

James Veaney
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Ofgem
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18 March 2015

Dear James

The findings of Ofgem's review of the electricity connections market: Consultation on proposed remedies

I am writing on behalf of UK Power Networks' three licensed distribution companies in response to Ofgem's consultation seeking views on the remedies proposed following its review of competition in the electricity connections markets.

We welcomed the opportunity to participate actively in Ofgem's review of competition in the connections markets during 2014. Our response to Ofgem's October 2014 consultation provided evidence that UK Power Networks had reacted promptly, investing significant effort to achieve tangible results in addressing the concerns that had been raised. Examples of such actions are set out in the relevant sections below and include the removal of the requirement for IDNOs to fund LV boundary link boxes and the introduction of an innovative new approach to design approval.

In the weeks since the current consultation was published we have established effective and ongoing dialogue with the other DNOs. As requested in the consultation, an early objective for this group was to determine proposals as to how we intended to work together to develop the Code of Practice (CoP) through consultation with stakeholders. The group was successful in agreeing a set of proposals and these were confirmed in the ENA response sent to Ofgem on behalf of the DNOs on 17 February 2015.

We have reviewed our practice against the minimum requirements Ofgem set out in the consultation and are making every effort to ensure this is exceeded in the CoP. We are confident that DNOs will be able to produce a CoP that meets Ofgem's minimum requirements; however, in the event that we believe we can exceed those commonly agreed CoP service levels, we may elect to offer a higher standard of service.

For ease of reference this response follows the format of the questions set out in Chapter 3 of Ofgem's consultation.

Question 1: Comments on the proposed structure and content of the CoP licence condition

Following on from the issuing of a draft licence condition by Ofgem, UK Power Networks has coordinated the updating of this condition on behalf of all the DNOs. The proposed updates to this condition will, as agreed by you, be submitted by 25 March. In the interim, we highlight a few areas that may be covered in the cross-DNO response which are pertinent for UK Power Networks.

Section 3.19

We support Ofgem's proposal to exclude detailed requirements and specific obligations from the licence condition. Evolving markets and continuous improvement in processes and systems driven by stakeholder engagement will almost certainly result in periodic revisions to the CoP. A need to reflect consequent changes in the licence condition could delay, or in the worst case inhibit, continuous improvement in service levels due to the strict governance surrounding licence condition modifications.

Part 1 – General Duty

We have concerns regarding the use of 'best endeavours' in section 3.21. Conversations between Ofgem and DNOs through the licence drafting for RIIO-ED1 touched upon this point and Ofgem understood DNOs' concerns that 'best endeavours' is a strong legal term whose interpretation includes the need to breach other contracts to meet the 'best endeavours' requirements. We would however like to assure Ofgem that UK Power Networks takes its obligations under this general duty seriously.

Part 2 – Purpose

We acknowledge Ofgem's intention in seeking to maximise competition through the licensee 'minimising ... the scope... of its input services'. We would note however that ICPs are not a homogenous group and a simple reduction of all input services to a bare minimum could in fact constitute a barrier to new market entrants who may prefer the licensee to provide more than the minimum level of input service where, for instance, they lack expertise or resource in a given aspect of the work.

With regard to the harmonisation of input services across DNOs, we entirely support this concept but believe there may be circumstances where, whether owing to legacy systems, geography or customer preference, an equivalent outcome is achieved by two or more different routes. The licence condition should not preclude this.

Furthermore, there is a potential conflict in the purposes of the licence condition. On the one hand a DNO is obliged to minimise the scope of its input services whilst on the other harmonise the input services with other DNOs. Should a DNO be, for valid reasons, unable to harmonise one of its input services then the other DNOs would potentially be in breach of their obligation to minimise the scope of their input services. A prioritisation of which purpose is more important is one potential solution to this issue.

Part 4 – Governance and appeal process

We support Ofgem's proposal to manage volumes of speculative change requests by establishing a requirement to justify the reason for change and ensure suitable stakeholder engagement as part of formally proposing the change.

Question 2: Comments on the minimum requirements Ofgem have proposed for inclusion in the CoP

We agree that Ofgem have identified the key issues that were raised in the Competition Review. These are topics that emerged in the course of the Competition Test and featured more or less consistently in the Competition Review and therefore we have already taken action in many cases. In the following section we provide our comments on the proposed minimum requirements for each of the areas. In some cases we have suggested modifications to the minimum requirements for inclusion in the CoP where we believe this would remove ambiguity.

Accreditation

We believe it should be clarified that, where DNOs require any accreditation or assessment, they do so only where the ICP is carrying out live LV work or HV final connections that are contestable. Any other work on electrical assets which will be subsequently operated and maintained by the DNO but are yet to be connected requires only for the ICP to secure the appropriate NERS accreditation.

We recognise the need to minimise unnecessary steps for ICPs and their staff to work across DNO boundaries and are taking active steps to evaluate other DNOs' practices to ensure they meet our requirements to safeguard the distribution network and the safety of employees and the general public.

We fully support the benefit of a nationally recognised approach to accreditation. We are active members of the National Skills Academy for Power (NSAP) which sits at the heart of the power sector, driving excellence in skills and bringing together employers, skills organisations and stakeholders, within the wider Energy and Utility Skills group. Our Director of Health, Safety, Sustainability and Technical Training represents UK Power Networks on the NSAP Board. Within NSAP, the Competence Accord Group of member company employees has agreed a common set of standards for a variety of industry activities such as jointing, fitting and overhead line work. These have been used to set the standards for the Government funded Trail Blazer Apprenticeships. We have initiated work within this group that has resulted in a proposed set of competence groups for current ICP activities. This work is ongoing and we will continue to promote this with a view to achieving an outcome that can be reflected in a later version of the CoP.

