approximate value of charges made by GDNs and IGTs for new and modified connections was £67 million, down nearly 34 percent compared to charges levied by GDN and IGTs in 2007-08 (£101 million). The lower value of charges in 2008-09 corresponds with the analysis above, and in the supplementary appendices, which shows that the number of connections made, as well as the average charge per connection, has fallen over the last year.

2.26. Of the charges made for new and modified connections £3.4 million (five per cent) was levied by IGTs, this is up from three per cent in 2007-08. Although the percentage of charges that can be attributed to IGTs has grown, it is still low when compared to the number of connections undertaken, this may reflect the level of adoption payments/rebates made by IGTs in respect of adoption of assets at new developments.

**Table 2.5 -Total charges made by GDNs/IGTs (£m)**

<table>
<thead>
<tr>
<th></th>
<th>2006-07 (£m)</th>
<th>2007-08 (£m)</th>
<th>2008-09 (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDNs</td>
<td>85.9</td>
<td>97.9</td>
<td>63.1</td>
</tr>
<tr>
<td>IGTs</td>
<td>3.0</td>
<td>3.4</td>
<td>3.4</td>
</tr>
<tr>
<td>Total</td>
<td>88.9</td>
<td>101.3</td>
<td>66.6</td>
</tr>
</tbody>
</table>

2.27. It should be noted that these “total charges” figures do not show the total value of the market as we are unable to require UIPs to provide us with data.

- This chapter looks at the performance of gas and electricity network distributors against the various licence conditions that apply to their connections activities.
- One DNO may have failed to meet the SLC 15 standard for providing EHV connections within 50 days.
- Performance against the unmetered KPIs remains poor with EDF LPN and EDF SPN failing to meet any of the performance benchmarks.
- Generally performance against the Gas Guaranteed Standards is good.
- In 2009 EDF were fined two million pounds for breaches of SLC 12, four other DNOs (SHEPD, CN East, CN West, ENW) compliance with SLC12 is currently being investigated.
- We are currently investigation one DNO (SHEPD) regarding compliance with its CUSC obligations.

3.1. In this chapter we set out the reporting we have received from gas and electricity network distributors in relation to the connections service that they provide. The level of service that customers receive when obtaining a gas or electricity connection can vary, with customers raising general concerns about poor performance in the electricity connections market in particular. We take seriously compliance with relevant obligations. In the 2007-08 CIR we explained that we had instigated an investigation into EDFE in relation to compliance with the obligation to provide a connection offer within a maximum of three months as set out in paragraph 12.6 of Standard Licence Condition (“SLC”) 12 of the Electricity Distribution Licence. Since the last CIR we have instigated a further three investigations into compliance with SLC 12.

Electricity connections

3.2. In DPCR5 Final Proposals it was decided to introduce new connections regulatory regime to take effect in 2010. This will result in DNOs providing more related detailed reporting on the operation and performance of their connections activities.

3.3. In this chapter we set out performance against SLC 15 ‘Standards for the provision of Non-Contestable Connections Services’. We also consider performance against SLC 19 ‘Prohibition of discrimination’, the reporting against the unmetered key performance indicators, and performance against SLC 12.

Gas connections

3.4. This chapter also sets out performance against SLC D10 of the Gas Distribution licence and the accompanying gas connections guaranteed standards of performance.

Performance of electricity distributors against SLC 15

3.5. SLC15 requires DNOs to provide a range of non-contestable services to independent connection providers within specified time limits in at least 90 per cent
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 per cent of the time. The condition came into effect on 1 October 2007. It replaced a previous voluntary standards regime.

3.6. 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

3.7. Satisfactory performance in these areas is considered essential to allow effective competition with respect to 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.

