

Electricity distribution proposals for a common connection charging document: summary of responses

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Target audience: Distribution Network Operators; Independent Distribution Network Operators; Independent Connection Providers; Generators; Consumers & Consumer Representatives; Developers; and any other interested parties.

Overview:

The Distribution Network Operators brought forward proposals to adopt a common connection charging document in place of their individual connection charging documents. The Authority consulted on these proposals on 21 May 2010.

On 29 July we published the following decisions in respect of each DNO's proposals:

- We decided **not to veto** each DNO's Methodology modification proposal.
- We decided **to approve the form** of each DNO's proposed Statement.

This document summarises the responses to our consultation and sets out our views on the future development of the common connection charging document.

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Context

The Distribution Network Operators (“DNOs”), have each, separately proposed to adopt a version of the Common Connection Charging Document. The Common Document comprises a DNO’s Connection Charging Methodology, Connection Charging Statement and other information relevant to connecting customers.

It is our view that, in principle, commonality and increased clarity in connection charging across DNOs is a positive development. It should provide greater consistency and transparency, allowing connecting customers to better understand and estimate connection charges. However, we identified a number of potential issues with the DNOs’ proposals. These included: that tighter connection charging rules may give DNOs perverse incentives in respect of network design; that the proposals may unintentionally shift the connection charging boundary; and that the proposed Methodology may not be sufficiently transparent to customers.

In order to assess the materiality of these, we consulted on the DNOs’ proposals on 21 May 2010. The consultation closed on 2 July 2010.

On 29 July we issued decisions **not to veto** each DNO’s Methodology change proposal¹ and **to approve the form** of each DNO’s proposed Statement. This document is supplementary to these decisions.

Associated Documents

- (Consultation on) Electricity distribution proposals for a common methodology: <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=722&refer=NETWORKS/ELECDIST/POLICY/DISTCHRGMODS>
- Consultation responses: <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=703&refer=NETWORKS/ELECDIST/POLICY/DISTCHRGMODS>
- The DNOs’ modification reports: <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=703&refer=NETWORKS/ELECDIST/POLICY/DISTCHRGMODS>
- The Authority’s decisions on each DNO’s Methodology proposals: <http://www.ofgem.gov.uk/NETWORKS/ELECDIST/POLICY/DISTCHRGMODS/Pages/DistChrgMods.aspx>
- Each DNO’s version of the Common Connection Charging Document: <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=703&refer=NETWORKS/ELECDIST/POLICY/DISTCHRGMODS>

¹ Links to our decision letters are provided in the *Associated Documents* section at the front of this document.

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Summary

This document provides a summary of responses to our consultation on the DNOs' proposals to adopt the Common Document, and sets out our views in respect of issues raised by the consultation responses and the future development of the document.

Our primary aim in issuing this document is to increase transparency in respect of our consultation and the rationale for our decisions on the DNOs' proposals to adopt the Common Document. We also seek to highlight specific issues that we consider the DNOs need to address and hope that the document will provide a useful tool for the future development of the Common Document more generally.

The document does not include detailed explanation of the DNOs' proposals. These are set out clearly in our consultation document which is referenced throughout this document.

Overview of responses

Our June consultation highlighted a number of potential issues with the DNOs' proposals and asked for general views on how the Common Document might be improved in the future.

We received 10 responses: 6 from DNOs; 3 from independent companies that operate IDNOs and/or ICPs and a response from Centrica. Respondents were generally supportive of the DNOs' proposals. A full list of respondents is set out in Appendix 1 to this document.

The consultation responses were detailed and covered a wide range of issues. They were generally supportive of the changes and the majority of respondents indicated that they consider the DNOs' proposals to be an improvement on the current connection charging documents. The specific issues raised are set out in chapters 1-3 of this document.

The complete responses are published on our website².

²Links to the consultation responses are provided in the *Associated Documents* section at the front of this document.

Future developments

We have highlighted three areas that we consider the DNOs need to address:

- Governance arrangements - the current governance arrangements provide for DNOs to develop their Connection Charging Documents individually. We consider that it is necessary to develop common governance arrangements to facilitate the development of the Common Document.
- Relevant Section of Network - we consider that the definition of Relevant Section of Network set out in the Common Methodology is not clear and that it is important that the DNOs address this issue.
- Asset replacement - the DNOs' Methodologies are silent on the subject of asset replacement. We consider that this is a connection charging issue and should be covered in the Common Methodology.

Document Structure

Chapters 1–3: Summary of responses

These chapters summarise the responses to each question asked in our consultation document and, where appropriate, give our views on the issues raised by respondents. Questions are grouped by the chapter and section in which they appeared in our consultation document. The relevant sections of the consultation document and the DNOs' Common Connection Charging Document are referenced throughout these chapters.

Chapter 4: Future developments

This chapter sets out our views on the future development of the document. This includes our views on areas of the Methodology that we consider need to be addressed and the development of common governance arrangements.

1. Summary of responses: Methodology

This chapter summarises the responses to the *Methodology* chapter of our consultation. The relevant sections of our consultation document and the Common Document are referenced throughout.

The Connection Charging Methodology generally

Consultation	Common Document
Chapter 3	Chapters 5 and 6

Question 1: Do you consider the DNOs' proposed Methodologies better achieve the relevant objectives³?

Consultation response: All respondents except EDF Energy ("EDF") consider that the DNOs' proposed Methodologies better achieve the relevant objectives than their existing Methodologies. EDF did not respond to this question.

With the exception of the Inexus Group ("Inexus"), respondents do not expand on the reasons for which they consider the proposed Methodologies better achieve the relevant objectives. Inexus explain that they consider greater transparency and consistency in connection charging would help them compete with DNOs for connections work. Therefore, they consider the proposed Methodologies better achieve relevant objective (b).

