



Interested stakeholders

*Promoting choice and value for
all gas and electricity customers*

Direct Dial: 020 7901 7388
Email: Rebecca.Langford@ofgem.gov.uk

Date: 12 December 2011

Dear Stakeholder,

Competition in Connections - Consultation on extending contestability to jointing to existing DNO mains and associated operational activities

This document seeks to consult interested parties on the principle of extending the scope of contestability in electricity connections to jointing to existing DNO mains and associated operational activities.

If you wish to respond to this consultation please do so **by 20 January 2012**. Responses should be addressed for the attention of Rebecca Langford and sent to connections@ofgem.gov.uk. Unless responses are marked confidential they may be posted on the Ofgem website.

Background

Each Distribution Network Operator (DNO) sets out in its connection charging methodology the scope of connection services that competitive providers are permitted to undertake. Activities that competitors can undertake are described as 'contestable' and those that can only be carried out by the DNO are referred to as 'non-contestable'. Some services may be considered non-contestable by a DNO for technical or safety reasons. Current examples of contestable works include the construction of assets and jointing of dead cables. Jointing to existing DNO mains and associated operational activities are currently listed in all DNO Connection Charging Methodologies as non-contestable.

We have undertaken a number of projects in the past to support the extension of contestability. For example, in 2004 we proposed that contestability be extended to live jointing to competitively installed LV mains. We believe that opening up non-contestable activities to competitors may provide further opportunities and incentives for competition to develop in the electricity connections market. This is because it reduces competitors' reliance on DNOs to provide essential services and it increases the scope of works for which competitors can compete.

Extending contestability to jointing to existing DNO mains and associated operational activities

In 2010, we asked the Energy Networks Association (ENA) to establish a working group to assess whether there were any safety or technical issues associated with an extension of contestability to jointing to existing DNO mains and associated operational activities. The ENA concluded that the proposed changes would create new safety management requirements for the DNOs to manage. However, it considered that the associated safety risks and liabilities were similar in severity to the existing risks and liabilities that many DNOs experience under current arrangements with competitors, meter operators and their own contractors. It therefore considered that there were no significant safety issues

The Office of Gas and Electricity Markets

9 Millbank London SW1P 3GE Tel 020 7901 7000 Fax 020 7901 7066 www.ofgem.gov.uk

prohibiting making this particular activity contestable but identified that further work was required to address operational issues.¹ Following this conclusion, we set up a sub-group of the Electricity Connections Steering Group (ECSG) to facilitate contestability being extended in this way.

We have encouraged DNOs to develop procedures and processes to allow competitors to complete jointing to existing DNO mains and any associated operational activities. DNOs have been running trials with competitors throughout 2011. Trials have variously covered live jointing at low voltage for both metered and unmetered connections and also high voltage connections.

The sub-group has discussed and resolved potential issues associated with extending contestability as they have arisen during trials. Details of these discussions can be found on the Ofgem website.² We do not believe that any issue has been encountered during trials that DNOs and competitors have not been able to overcome. However, we note that not all DNOs or competitors have had the opportunity to trial contestable jointing to existing DNO mains at both LV and HV.

Before jointing to existing DNO mains and associated operational activities can become contestable, DNOs will need to update the scope of contestability in their Connection Charging Methodologies. This requires our approval. It should be noted that when an activity becomes contestable, the margin arrangements set out in Charge Restriction Condition 12 (CRC 12) of the Electricity Distribution Licence will come into effect, ie in market segments where we deemed competition to be viable at DPCR5, DNOs will charge a regulated margin of four per cent (or if they have passed the Competition Test, they shall be entitled to charge an unregulated margin) on contestable work fully funded by the customer.³

We are aware that DNOs are beginning to consider modifying their connection charging methodologies. Because of this we seek the views of interested parties as to whether jointing to existing DNO mains and associated operational activities should now become contestable. Specifically we seek views on the following:

Consultation questions

1. In considering trials of contestable live jointing and associated operational activities offered and/or run by DNOs:
 - a. Do you consider that trials have been a success? By what criteria has this been judged?
 - b. Are the procedures and policies associated with the extension of contestability accessible and acceptable to competitors? If not, why not? Have you seen any examples of best practice? Do you consider that issues encountered during trials have been adequately addressed/resolved? If not, why not?
 - c. Do you consider that DNOs will be able to implement the procedures/terms etc introduced for the trials on a business as usual basis? Please explain the reasons behind your view.
 - d. Has there been any interest from competitors to undertake jointing to existing DNO mains and associated operational activity? If not, do you consider that interest would exist if the activities became contestable? ie, would promotion from trial status (including the associated margin arrangements) encourage competition in the provision of this service?

¹ A copy of the ENA's report can be found on the Ofgem website -

<http://www.ofgem.gov.uk/NETWORKS/CONNECTNS/ELECCONNSTEERGRP/SUBGROUPS/EOC/Pages/EOC.aspx>

² Minutes of the sub-groups discussions can be found on the Ofgem website -

<http://www.ofgem.gov.uk/NETWORKS/CONNECTNS/ELECCONNSTEERGRP/SUBGROUPS/EOC/Pages/EOC.aspx>

³ Further information can be found in DPCR5 Final Proposals – Incentives and Obligations.

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=348&refer=Networks/ElecDist/PriceCtrls/DPCR5>

- e. What are the views of respondents that have not had the opportunity/wanted to participate in trials?
2. Do you consider that competitors should be able to compete with DNOs to undertake live jointing and associated operational activities? If not, why not? If yes, in which segments of the market do you consider that contestability should be extended?

	Jointing to existing mains	Associated operational activities (<i>where applicable</i>)
Unmetered		
Metered low voltage		
Metered high voltage		

3. We note that, as yet, not all DNOs have completed trials at all voltage levels. Do you agree that learning from trials in one DNO area at one voltage level can be applied across all DNOs? Do you agree that learning from trials at one voltage level can be applied across other voltage levels? If not, why not?
4. Do you consider that there are any Distribution Service Areas (geographical DNO areas) where live jointing and associated operational activities should not be made contestable or should these activities be made contestable in principle across all DSAs? Please explain the reasons behind your view.
5. If we decide that in-principle contestability should be extended:
- Do you consider that where an ICP does not hold the accreditation required to joint to existing DNO mains, DNOs should continue to provide this service to the timescales set out in SLC 15 (the existing standards of service associated with the provision of non-contestable final connections services)?⁴
 - Do you consider that Ofgem should set a deadline by when it expects DNOs to amend their changing methodologies, or should it rely on the Competition Test to incentivise DNOs to extend contestability?⁵
 - Do you consider that there is scope to extend contestability further in the future? If so how?

Next Steps

Once we have received responses to this consultation we will consider whether 'in-principle' live jointing to existing mains and associated operational activities should be contestable. We intend to publish our view on this in early 2012.

Yours faithfully



James Veaney
Head of Distribution Policy

⁴ Standard Licence Condition 15 of the DNO's Electricity Distribution Licence - <http://epr.ofgem.gov.uk/index.php?pk=folder499235>

⁵ Further information regarding the Competition Test can be found in DPCR5 Final Proposals – Incentives and Obligations.

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=348&refer=Networks/ElecDist/PriceCtrls/DPCR5>