3.8. We have data on the performance of each DNO since the introduction of the standards in October 2007. However 2008-09 is the first full year the standards have been in place and the first full year of reporting against the standards. As noted in the 2007-08 CIR, the reporting to date has limited value because, as illustrated in the appendices, in a significant number of instances no activity was reported against the relevant standards. In the past we have had some concerns that a significant number of connections are falling outside the scope of the SLC 15 reporting requirements including instances where customers may feel constrained to have elements of contestable work carried out by the DNO. It is intended that more specific guidance surrounding SLC 15 will be published in the connections Regulatory Instructions and Guidance (RIGs) (being developed through DPCR5) to address this issue.

3.9. In general DNOs provided the services relevant to SLC 15 within the specified time limits at least 90 per cent of the time. However, the reporting suggests that one DNO (CN West) only managed to meet SLC 15 standard 1(e) (provide EHV quotations within 50 days) in three out of four instances (75 per cent of the time). We expect all Licensees to place great importance on all aspects of customer service, including the timely provision of quotations, in every case and we are currently gathering further information about this potential breach with a view to deciding next steps.

3.10. Headline trends in DNO performance against the standards:

- average reported performance has improved across eight of the standards and remained consistent across three of the standards
- for two of the standards (1(b) and 3(c)) there was activity reported in 2007-08 where there was none in 2008-09, and
- average reported performance decreased (97.47 per cent in 2007-08 compared with 95.93 per cent in 2008-09) against one standard (2a: Providing Point of connection (POC) information: 90 percent within 30 working days).
3.11. CN East and ENW’s performance improved significantly in 2008-09 against four of the standards while their performance against the remaining standards remained consistently good. EDF’s performance in all three of its DSA’s remained consistent at 100 per cent. On the other hand while it did not breach the 90 per cent performance threshold and did achieve 100 per cent against three standards, SP Distribution’s performance appears low against a number of the standards, most notably 1(c), 1(e) and 2(b), as does CN West’s performance. While average performance has improved we would expect to see all performance levels improve year on year.

3.12. We note that we continue to receive quite a number of complaints from market participants that DNOs fail to facilitate competition appropriately. This is a matter that we have addressed in DPCR5 and we hope that the voluntary introduction by DNOs of performance standards payments against the SLC 15 standards will improve performance going forward.

3.13. Appendix 9 provides further detail and information on DNO performance against the SLC 15 standards including a comparison with 2007-08 performance.

**Performance of electricity distributors against SLC 19**

3.14. 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.

3.15. Paragraph 19.3 of SLC19 specifically prevents discrimination by an electricity distributor in the provision of non-contestable connections services 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.

3.16. Paragraph 19.4 requires licensees to provide Ofgem with information about their compliance in this regard. For 2008/09 we asked distributors to provide qualitative data on their performance in providing non contestable quotations, design approvals and final works. Licensees responses to Ofgem’s qualitative questionnaire can be found on the Ofgem website [www.ofgem.gov.uk](http://www.ofgem.gov.uk) under Networks -> connections -> templates and forms.

3.17. The returns we received indicated that:

- All DNOs have policy/compliance statements that refer to compliance with SLC19 or mention the duty to be non-discriminatory;
- licensees have a variety of approaches to communicating SLC19 compliance. Many include it in training for staff in relevant areas and in briefings between line managers and staff, others undertake reminders on an informal ad-hoc basis;
• licensees noted varying means of guarding against discrimination. Common in many of these was ensuring standard procedures reflected non-discrimination requirements;
• the majority of respondents noted they calculate costs in the same manner for internal/affiliate and third party customers for non-contestable works. However, some noted that design approval charges may be different for contestable elements, and administration fees and inspection elements were likely to increase costs for ICPs;
• all respondents noted that they apply the same processes and procedures to ICPs as to internal or affiliate customers, and that the administrative effort and or cost is the same, and
• all DNOs either already do or will in the future conduct internal audits into their compliance with SLC 19.

3.18. While we sought views on Licensees’ submissions we received very limited feedback. The feedback we did receive highlighted that respondents would like to see external auditors assessing Licensees’ performance against SLC 19. They also noted that the questions posed by Ofgem could be more specific. We note that the questions were developed in consultation with the DNO and IDNO regulation managers and that customers were not involved in this review. It is our intention to review the SLC 19 questionnaire with the ECSG before Licensees report against SLC 19 for 2009-10.