Ofgem response: We consider that the DNOs' proposed Methodologies better achieve relevant objectives (a), (b) and (c) than their existing Methodologies and do not affect relevant objective (d). Our reasoning is set out in our decision letters⁴ in respect of the DNOs' proposed Methodologies.

³ The 'relevant objectives' for the connection charging methodology, as contained in paragraph 3 of Standard Licence Condition 13 of the licence are:

- (a) that compliance with the methodology facilitates the discharge by the licensee of the obligations imposed on it under the Electricity Act 1989 and by its licence;
- (b) 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;
- (c) 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 sub-paragraphs (a), (b) and (c), the methodology, as far as is reasonably practicable, properly takes account of developments in the licensee's Distribution Business.

⁴ Links to our decision letters are provided in the *Associated Documents* section at the front of this document.

Question 2: Do you consider that the DNOs' proposed Methodologies are clear, transparent and reflect current practice?

Consultation response: Centrica, CE Electric ("CE"), Energetics Networked Energy ("Energetics"), Electricity North West ("ENW"), Scottish and Southern Energy ("SSE") and Western Power Distribution ("WPD") agree that the proposed Methodologies are clear, transparent and reflect current practice.

Inexus considers that the proposed Methodologies are a significant improvement in this respect.

EDF considers that the definition of Reinforcement does not reflect current practice. This is discussed in more detail below.

GTC UK ("GTC") considers that the following aspects of the Methodologies remain vague and open to interpretation: the apportionment of the costs where an ICP carries out Reinforcement or constructs an Enhanced Scheme; and speculative developments.

CN did not comment on this point.

Ofgem response: We consider that the proposed Methodologies reflect current practice and are a significant improvement in terms of transparency. However, aspects of the Methodology may require further clarification in the future. Our views in this respect are set out in chapter 4 of this document, *Future developments*.

Question 3: Please provide any views or comments you have on how the DNOs' proposed Methodologies, if approved, might be improved upon in the future?

Centrica, CE, Energetics, ENW, SSE and WPD did not raise any specific improvements to be made at this time. ENW also considers that common governance arrangements should be implemented prior to further changes being made.

CN consider that the Relevant Section of Network (RSN) should consist of the customer's normal and alternate supply only.

Inexus considers that the Electricity (Connection Charges) Regulations 2002 should be reviewed and that the Methodology should provide for DNOs to contribute price control revenue towards work carried out by an ICP. For example, where an ICP carries out Reinforcement and, had the DNO carried out the work, costs would be apportioned between the DNO and the customer.

GTC raised the following issues:

- that the Minimum Scheme Rule is unclear;
- that the rules surrounding contestability should be common across all DNOs;

- that the manner in which the concept of speculative developments applies in respect of large domestic developments, should be clarified;
- whether capacity reservation is a connection charging issue;
- whether capacity ramping might be better placed in DCUSA; and,
- whether diversionary works should be included in the Methodology.

EDF consider that the definition of Reinforcement should not include interconnection.

Ofgem response: Our views in respect of the future development of the Common Document are set out in chapter 4, *Future developments*. We also touch on a number of the issues raised above in our responses to the other consultation questions.

Connection charging boundary⁵

Consultation	Common Document
Paragraphs 2.7 – 2.11	N/A

Question 4: Do you consider that the DNOs' proposals significantly shift the current connection charging boundary?

Consultation response: With the exception of EDF and GTC all respondents were clear that the proposed Methodologies did not materially shift the connection charging boundary.

GTC consider that changes to the Minimum Scheme rule may shift the connection charging boundary.

EDF consider that the definition of Reinforcement materially shifts the connection charging boundary.

Ofgem response: We consider that the proposed Methodologies do not materially shift the connection charging boundary. Our views in respect of the points raised by GTC and EDF are discussed below in the Minimum Scheme and Apportionment Rules sections, respectively.

⁵ The connection charging boundary describes the split of network costs between the DNO and connecting customers. The costs allocated to the connecting customer are recovered via a connection charge and the costs allocated to the DNO will be recovered from all network users via use of system charges.

Perverse network design incentives

Consultation	Common Document
Paragraphs 2.12 – 2.14	N/A

Question 5: Do you consider that the DNOs' proposed connection charging Methodologies provide perverse network design incentives?

Consultation response: Centrica, CE, ENW, SSE and WPD do not consider the Methodologies to provide perverse network design incentives. Energetics and Inexus consider that the complaints process and the publishing of design policies are sufficient to mitigate any perverse incentives. GTC consider that there are no new perverse network design incentives. CN did not comment on this issue.

EDF consider that, by making clear that the costs of 'interconnection'⁶ that adds capacity to the existing distribution system will normally be apportioned, the definition of Reinforcement provides a perverse incentive. The response suggests that DNOs will be dis-incentivised from providing interconnection for the purposes other than adding capacity to the network - EDF give the examples of network flexibility and restoration of supply – because this would lead to the DNO contributing towards the customer's connection costs.

Ofgem response: While we acknowledge the view of the majority of respondents that the proposed Methodologies do not provide perverse network design incentives, we cannot rule out the possibility that tighter connection charging rules may lead to perverse incentives.

In respect of the specific point raised by EDF, we consider that 'Exception 1' to the definition of Reinforcement provides for the DNO to add interconnection for the purposes of network flexibility and the restoration of supply without apportioning the costs of the works to provide a customer's connection. Therefore, we do not consider that the definition of Reinforcement provides a perverse incentive in this respect.

We wish to make clear that DNOs are obliged under section 9 of the Electricity Act (1989) ("the Act"), to develop, maintain and operate, efficient and economical networks. Standard Licence Condition ("SLC") 13 and SLC 14 also require DNOs to charge in line with their Methodologies. Therefore, we consider that if and when perverse network design incentives occur, DNOs should continue to provide the most efficient network solutions and charge customers in line with their Methodology and Statement.