SLC 12 – provision of quotations

3.19. SLC 12 obliges licensees to provide offers for connection as soon as reasonably practicable, and in any event within 3 months of the receipt of an application which contains all such information as may reasonably be required for the purpose of formulating an offer.

3.20. Following our investigation into EDFE’s non-compliance with SLC 12, we asked DNOs for the first time to report their performance in providing connection offers for the 2008-09 period. Licensee responses can be seen in table 3.2 below.

3.21. It is clear from licensee responses that a number of DNOs potentially breached their SLC 12 obligations in the 2008-09 period. We are currently investigating four DNOs (SHEPD, ENW, CN East and CN West) in relation to potential breaches of SLC 12. Further details of formal Ofgem investigations into Licensee compliance with SLC 12 can be found under “Investigations and Determinations” towards the end of this chapter. It should be noted that the backstop for providing connection offers is three months of receiving all of the information reasonably required for the purpose of formulating the offer rather than 90 days. Therefore where it has taken DNOs over 90 days to provide a connection offer this is not always a breach of SLC 12.

3.22. Responses suggest that on average the majority of Licensees are providing offers within reasonable time frames. However, in a number of cases the maximum number of days taken to provide an offer indicates that some customers do not receive timely offers. While it is understood that formulating offers for some connections may be more complicated than for others we would not expect to see,
for example, licensees taking 90 days to provide LV quotations. Differences in the timeframes taken to provide connections also indicate that the content and detail of quotations may differ from Licensee to Licensee. If this is the case both customers and licensees may benefit from clearer guidance on the connections offer process. Such guidance is currently being drafted to support the relevant parts of the standards of performance being introduced through DPCR5.

3.23. The responses received from IDNOs indicate that they rarely receive requests for connections because generally the networks they run are new developments that are adopted from ICPs ready built.

3.24. The standards of performance, set out in DPCR5 Final Proposals will, amongst other things, provide clearer standards for Licensees for the provision of connection offers. Where SLC 12 states that offers should be provided as soon as is reasonably practicable, the planned standards will provide timeframes within which different connection offers should be provided depending on the complexity of the connection. It is our intention that customers will receive payments each time these standards are not met and Ofgem will have the option to take enforcement action if standards are not met in more than 90 per cent of cases. SLC 12 will continue to provide a ‘back stop’ by which all offers must be provided.

3.25. It is expected that the introduction of standards of performance will significantly improve the service customers receive when applying for connections.
Table 3.1 – Average and maximum timescales within which Licensees have provided S16 connection offers 19.