⁶ For the purposes of this document, 'interconnection' refers to connecting two points on the existing network.

Minimum Scheme Rule

Consultation	Common Document
Paragraphs 2.16 – 2.33	Paragraphs 5.1 – 5.7

Question 6: Do you consider that the proposed Minimum Scheme Rule is clear, adds precision to the DNOs' existing rules and reflects DNOs' current practice in designing the Minimum Scheme?

Consultation response: Centrica, CE, ENW, Inexus, and WPD all consider that the Minimum Scheme Rule is clear, adds precision and reflects current practice. CN considers that it adds clarity. Energetics considers that the proposals add clarity but do not reflect current practice. SSE and EDF did not comment on this point.

GTC considers that the following conditions are vague or unclear: '*maintaining [the DNO's] ability to minimise regulatory penalties associated with the Interruptions Incentive Scheme⁷ and the Guaranteed Standards of Performance⁸*'; and '*accepted industry standards*'.

Ofgem response: We consider the proposed Minimum Scheme Rule adds precision to the DNOs current Minimum Scheme Rules and that it reflects current practice. We acknowledge that certain conditions may be open to interpretation. However, we consider that a degree of flexibility in the Minimum Scheme rule is necessary to allow DNOs to develop their network efficiently.

We also consider that '*accepted industry standards*' is an improvement on '*sound engineering practices*'. While both conditions are subjective, we consider that it will be easier to test the Minimum Scheme against the former condition. For example, if a DNO can be asked to provide any industry standards that it considers relevant to the Minimum Scheme in question.

⁷ The Interruptions Incentive incentivises DNOs to reduce the number and duration of electricity cuts. Good performance will allow a DNO to increase its allowed revenue. For further details see 'Electricity Distribution Price Control Review Final Proposals - Incentives and Obligations' (Chapter 16):

http://www.ofgem.gov.uk/Networks/ElecDist/PriceCtrls/DPCR5/Documents1/FP_2_Incentives%20and%20Obligations%20FINAL.pdf

⁸ The Guaranteed Standards of Performance set out a number of service standards. For example, standards in respect of the restoration of supply. If the DNO fails to meet these standards it may have to make a payment to the relevant customer. For further details see 'Electricity Distribution Price Control Review Final Proposals - Incentives and Obligations' (Chapter 17):

http://www.ofgem.gov.uk/Networks/ElecDist/PriceCtrls/DPCR5/Documents1/FP_2_Incentives%20and%20Obligations%20FINAL.pdf

Question 7: Do you consider that it is appropriate that the Minimum Scheme is the connection scheme with the lowest capital cost?

Consultation response: All respondents, with the exception of EDF and SSE, consider that it was appropriate that the Minimum Scheme should be the scheme with the lowest capital cost (i.e. the cost to construct the scheme), rather than the scheme with the lowest lifetime cost (i.e. the net present value of constructing, operating, repairing and maintaining the connection scheme).

EDF considers that this is generally appropriate but that there may be some situations in which it is not.

SSE did not comment.

Ofgem response: We consider that, at present, it is appropriate to operate the Minimum Scheme Rule based on lowest capital cost rather than the lowest lifetime cost.

Question 8: Do you consider that the changes to the conditions that the Minimum Scheme is subject to are appropriate?

Consultation response: Centrica, CE, CN, Energetics, ENW, Inexus and WPD consider that the changes are appropriate.

GTC considers that the following conditions are not appropriate: '*maintaining [the DNO's] ability to minimise regulatory penalties associated with the Interruptions Incentive Scheme and the Guaranteed Standards of Performance*'; and '*accepted industry standards*'. GTC considers that the term '*accepted industry standards*' is vague and would prefer that the Minimum Scheme was subject to '*sound engineering practices*'. GTC's views in respect of the former condition are discussed below (see Question 9).

SSE and EDF did not comment.

Ofgem response: We consider that the changes to the conditions that the Minimum Scheme is subject to are appropriate. Our views in respect '*accepted industry standards*' are set out in our response to Question 6, above. Our views in respect of '*maintaining [the DNO's] ability to minimise regulatory penalties associated with the Interruptions Incentive Scheme and the Guaranteed Standards of Performance*' are set out in our response to Question 9, below.

Question 9: Do you consider that it is appropriate that the Minimum Scheme should never have a negative effect on a DNO's performance against the Interruptions Incentive Scheme and the Guaranteed Standards of Performance?

Centrica, Energetics, ENW and WPD consider that it is appropriate that the Minimum Scheme should never have a negative affect on a DNO's performance against the Interruptions Incentive Scheme and the Guaranteed Standards. Energetics did not

disagree but noted that this should not allow a DNO to improve areas of poor performance at the customer's expense.

CE noted that additional assets will necessarily have an effect on network performance and that their design policies aim to minimise the impact of these and optimise the benefits.

GTC are of the view that this condition is not in line with section 9 or section 19 of the Act. They also consider that it would not be appropriate for customers to pay to maintain a higher standard than prescribed by industry standards.

CN, SSE and EDF did not comment.

Ofgem response: We wish to apologise for misrepresenting this question in our consultation. It was our intention to ask whether the Minimum Scheme should never negatively affect a DNO's ***ability to minimise** regulatory penalties associated with the Interruptions Incentive Scheme and the Guaranteed Standards of Performance*.

We consider that, generally, it will be appropriate that the Minimum Scheme does not make the DNO more likely to incur regulatory penalties. However, we cannot rule out the possibility of circumstances arising where this is not the case.