<table>
<thead>
<tr>
<th>Licensee</th>
<th>LV Average number of days</th>
<th>LV Max number of days</th>
<th>HV Average number of days</th>
<th>HV Max number of days</th>
<th>EHV Average number of days</th>
<th>EHV Max number of days</th>
<th>DG Average number of days</th>
<th>DG Max number of days</th>
</tr>
</thead>
<tbody>
<tr>
<td>CN West</td>
<td>13</td>
<td>153</td>
<td>64</td>
<td>130</td>
<td>-</td>
<td>-</td>
<td>38</td>
<td>199</td>
</tr>
<tr>
<td>CN East</td>
<td>12</td>
<td>154</td>
<td>48</td>
<td>159</td>
<td>-</td>
<td>-</td>
<td>36</td>
<td>175</td>
</tr>
<tr>
<td>ENW</td>
<td>10</td>
<td>83</td>
<td>18</td>
<td>112</td>
<td>61</td>
<td>79</td>
<td>31</td>
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<td>NEDL</td>
<td>12</td>
<td>91</td>
<td>48</td>
<td>91</td>
<td>26</td>
<td>84</td>
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<tr>
<td>YEDL</td>
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<td>90</td>
<td>28</td>
<td>91</td>
<td>25</td>
<td>50</td>
<td>21</td>
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<td>8</td>
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<td>80</td>
<td>90</td>
<td>90</td>
<td>26</td>
<td>90</td>
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<tr>
<td>WPD West</td>
<td>9</td>
<td>22</td>
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<td>79</td>
<td>-</td>
<td>-</td>
<td>36</td>
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<td>EDFE EPN</td>
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<td>306</td>
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<td>95</td>
<td>60</td>
<td>90</td>
<td>16</td>
<td>75</td>
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<td>99</td>
<td>34</td>
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<td>38</td>
<td>89</td>
</tr>
<tr>
<td>EDFE SPN</td>
<td>22</td>
<td>90</td>
<td>41</td>
<td>92</td>
<td>25</td>
<td>38</td>
<td>71</td>
<td>126</td>
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<tr>
<td>SP Dist.</td>
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<td>90</td>
<td>46</td>
<td>90</td>
<td>-</td>
<td>-</td>
<td>49</td>
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<td>7</td>
<td>15</td>
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<td>90</td>
<td>78</td>
<td>91</td>
<td>88</td>
<td>92</td>
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<tr>
<td>SHEPD</td>
<td>5</td>
<td>90</td>
<td>35</td>
<td>92</td>
<td>-</td>
<td>-</td>
<td>102</td>
<td>308</td>
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<tr>
<td>SEPD</td>
<td>5</td>
<td>90</td>
<td>49</td>
<td>90</td>
<td>0</td>
<td>90</td>
<td>90</td>
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<td>IPNL</td>
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<td>-</td>
<td>-</td>
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<tr>
<td>ENC</td>
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<td>5</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>ESP</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Key

- Red: Where responses indicate that SLC 12 may have been breached,
- Green: Where connection offers were provided within timescales Ofgem deems to be reasonable 20
- No Shading: Where we do not hold the information required to deem whether connection offers were provided within a reasonable timeframe.

**30 and 40 day standards**

3.26. 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.

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19 A section 16 connection offer refers to an offer made under Section 16 of the Electricity Act 1989.
20 As part of the consultation process developing the guaranteed standards detailed in the DPCRS Final Proposals document we established what could be considered reasonable timeframes.
3.27. In 2008-09 DNOs reported that a total of 25,521 straightforward domestic connections had been completed (10 per cent of total connections) and that of those straightforward connections 99 per cent had been completed within 30 working days. They also reported that a total of 9,401 straightforward non domestic connections had been completed (4 per cent of total connections) and that of those straightforward connections 99 per cent had also been completed within 40 working days.

3.28. 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 was in place until 31 March 2005. The reporting criteria are set out in the quality of service regulatory instructions and guidance\(^{21}\) 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 of connection offered by the DNO, the applicant has made any required payments, and third party consents have been obtained when necessary.

3.29. With the decision in DPCR5 Final Proposals to introduce new connections standards, the 30 and 40 day standards will no longer be a feature of the standards of performance.

**Performance against Key Performance Indicators - unmetered connections**

3.30. 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.

3.31. There are currently no specific licence conditions or financial incentives associated with customer service standards in the provision of unmetered services by incumbent DNOs. In DPCR5 Final Proposals it was decided to introduce new standards for unmetered connections.

3.32. Historically, DNOs have agreed individual Service Level Agreements (SLAs) with their clients – Local Authorities (LAs). However, performance metrics varied and

not all LAs had SLAs. In 2008-09 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 10 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.

3.33. 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.

3.34. As illustrated in Table 3.2, average DNO performance was below the benchmark level for eight of the 11 standards and for four of the standards performance was lower than that reported for the 2007-08 period.

3.35. The best performing DNO in 2008-09 was CN West, as they met 10 out of 11 of the performance benchmarks (this compares with only 9 out of the 11 benchmarks in 2007-08). CN West did not however manage to complete 90 per cent of new works (1-10 jobs) within 30 working days, instead completing only 86 per cent within the time period.

3.36. The two worst performing DNOs were EDF LPN and EDF SPN both of whom failed to meet all of the performance benchmarks. Both EDF LPN and EDF SPN’s performance deteriorated in 2008-09 compared to that seen in 2007-08 when they met 29 per cent and 27 per cent of benchmarks respectively.

3.37. Since we made it clear in the 2007-08 CIR that the DNOs inability to meet the service benchmarks was ‘disappointing,’ and given that we would expect performance to improve year on year, it is our view that largely the level of service provided to unmetered connections customers is unacceptable.

3.38. To address poor DNO performance in the unmetered connections area Ofgem, in DPCR5 proposals has decided to introduce new standards of performance. Further information on these standards can be found in Ofgem’s DPCR5 Final Proposals22. The introduction of these standards will allow for customers, including Local Authorities, to receive a payment where DNOs fail to meet standards of performance. It will also allow for Ofgem to take enforcement action against DNOs where performance continues to fall below an acceptable level. We expect the introduction of the standards of performance to encourage DNOs to improve their performance rapidly.

Further detail on individual DNO performance against the unmetered KPI’s can be found in Appendix 9.

Table 3.2 – DNO average performance against KPI benchmarks

<table>
<thead>
<tr>
<th>Standard</th>
<th>Performance Benchmark</th>
<th>Industry Average 2007-08</th>
<th>Industry Average 2008-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emergency response</td>
<td>80%</td>
<td>70%</td>
<td>77%</td>
</tr>
<tr>
<td>High priority fault repair 50% &lt; 1 working day</td>
<td>50%</td>
<td>49%</td>
<td>47%</td>
</tr>
<tr>
<td>High priority fault repair 90% &lt; 10 working day</td>
<td>90%</td>
<td>87%</td>
<td>86%</td>
</tr>
<tr>
<td>Multiple unit fault repair 75% &lt; 10 working days</td>
<td>75%</td>
<td>69%</td>
<td>63%</td>
</tr>
<tr>
<td>Multiple unit fault repair 90% &lt; 20 working days</td>
<td>90%</td>
<td>89%</td>
<td>81%</td>
</tr>
<tr>
<td>Single unit fault repair 60% &lt; 10 working days</td>
<td>60%</td>
<td>59%</td>
<td>61%</td>
</tr>
<tr>
<td>Single unit fault repair 80% &lt; 20 working days</td>
<td>80%</td>
<td>81%</td>
<td>82%</td>
</tr>
<tr>
<td>New works 1-10 jobs. 60% &lt; 15 working days</td>
<td>60%</td>
<td>51%</td>
<td>55%</td>
</tr>
<tr>
<td>New works 1-10 jobs. 90% &lt; 30 working days</td>
<td>90%</td>
<td>77%</td>
<td>81%</td>
</tr>
<tr>
<td>New works 11-50 jobs. 70% &lt; 25 working days</td>
<td>70%</td>
<td>67%</td>
<td>78%</td>
</tr>
<tr>
<td>New works 11-50 jobs. 90% &lt; 35 working days</td>
<td>90%</td>
<td>78%</td>
<td>88%</td>
</tr>
</tbody>
</table>

Performance against Gas Connections Guaranteed Standards

3.39. Connections related Guaranteed Standards of performance were introduced into both the Gas (Standards of Performance) Regulations 2005\(^{23}\) and GDNs' Standard Special Licence Condition D10\(^{24}\) in 2005.

3.40. In total there are 14 standards of performance which are set out in both the Gas (Standards of Performance) 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.

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\(^{23}\) Statutory Instrument 2005 No.1135
\(^{24}\) Standard Special Licence Condition D10 of the Gas Transporters licence.
3.41. All the standards of performance apply equally to all GTs, but the potential penalties may differ. The Regulations require GTs to pay compensation to the relevant customer each time GTs fail to meet the required standard\(^{25}\). However, only GDNs face possible enforcement from Ofgem if the company fails to meet any of the standards at least 90 per cent of the time. These different arrangements apply because incumbent monopoly power was the primary concern at the time of distribution network sales in 2005. Similarly, it was not thought proportionate to place a standards of performance licence obligation on IGTs, this different regulation may need to be revisited in time.