We wish to make clear that this condition is specifically intended to allow a DNO to design the Minimum Scheme such that it is not likely to adversely affect their ability to minimise regulatory penalties in respect of the Interruptions Incentive Scheme and the Guaranteed Standards; it is not intended to allow a DNO to benefit from incentive payments at the connecting customer's expense.

Question 10: Do you consider that it is appropriate that the charge associated with the Minimum Scheme acts as a cap on the connecting customer's charge?

Consultation response: Centrica, CE, Energetics, ENW and GTC all consider that it is appropriate that the charge associated with the Minimum Scheme acts as a cap on the customer's connection charge.

Inexus and WPD consider that it would be more appropriate if the customer's charge was never less than that associated with the Minimum Scheme. WPD considers that allowing the customer to benefit from a lower charge may reduce the incentive for DNOs to take a wider approach to network planning.

EDF highlights that this will lead to DNOs bearing a larger proportion of connection costs in situations where the standard sizes connection assets used by a DNO are larger than required to provide the customer's connection.

SSE did not comment.

Ofgem response: We consider that it is appropriate that where an Enhanced Scheme, requested by the DNO, results in a lower connection charge than the connection charge associated with the Minimum Scheme it is appropriate that the

customer benefits from the lower charge. We consider that this is both more cost reflective and in line with DNOs' obligation under SLC 14.20 (c) to charge for reinforcement in a proportionate manner.

In response to WPD's point regarding DNOs' incentive to take a wider approach to network planning, we wish to make clear that DNOs are required by section 9 of the Act, to develop an efficient and economic network. We consider that this implies taking a wider approach to network planning and that this should not be affected by this change to the Minimum Scheme Rule.

Design Policies

Consultation	Common Document
Paragraphs 2.34-2.37	Paragraphs 5.2

Question 11: What information in respect of design policies and design standards should DNOs make available to customers and in what way should it be made available?

Consultation response: CE, CN, ENW and WPD consider that there was already sufficient publication of design standards and policies. EDF and SSE did not respond on this point. The other respondents all considered that complete design policies should be made available to the public.

Ofgem response: We are supportive of the publication of design policies and design standards and consider that the DNOs should work with industry, and in particular IDNOs and ICPs, to ensure sufficient information is made available.

SP Maweb's Solkor network

Consultation	Common Document
Paragraphs 2.38 – 2.40	SP Manweb paragraphs 6.25 -6.29

Question 12: Do you consider that it is appropriate that the Minimum Scheme in SP Manweb's distribution area is subject to maintaining the security of supply provided by its Solkor network⁹?

Consultation response: Centrica, CE, CN, ENW, Inexus and WPD consider that it is appropriate for the Minimum Scheme to maintain SP Manweb's Solkor network.

GTC and Energetics did not consider that the Minimum Scheme should be maintained at the expense of the connecting customer.

EDF and SSE did not respond on this point.

Ofgem response: We consider that, generally, it is efficient to provide connections that are compatible with SP Manweb's Solkor network. Where this is the case, we consider that the costs of providing a 'Solkor compatible' connection are incurred by the connecting customer and it would not be appropriate to socialise these costs. Therefore, we consider that normally it will be appropriate that the Minimum Scheme in SP Manweb's distribution area is subject to maintaining the security of supply provided by its Solkor network.

The Apportionment Rules

Consultation	Common Document
Paragraphs 2.41 – 2.62	Paragraphs 5.16 – 5.28

Question 13: Do you consider that the proposed definition of Reinforcement is appropriate?

Consultation response: With the exception of EDF and GTC, all respondents consider that the definition of Reinforcement is appropriate.

⁹ SP Manweb operates an interconnected 'Solkor' network, unique within the UK, across 60% of its distribution area. The nature of a Solkor network is such that customers are provided with greater security of supply but, in order to maintain that security of supply, connection costs tend to be higher than on other networks. While it is possible to provide standard non-Solkor connections to a Solkor Network, doing so may reduce the security of supply for other customers.

GTC considers that the definition should make clear that Reinforcement may occur downstream of the point of connection¹⁰.

While EDF agrees that Reinforcement is work that adds capacity to the network, they did not agree that interconnection should be included in this. They consider that the interconnection adds flexibility to the network rather than capacity to the network and is intended to facilitate the restoration of supply during a fault. They also consider that interconnection should be part of the Minimum Scheme.

Ofgem response: We consider that Reinforcement is work that adds capacity to the existing network. While we acknowledge that there are situations in which it is inappropriate to apportion the costs of Reinforcement, we consider that these are captured by the five exceptions to the definition of Reinforcement. Therefore we consider that the definition is appropriate.

We agree that interconnection can add flexibility to the network and can reduce supply restoration times in the event of a fault. However, we also consider that interconnection can add capacity to the existing network and that it should not be exempt from the definition of Reinforcement. This is shown clearly in example 8 of the Common Methodology. We also agree that in some circumstances interconnection may form part of the Minimum Scheme. In these cases, if the interconnection adds capacity to the existing network and the exceptions do not apply, the costs of the interconnection will be apportioned.

Question 14: Do you consider that the 'exceptions' to the definition of Reinforcement are appropriate? Do you consider that there should be any other exceptions?

Consultation response: The majority of respondents are supportive of the proposed exceptions. SSE and WPD highlight that they are supportive of the view that, where capacity is created that is unlikely to be used within a prescribed period, the customer should bear the full cost of the works.

EDF considers that Exception 1 and Exception 5 should be adjusted, and GTC raised issues with all the exceptions.

Exception 1 - EDF considers that Exception 1 should apply regardless of the location of the Reinforcement and the Minimum Scheme Rule, not just where Reinforcement is downstream of the point of connection and is over and above the Minimum Scheme. GTC considers that the only relevant conditions in Exception 1 are whether the Reinforcement is over and above the Minimum Scheme and at the request of the DNO.