3.42. GTs 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 ICPs or IGTs. However, GTs 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.

3.43. The industry’s\(^{26}\) performance against 7 of the 8 connections standards is set out in Table 3.4 below and a detailed breakdown of the performance of each GT against all 8 standards is set out in Appendix 9 The key findings are that:

- overall, GDN performance has been good, with GDNs meeting the standard on average 98 per cent of the time (up from 97 per cent last year), and
- on average IGT performance dropped from 100 per cent in 2007-08 to 98.7 per cent in 2008-09.

3.44. ESP Networks achieved only 60 per cent performance against GS 5 (down from 100 per cent last year). While we recognise that ESP Networks received few requests for connection we note that if ESP Networks was a GDN it could have faced possible enforcement action.

3.45. While Standard Special Condition D10 does not apply to IGTs we would expect IGT performance to at least be at the same level as GDNs. We would also expect performance of both GDNs and IGTs to improve on a year on year basis. The drop in performance by some IGTs could have influenced the reduction seen in overall IGT market share.

3.46. We have largely replicated the GT guaranteed standards including the price accuracy scheme in Electricity Connections through DPCR5. GT performance against the gas guaranteed standards could provide evidence of the positive impact of mandatory standards and penalties. In particular the difference in performance

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\(^{25}\) Details of the compensation payable, which varies from incentive to incentive, are set out in Appendix 6

\(^{26}\) Due to differences in the way IGTs report performance against guaranteed standards we are unable to include data from two IGTs in this report. We hope that this issue will be resolved in future reporting periods.
between GDNs, who do face enforcement action if they fail to meet 90 per cent compliance, and IGTs, who do not, could show how overall performance standards can improve licensee performance. Given current IGT performance levels we will seriously consider whether to replicate the 90 per cent minimum performance threshold in the IGT licence in the next GDPCR price control. An overall performance standard threshold is being applied equally to both DNOs and IDNOs as a result of the DPCR5 process.

3.47. The guaranteed standards also include a standard relating to the accuracy of quotations. Where a customer challenges a quotation under the GTs published accuracy scheme and the quotation is found to be inaccurate the GTs must refund any overcharge that has been made. The quotation is treated as a failure under the relevant Guaranteed Standard until a revised quotation has been provided.

- In 2008-09 GDNs received 62 requests for quotations to be reviewed, of these quotations 9 (15 per cent) were found to be inaccurate. This compares to 101 requests in 2007-08 when 11 (11 per cent) quotations were found to be inaccurate.
- In 2008-09 IGTs received 10 requests for quotations to be reviewed. of these quotations 4 (40 per cent) were found to be inaccurate. This compares to 2 requests in 2007-08 when 0 quotations were found to be inaccurate. All of the IGT requests were received by IPL. Ofgem does not consider a 60 per cent accuracy rate in price accuracy reviews to be satisfactory; therefore Ofgem will seriously consider introducing, in the next GDPCR5 price control, a mechanism by which Licensees can be penalised where price accuracy schemes show a high level of inaccurate quotations.

3.48. 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.
Table 3.3 – Summary of performance against Guaranteed Standards