¹⁰ The point of connection is the point at which the customer is connected to the existing network.

Exception 2 - GTC considers that Exception 2 is unclear because the definition of Minimum Scheme and the treatment of Operation and Maintenance Costs are not clear.

Exception 3 - GTC considers that because temporary connections are subject to the same use of system charges as permanent connections they should be treated in the same manner in respect of Reinforcement. Consequentially, GTC considers that the costs of temporary connections should be apportioned.

Exception 4 - GTC considers that Exception 4 is not appropriate because a DNO will benefit from the value of the recovered switchgear.

Exception 5: EDF considers that this exception is misleading and should state that all onsite assets should be fully chargeable. GTC considers that this exception is unclear.

Ofgem response: Generally, we consider that the exceptions are fit for purpose. However, we would not rule out future refinements or additions.

Exception 1 – We consider that this exception is designed to apply in situations where the DNO wishes to provide additional network security by interconnecting a Minimum Scheme network extension with the existing network and that any capacity created is unlikely to be used in the future. We cannot conceive of a situation where this would occur upstream of the point of connection or as part of the Minimum Scheme. We also note that EDF put forward their views during Work Stream 4 meetings, where this exception was extensively debated. EDF was asked to provide examples of situations in which interconnection that is not designed to add capacity to the network might occur upstream of the point of connection or as part of the Minimum Scheme and failed to do so.

In light of WPD's and SSE's comments, we also wish to make clear that work that adds capacity to the network that is unlikely to be used in the future will only be exempt from the Apportionment Rules in the case that all the other conditions of Exception 1 are met. Exception 1 is not designed to allow a DNO to charge a customer in full for Reinforcement in any case that it considers that spare capacity created is unlikely to be used.

Exception 2 - We consider that it is appropriate that the customer should pay the full cost of Reinforcement that it has requested in excess of the Minimum Scheme. We note GTC's concerns but consider that these issues relate to other parts of the Common Methodology.

Exception 3 - We consider that Reinforcement provided for a temporary connection is less likely to be required to accommodate future connections or general load growth; therefore we consider that it would not be appropriate for costs to be socialised. We note that where the Reinforcement is used to provide connections within five years of the initial connection, the connectee will be entitled to a rebate under the Electricity (Connections Charges) Regulations 2002.

Exception 4 – In response to GTC's point, we consider that Exception 4, and the other exceptions, are designed to take account of situations where connection related works increase the capacity (network or fault level) of the existing network

but it is not appropriate to apportion the costs of the work between the connecting customer and the DNO. The value of recovered assets may affect the net costs of connection work, but should not affect whether it's appropriate to apportion costs between the customer and the DNO. Consequently, we consider that whether the value of recovered assets is included in the customer's connection charge is a separate and wider issue. We note that both the existing and proposed Methodologies treat recovered assets in the same way. As there has been no change in this respect we have not taken it into consideration in coming to our decision on the DNOs' proposed Methodologies.

Exception 5 - This exception is intended to make clear that additional network length required to provide interconnectivity between multiple exits points should be treated as a network extension. We consider this is clear. We also note that this does not necessarily include all onsite assets. If a DNO were to interpret the exception as referring explicitly to all onsite assets it would not be charging in line with its Methodology and would be in breach of SLC 14.15.

Question 15: Do you consider that the definition of New Network Capacity is appropriate? And, do you consider it is interpreted correctly in the worked examples?

Consultation response: Centrica, CE, Energetics, ENW, GTC and WPD all consider that the definition of New Network Capacity ("NNC") is appropriate.

CN considers that the Relevant Section of Network ("RSN") should comprise the customer's normal and alternate supply only.

EDF considers that NNC should take downstream limitations into consideration.

Ofgem response: We consider that the definition of RSN is not clear. The definition states that the RSN includes the section or sections of network that may supply the customer in normal and abnormal operating conditions. Having considered applying this in real life situations we have come to the view that there may be debate over whether a specific section of network may be used to supply the customer or not. We consider that the application of the definition of RSN will be clear in the majority of circumstances and is an improvement on the current Methodologies, which do not define RSN. However, we consider that further work is required and suggest that the DNOs work with industry to develop a clear definition of RSN.

We do not consider that it is appropriate to take downstream limitations into consideration when calculating NNC, as upstream capacity will generally be available to future connectees. Also, considering downstream limitations will be less transparent to connectees and may give DNOs an incentive to install smaller assets downstream of the RSN (in order to lower the cost apportionment factor), where it is not efficient to do so. We consider that a connection charge based on an NNC that takes downstream limitations into consideration would be out of line with the definition of NNC included in DNOs' Methodologies.

Question 16: Do you consider that it is appropriate to measure New Network Capacity based on the appropriate operational rating at the time of the most onerous operating conditions?

Consultation response: Respondents are generally supportive of measuring NNC using the operational ratings at the time of peak demand. EDF considers that it is complex to do so and suggests that simple guidelines setting out how this rule will be applied are developed, in order to avoid future disputes.

Ofgem response: We consider that it is appropriate to measure NNC based on the appropriate operational rating at the time of most onerous operating conditions and that this will result in more cost reflective charges in respect of Reinforcement. However, we acknowledge that the appropriate operational rating may, in certain circumstances, be open to debate and would be supportive of the DNOs working with industry to develop guidance on the application of this rule.

Company Specific Methodologies

Consultation	Common Document
Paragraph 2.63	Section 6

Question 17: Do you consider that any of the content of the DNOs' Company Specific Methodologies should be made common in the future?

Consultation response: Respondents generally agreed that it may be appropriate to make parts of the Company Specific Methodology common in future.

Ofgem response: We would welcome further commonality where appropriate.