<table>
<thead>
<tr>
<th>Guaranteed Standard</th>
<th>Description</th>
<th>GDN</th>
<th>IGT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Average percentage achieved</td>
<td>Worst licensee percentage</td>
</tr>
<tr>
<td>GS4</td>
<td>Provision of standard connection quotations =&lt;275kWh per hour within 6 working days</td>
<td>98.00</td>
<td>99.00</td>
</tr>
<tr>
<td>GS5</td>
<td>Provision of nonstandard connections quotations ≤ 275 kWh per hour within 11 working days</td>
<td>97.00</td>
<td>98.00</td>
</tr>
<tr>
<td>GS6</td>
<td>Provision of nonstandard connection quotations &gt;275 kWh per hour within 21 working days</td>
<td>96.00</td>
<td>96.00</td>
</tr>
<tr>
<td>GS8</td>
<td>Response to land enquiries within 5 working days</td>
<td>99.00</td>
<td>100.00</td>
</tr>
<tr>
<td>GS9</td>
<td>Offering a date for commencement and substantial completion of connection work (≤ 275 kWh per hour) within 20 working days</td>
<td>99.00</td>
<td>100.00</td>
</tr>
<tr>
<td>GS10</td>
<td>Offering a date for commencement and substantial completion of connection work (&gt; 275 kWh per hour) within 20 working days</td>
<td>96.00</td>
<td>98.00</td>
</tr>
<tr>
<td>GS 11</td>
<td>Completion of the work on the agreed date</td>
<td>97.00</td>
<td>97.00</td>
</tr>
<tr>
<td>Average over all relevant standards</td>
<td></td>
<td>97.4</td>
<td>98.3</td>
</tr>
</tbody>
</table>
Investigations and Determinations

Connections Investigations

3.49. Once we have decided that there are reasonable grounds for suspecting there may have been, is, or is likely to be a breach of any of requirements of the legislation we have the power to enforce, we may commence an investigation.

3.50. Investigations usually involve several stages. We may request information from the company involved and third parties either informally or using our 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, if appropriate, we will produce a document which sets out the case against the company which is the subject of the complaint. At this stage we could also chose to close the case and would explain our reasons for doing so. If we have produced a document setting out the case against it, the company will then have the opportunity to respond to the case. We will consider the company’s response before deciding on the appropriate course of action.

3.51. In 2008-09 we commenced the following investigations:

- Investigation of EDF Energy Networks (EDFE LPN, EDFE SPN and EDF EPN) regarding breaches of Standard Condition 4D (“SLC 4D”) of the electricity distribution licence (now SLC 12), Requirement to Offer Terms for Use of System and Connection;
  - under SLC 4D and later SLC 12 EDF Energy Networks was obliged to provide offers for connection as soon as reasonably practicable, and in any event within 3 months of receipt of an application which contains all such information as may reasonably be required for the purpose of formulating an offer;
  - the investigation concerned applications and offers for connection made between April 2006 and 21 November 2008. During this time, EDF Energy Networks has accepted that there were 107 breaches of SLC 4D and one breach of SLC 12. The Authority was satisfied that EDF Energy Networks contravened SLC 4D and SLC 12; and
  - the Authority announced on 24 July 2009 that it intended to impose a financial penalty of £2m on EDF Energy Networks. On 3 November 2009 the Authority announced that that penalty must be paid by 18 December 2009. Payment of this penalty has been received.

- Investigation of Electricity North West Limited regarding allegations of abuse of a dominant position under section 18 of the Competition Act 1998 (the Chapter II prohibition). The allegations relate to the terms imposed by ENW on independent networks connecting to ENW’s pre-existing network; and whether these terms foreclose the market to competitors in the area in which ENW is the incumbent Distribution Network Operator.
3.52. In 2009-10 we commenced the following investigations:

- Investigation into Scottish Hydro Electric Power Distribution ("SHEPD") regarding compliance with its electricity distribution licence, specifically:
  - SLC 4D and SLC 12 (Requirement to offer terms for Use of System and connection)
  - SLC 20 (Compliance with Core Industry Documents), and
  - SLC 30 (Availability of resources).

- Investigation into Central Networks East and Central Networks West ("CN") regarding compliance with its electricity distribution licence, specifically:
  - SLC 4D and SLC 12 (Requirement to offer terms for Use of System and connection), and
  - SLC 30 (Availability of resources).

- Investigation into Electricity North West ("ENW") regarding compliance with its electricity distribution licence, specifically:
  - SLC 4D and SLC 12 (Requirement to offer terms for Use of System and connection), and
  - SLC 30 (Availability of resources).

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

Connections Determinations

3.54. 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 where applicable with assistance from the Energy Ombudsman. 27 If these efforts are unsuccessful the matter may be referred to Ofgem for determination.

3.55. In 2008-09 we received 12 formal requests for Ofgem to determine connection disputes (eight relating to electricity and four relating to gas).

27 Since 1 October 2008 there have been new consumer arrangements which replace energywatch. For more details see the following link: http://www.ofgem.gov.uk/Media/FactSheets/Documents1/changestoconsumer.pdf
3.56. Of the eight electricity connection disputes referred to Ofgem in 2008-09:

- four decisions were issued in the period;
- two disputes were settled before the determinations process was complete;
- two decisions were issued after 31 March 2009; and
- we found in favour of the customer in four of the six cases on which decisions have been issued.

3.57. Of the four gas connection disputes referred to Ofgem in 2008-09:

- two decisions were issued in the period;
- one dispute was settled before the determinations process was complete;
- one decision was issued after 31 March 2009; and
- we found in favour of the customer on one of the three cases on which decisions have been issued.

3.58. In 2008-09 we also issued two decisions (one gas, one electricity) relating to connection disputes referred to Ofgem for determination prior to 1 April 2008. In the gas determination we found in favour of the company, while in the electricity determination we found in favour of the customer. We are still in the process of determining four electricity connection disputes referred to Ofgem prior to 1 April 2008. These outstanding disputes contain some complex legal and technical issues and we are endeavouring to conclude them as soon as is possible.

3.59. In August 2009 we published a letter on our website (www.ofgem.gov.uk under Consumers -> Getting a connection) to all DNOs and GDNs concerning a change in Ofgem’s involvement in connections dispute resolution following the introduction of The Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008. That letter explained that we expected licensees to make every effort to resolve disputes before they escalated to the point of being formally referred to Ofgem. The letter also explained that to allow us to devote our resources to the key policy and regulatory issues related to connections, we had decided that it was no longer appropriate for us to provide an informal connections mediation service. The letter stated that as of 1 September 2009 we would refer all queries and informal complaints to the network companies concerned.

3.60. In December 2009 we published an open letter as part of a review into our determination procedures. A copy of that open letter can be found on our website www.ofgem.gov.uk under Consumers -> Getting a connection.

29 S.I. 2008/1898
3.61. Further details of the determinations handled can be found on Our 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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<th>Name of Appendix</th>
<th>Page Number</th>
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<td>4</td>
<td>Feedback questionnaire</td>
<td>48</td>
</tr>
</tbody>
</table>
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.

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 accordingly.

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, and
- the interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.

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30 entitled “Gas Supply” and “Electricity Supply” respectively.
31 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.
32 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.
33 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 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 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.

34 or persons authorised by exemptions to carry on any activity.
35 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

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  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  Local Distribution Zone

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.
Appendices

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.
### Appendix 4 - Index of Licensee names

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<tr>
<th>Abbreviation</th>
<th>Licensed entity</th>
<th>Group</th>
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<tr>
<td>NEDL</td>
<td>Northern Electric Distribution Ltd</td>
<td>CE Electric UK</td>
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<tr>
<td>YEDL</td>
<td>Yorkshire Electricity Distribution Plc</td>
<td>Centrica Plc</td>
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<tr>
<td>BG PL</td>
<td>British Gas Pipelines Ltd</td>
<td>EDF Energy</td>
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<td>EDFE EPN</td>
<td>EDF Energy Networks (EPN) Plc</td>
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<td>E.ON UK</td>
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<td>ESP Gas Group Ltd</td>
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<td>Fulcrum</td>
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<td>Energetics Gas Ltd</td>
<td>The Inexus Group</td>
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<td>Central Networks West Plc</td>
<td>International Energy Group</td>
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Appendix 5- 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:

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