Worked Examples

Consultation	Common Document
Paragraphs 2.63 - 2.65	Section 5

Question 18: Do you consider that the worked examples are clear and accurately reflect the DNOs' proposed Methodologies? And do you consider that the Common Methodology would benefit from any further examples?

Consultation response: Respondents were generally supportive of the worked examples, some suggested there was room for improvement and additional examples were proposed. CE is of the view that no further examples were necessary. CN considers that the examples should use DNO specific illustrative charges and that an additional example illustrating the installation of a motor requiring work to accommodate its voltage requirements should be included.

EDF considers that Example 6 should include a note to state that, where this was a speculative development, costs would be charged in full.

Ofgem response: We consider that the worked examples are a significant improvement on the DNOs' current Methodologies and would be supportive of any future improvements whether these are additional examples or adjustments to the current examples.

2. Summary of responses: Statement

This chapter summarises the responses to the *Statement* chapter of our consultation. The relevant sections of our consultation document and the Common Document are referenced throughout.

The Connection Charging Statement generally

Consultation	Common Document
Chapter 3	Section 7

Question 1: Do you consider that the DNOs' proposed Common Statement will allow customers to make a reasonable estimate of the charges they are likely to be subject to on connection to a DNO's network?

Consultation response: Centrica and ENW consider that the Common Statement would allow customers to make a reasonable estimate of connection charges.

GTC considers that this would depend upon the range of charges given for each item.

EDF and WPD consider that the charge tables would benefit from further detail being included in the tables of charges.

SSE, CE and CN did not comment on this point and Energetics do not state a clear view, but highlight the fact that DNOs often state that the price of certain items will be given on application.

Inexus do not consider that the Common Statement will allow customers to accurately estimate connection charges, but notes that it will be helpful to check whether quotes are reasonable.

Ofgem response: See response to question 2 below.

Question 2: How does the DNOs' proposed Common Statement compare to DNOs' current Statements?

Consultation response: Centrica, Energetics, Inexus, GTC, CE and ENW consider that the Common Statement is an improvement on the DNOs' current Statements.

CE and EDF highlight a number of issues with the charging tables in the Common Statement and asked that these be resolved prior to implementation. Please see CE's and EDF's response for details¹¹.

WPD do not consider it is better or worse.

CN did not comment.

Ofgem response: We consider that the Common Statement is an improvement on the DNOs' current Statements and note that all the independent (non-DNO) respondents agree with this. We also note that the majority of non-DNO customers stated that they did not think the Common Statement would allow them to make reasonable estimates of connection charges. We hope that the DNOs will work to resolve this in future.

Quotation Accuracy Scheme

Consultation	Common Document
Paragraphs 3.5 – 3.9	Paragraphs 7.5 - 7.9

Question 3: Do you consider that the DNOs' description of the Quotation Accuracy Scheme is appropriate?

Consultation response: Centrica, Inexus, ENW and WPD consider that the description of the Quotation Accuracy Scheme (QAS) is appropriate.

GTC considers that it would benefit from a description of the dispute process.

Energetics considers that a customer should be able to challenge quotes that fall within the price ranges set out by the QAS.

EDF and SSE did not state whether they consider the description of the QAS scheme is appropriate.

Ofgem response: We have begun the process of assessing the DNOs' proposed QAS Scheme and do not consider that it is appropriate to comment this stage.

Question 4: Do you consider that the DNOs' expected variances in charges for items that will be considered under the Quotation Accuracy Scheme are appropriate?

¹¹ Link to responses.

Consultation response: Centrica, CN and ENW consider that the expected variances are appropriate.

CN, SSE and WPD highlight that, for certain items, costs are likely to vary significantly.

WPD, EDF and CE consider that further detail in the charging tables might reduce the variances.

Inexus considers that the variances should not exceed 10-15%.

Ofgem response: As for question 3, above.

3. Summary of responses: Other areas of interest

This chapter summarises the responses to the *Other areas of interest* chapter of our consultation. The relevant sections of our consultation document and the Common Document are referenced throughout.

Future governance arrangements

Consultation	Common Document
Paragraphs 4.1 – 4.4	N/A

Question 1: Please provide any views you have in respect of future governance arrangements for the common connection charging document?

Consultation response: Centrica, CE, CN and WPD all consider that the DCUSA should be extended to facilitate open governance arrangements.

Energetics and SSE consider that the current governance arrangements are sufficient.

ENW considers that common governance arrangements between DNOs should be established before considering the introduction of open governance arrangements.

EDF did not comment.

Ofgem response: Our views in respect of future governance arrangements are set out in chapter 4, *Future developments*.

The Common Connection Charging document: Sections 1-4

Consultation	Common Document
Paragraphs 4.5 – 4.7	Sections 1 - 4

Question 2: Please provide any views or comments in respect of sections 1-4 of the Common Connection Charging Document and how it might be improved in the future?

Consultation response: WPD, SSE and ENW consider that sections 1-4 are adequate at present but may benefit from future amendments.

CE considers that governance arrangements for the common document should ensure that sections 1-4 are compatible with the rest of the document.

EDF considers that interactivity should be moved to the Company Specific Methodology.

GTC considers that these sections should be included in a separate document to avoid confusion.

Ofgem response: We consider that sections 1-4 are adequate at present but may benefit from future amendments.

Asset replacement

Consultation	Common Document
Paragraphs 4.8	N/A

Question 3: Please provide your views on the need for the treatment of asset replacement to be made explicit within the connection charging methodology?

Consultation response: Centrica, CN, Energetics, Inexus, ENW, GTC, SSE and WPD consider that the treatment of asset replacement should be included in the Methodology.

CE considers that asset replacement is not a connection charging issue so should not be included in the Methodology.

EDF note that there are a number of circumstances where it is appropriate that asset replacement is paid for by individual customers, and give the example of when a customer has signed an agreement under section 22 of the Act¹² that contains a clause in respect of asset replacement.

Ofgem response: We consider that the treatment of asset replacement is a connection charging issue and should be included within the connection charging Methodology. Our general position remains that asset replacement is covered in the price control and customers should not be charged. If there are situations in which this is not the case it may be appropriate for individual customers to pay for asset replacement.

¹² Section 22 of the Act provides for a DNO and a connecting customer to agree bespoke terms of connection.

4. Future developments

We consider that the Common Document is an improvement on DNOs' current Methodologies, but we are also aware that there is room for further improvement. Therefore, we view the document in its current form, as a starting point from which consistent, transparent and customer friendly connection charging arrangements can be developed. While we expect that, generally, future developments will be progressed by the DNOs in consultation with industry, we wish to take this opportunity to highlight three issues that we consider the DNOs need to address. We will be happy to provide support in addressing these issues.

We also set out our views on appropriate time scales for this work. We will be happy to discuss alternative approaches with the DNOs.

Relevant Section of Network

The definition of RSN in the DNOs' proposed Methodologies is as follows: *'is that part or parts of the Distribution System that can be used to supply you in both normal and abnormal running arrangements. There may be more than one RSN, e.g. at different voltage levels.'*

We consider that it is not always clear which sections of the network can supply the customer in abnormal operating conditions. Therefore we do not consider that the definition is clear.

In certain scenarios the definition of the RSN can make a large difference to the calculation of the Cost Apportionment Factor and, consequently, the customer's connection charge. Therefore, we consider that it is important that the DNOs' Methodologies include a clear and broadly applicable definition of RSN.

We note some respondents highlight that this issue was debated extensively on WS4 and may be reluctant to revisit it. We acknowledge that the definition of RSN was widely discussed on WS4, but consider that in depth analysis is required to develop a definition that is clear and applicable across a wide range of scenarios. As far as we are aware, little analysis was carried out by any of the parties involved in WS4. Therefore, we expect that the DNOs will work with industry to develop a definition of RSN that is clear and broadly cost reflective across a wide range of connection scenarios.

We consider that the DNOs should bring forward modification proposals to address this issue by no later than the end of February 2011.

Asset Replacement

The treatment of asset replacement has an effect on what a connecting customer gets in return for its connection charge. If the costs of asset replacement are covered by the price control then the connecting customer is paying for an on going

connection. If the cost of asset replacement is recovered from individual customers then the customer is paying for a connection for the life of the relevant assets. Therefore we consider that asset replacement is a connection issue and should be covered in the Methodology. We expect the DNOs to address this issue.

We consider that the DNOs should bring forward modification proposals to address this issue by no later than the end of February 2011.

Future Governance Arrangements

At present, there are no common governance arrangements in place for the Common Connection Charging Document. Governance arrangements dictate how changes are made to the Connection Charging Methodology ("Methodology") and the Connection Charging Statement ("Statement"). Existing governance arrangements, set out in SLC 13¹³ and SLC 14¹⁴ of the Licence, remain in place.

The development of the common connection charging methodology is a significant step forward for parties planning to connect to the DNOs' networks. It is important that DNOs quickly establish effective governance arrangements to ensure that the common connection charging methodology remains common and to manage future changes to this document.

As part of our Code Governance Review final proposals¹⁵ that we published in March 2010 we set out our view that connection charging methodologies should have open governance but we noted concerns from respondents that inclusion of distribution connection methodologies within the relevant commercial code (DCUSA for electricity distribution) may not be effective as the code may not encompass the relevant parties. For instance, unlike for the transmission network, often the connecting party to a distribution network will be a housing developer who will have a one-off relationship with the distribution network; developers are very unlikely to be parties to DCUSA. We concluded that all network charging methodologies with the exception of distribution connection methodologies (gas and electricity) should be included within the relevant code. We noted that further consideration needed to be given to the governance arrangements for distribution connection charging methodologies.

We consider that the DNOs should bring forward proposals setting out the approach they intend to take to introduce common governance arrangements. As part of establishing these new arrangements it will be important for the DNOs to consider how best to facilitate open governance. Such arrangements could allow parties other than DNOs to raise changes to the Methodology as well as ensuring that the Methodology remains common going forward.

¹³ SLC 13 provides for the Connection Charging Methodology.

¹⁴ SLC 14 provides for the Connection Charging Statement.

¹⁵ Code Governance Review – Final Proposals (43/10)

http://www.ofgem.gov.uk/Licensing/IndCodes/CGR/Documents1/CGR_Finalproposals_310310.pdf

We note that the majority of responses to our consultation considered that DCUSA may provide the most effective governance arrangement for the common connection charging methodology. Other options may include some form of DCUSA hybrid or some other arrangement.

To help facilitate this process we propose to hold a workshop in September to discuss appropriate governance options for distribution connection charging methodologies. This workshop will consider both gas and electricity distribution.

Appendices

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Appendix 1 – List of respondents

Company name	Type of business
CE Electric UK plc	DNO
Centrica plc	Supplier
EDF Energy Networks plc	DNO
Electricity North West plc	DNO
Energetics Networked Energy Ltd	IDNO/ICP
The Gas Transportation Company Ltd	IDNO/ICP
Inexus Group Ltd	IDNO/ICP
SSE Power Distribution plc	DNO
Western Power Distribution plc	DNO

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 Acts¹⁶.

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 accordingly¹⁷.

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 existing and future consumers, 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 them¹⁸;
- the need to contribute to the achievement of sustainable development; and,
- the interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas¹⁹.

¹⁶ entitled "Gas Supply" and "Electricity Supply" respectively.

¹⁷ 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.

¹⁸ 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.

¹⁹ The Authority may have regard to other descriptions of consumers.

1.6. 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 licensed²⁰ 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; and,
- secure a diverse and viable long-term energy supply.

1.7. 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.

1.8. 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 Regulation²¹ 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.

²⁰ or persons authorised by exemptions to carry on any activity.

²¹ Council Regulation (EC) 1/2003

Appendix 3 - Glossary

A

Apportionment Rules

The Rules governing what connections work is considered to be Reinforcement and how the costs of this work are split between the connecting customer and the DNO. Costs allocated to the DNO will normally be recovered later through use of system charges.

Authority

The Authority is the governing body for Ofgem, consisting of non-executive and executive members.

C

Common Connection Charging Document

Each DNO's proposed Connection Charging Document, composed of the Common Methodology, the Company Specific Methodology, the Common Statement and other information relevant to connecting customers.

Common Connection Charging Methodology (the "Common Methodology")

The section of each DNO's proposed Methodology common to all DNOs. It is set out in section 5 of the Common Connection Charging Document.

Common Connection Charging Statement (the "Common Statement")

The DNOs' proposed common Connection Charging Statement.

Company Specific Connection Charging Methodology ("Company Specific Methodology")

The section each DNO's proposed Methodologies specific to that DNO. It is set out in section 6 of the Common Connection Charging Document.

Connection Charging Document

The document containing a DNO's Methodology, Statement and other information relevant to connecting customers.

Connection Charging Methodology

The methods, principles and assumptions used by a DNO to determine connection charges. Provided for by SLC 13 of the Licence.

Connection Charging Statement

A statement setting out the basis upon which connection charges are made. Provided for by SLC 14 of the Licence.

Connections Regulations

Electricity (Connections Standard of Performance Regulations) Regulations 2010

Cost Apportionment Factor ("CAF")

The factor by which the costs of Reinforcement are multiplied to determine the share allocated to the connecting customer.

D

Distribution Connection and Use of System Agreement ("DCUSA")

The DCUSA is an industry code which governs connection and use of system arrangements between DNOs, suppliers and some generators on the distribution networks.

Distributed Generation ("DG")

Generation which is connected directly into the local distribution network as opposed to the transmission network, as well as combined heat and power schemes of any scale. The electricity generated by such schemes is typically used in the local system rather than being transmitted for use across Great Britain.

Distribution Network Operators ("DNOs")

A licensed distributor which operates electricity distribution networks in Distribution Service Areas but can also compete to operate networks anywhere within Great Britain.

Distribution Price Control Review 5 ("DPCR5")

DNOs operate under a price control regime, which are intended to ensure DNOs can, through efficient operation, earn a fair return after capital and operating costs while Office of Gas and Electricity Markets 61 DNOs' proposals for a common methodology at 28 September 2009 lower voltages Appendices limiting costs passed onto customers. Each price control typically lasts five years at a time. The existing price control (DPCR4) will expire 31 March 2010. DPCR5 is planned to commence on 1 April 2010.

Distribution Service Area ("DSA")

As defined in SLC 1 of the Licence.

E

[Electricity Act 1989 \(the "Act"\)](#)

Electricity Act 1989 c.29 as amended.

[Engineering Recommendation P2/6](#)

A guide for electricity distribution network system planning and security of supply.

[Electricity Distribution Licence](#)

The licence that allows LDNO's to distribute electricity in the United Kingdom.

[Enhanced Scheme](#)

A connection scheme that is more expensive than the Minimum Scheme.

F

[Fault level CAF](#)

The CAF applied to the cost of Reinforcement that increases fault level capacity.

[Forecast Business Plan Questionnaire \("FBPQ"\)](#)

Forecast Business Plan Questionnaires are submitted by DNOs as part of the DCPR5 process. FBPQs contain the details of companies forecast expenditure over the period covered by the DCPR5 settlement. The FBPQs also contain details of historic expenditure over the DCPR4 price control period.

I

[Independent Distribution Network Operators \("IDNOs"\)](#)

A licensed distributor which does not have a distribution services area and competes to operate electricity distribution networks anywhere within Great Britain.

[Independent Connection Provider](#)

An accredited company that provides connection services that is not an LDNO.

L

[Licensed Distribution Network Operator \("LDNO"\)](#)

A term that captures both IDNOs and DNOs operating networks outside their distribution services areas.

M

[Minimum Scheme](#)

The lowest cost scheme to connect a customer to the DNOs network, as defined by the Minimum Scheme Rule.

[Minimum Scheme Rule](#)

A rule setting out conditions that DNOs must take into account when designing the Minimum Scheme and how the customer will be charged in the case where the DNO chooses to design an Enhanced Scheme.

N

[New Network Capacity \("NNC"\)](#)

The denominator of the Security CAF. The secure capacity of the RSN after Reinforcement.

R

[Required Capacity](#)

The maximum capacity requested by a connecting customer.

[Reinforcement](#)

Work to increase the capacity of the network. The costs of connection related Reinforcement will be split between the customer and the DNO using the Apportionment Rules.

[Relevant Section of Network \("RSN"\)](#)

The section of network that's capacity is measured to derive NNC.

S

[Security CAF](#)

The CAF applied to the cost of Reinforcement associated with thermal or voltage issues.

[Standard Licence Condition \("SLC"\)](#)

These are conditions that licensees must comply with as part of their Licences. SLCs are modified in accordance with Section 11A of the Electricity Act. Failure to comply with SLCs can result in financial penalties and/or enforcement orders to ensure compliance.

U

[Use of System \("UoS"\) Charges](#)

Use of System Charges: Charges paid for the use of the distribution network.

Appendix 4 - Feedback Questionnaire

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

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

1.2. Please send your comments to:

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Consultation Co-ordinator

Ofgem

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London

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