We are also undertaking a review of the scope and content of our current ICP network familiarisation assessments to optimise the scope and assess what if any aspects might be removed and made available on request.

Point of Connection (PoC)

We have offered competitors the opportunity to identify a PoC for schemes up to 70kVA since 2013, although this has generated very little take up. We are therefore proposing to offer competitors the opportunity to determine the PoC up to significantly increased prescribed levels. It is possible that this may exceed the level of service deemed achievable for the CoP, in which case we will offer this as an enhanced level of service over and above that prescribed by the CoP.

Notwithstanding the freedom to identify a PoC, it remains the case that in some circumstances DNOs will need to validate the proposed PoC in order to ensure the future integrity of the network. This is being considered with other DNOs as part of the development of the scope of the CoP.

We note that, in order to undertake PoC work, competitors will often require access to the same diverse range of information systems that our own designers use. This presents complex technical challenges, however we are making promising progress in establishing a portal to enable competitors to access these systems remotely.

Design approval

We accept the proposed wording for the minimum requirement.

During 2014 we responded to stakeholder feedback by developing a raft of improvements to our design approval processes. At the heart of these measures is an innovative approach, developed in close association with two major competitors that are now both participating in an initial pilot. Under these arrangements a proportion of the ICP's designs are fast-tracked based on their design acceptance percentage. As their acceptance performance improves the proportion of schemes 'fast-tracked' rises until 100% of schemes are accepted without design approval being required. At the end of March 2014 we will be assessing the first stage of the pilot for the initial participants and during April and May 2015 it will be extended to a further group of ICPs, incorporating any modifications arising from the initial pilot evaluation.

In consultation with our competitor pilot partners, we took the decision to place approval with the ICP rather than the individual as we felt this would aid continuity for the ICP, giving them the autonomy to develop new designers to the requisite standard as their pool of designers changes.

This approach has been recognised by DNOs as best practice and included in our proposals for the CoP.

Link boxes

We accept the proposed wording for the minimum requirement.

As a direct consequence of feedback in September 2014, we met with one of our IDNO customers and developed arrangements to make payments where our engineering standards require a link box to be provided at the IDNO boundary. This was implemented from 1 October 2014 such that UK Power Networks now funds any link box that it requires to be installed at an LV DNO/IDNO boundary.

Inspection

We accept the intent of Ofgem's proposed wording for the minimum requirement but suggest two minor revisions to remove ambiguity and ensure clarity of intent.

We suggest that the wording of the first part of the proposed minimum requirements be modified to clarify that adoption applies only to competitor works, as shown in red below.

- DNOs have in place an inspection and audit regime which is consistent for all connections ~~they will adopt~~ **to the licensee's distribution network** (both for where they have been responsible for the work or where an independent has undertaken the work).

We suggest that the wording of the second element of the proposed minimum requirements be modified as shown below to clearly separate the two discrete requirements, firstly to publish inspection frequency criteria and secondly to publish details of volumes of inspections conducted.

- DNOs must publicise, both for their business and their competitors:
 - the criteria used to dictate the frequency of inspection; and

- reports showing the volume of inspections conducted.

Accepting non-contestable quotes

We believe there may be a typographic error in Ofgem's proposed wording for the minimum requirement as there is a conflict between section 2.12 and section 3.31. We suggest that the wording in section 3.31 be amended as shown in red below.

- This means that when the customer accepts the non-contestable services offered by the DNO but chooses to use an independent for the contestable part of the connections, the DNO cannot reissue the quote for the **non**-contestable services.

Other Issues

Statutory Rights

We welcome Ofgem's proposal to raise this issue with central government and other sectoral regulators and would be pleased to cooperate in any further work in this area.

Customers' awareness of alternative providers and their understanding of how to use alternative providers

We welcome Ofgem's recognition of DNOs' efforts in this area and their observation that other industry players have obligations in this matter. We have, with the other DNOs, drafted proposed wording in the CoP to capture current good practice in explaining the choice that customers have.

Emergency response obligation

We are in active discussions with one of our IDNO customers concerning the provision of emergency response services. We do not believe there are any regulatory barriers to providing this service.

Unmetered supply inventories

This matter is the subject of ongoing formal consultation, however we fully recognise that the industry governance process has meant that the pace of change has been slower than IDNOs would have liked. Unfortunately the proposals to allow unmetered customers to combine inventories where they have equipment on IDNO and DNO networks, as tabled to Elexon in the recent consultation (CP1414), were unworkable due to a number of regulatory, administrative and technical issues (for example, it would require the incorrect reporting of units settled by a supplier for equipment on an IDNO's network as if they were on the DNO's network). We have proposed in our consultation response various solutions to these issues, which include establishing an agency model including transactional charges for the management of third party inventories. We believe this is fundamental to safeguard the interests of the wider customer base. We will continue to cooperate with all parties to facilitate the timely implementation of mutually acceptable arrangements and with this in mind have approached an IDNO to explore options for developing a proposal for the agency model.

Question 3: In addition to the minimum requirements, what else should be included in the CoP?

We believe Ofgem have captured the key concerns that were raised during the Competition Test and the Competition Review. We are working with stakeholders to identify further items that they believe are hindering the development of competition. We will, working within the constraints of the timetable for the CoP, aim to develop solutions for any such issues and build them into the CoP. To the extent that this is not possible we believe the most pragmatic approach for further actions is via DNOs' ICE plans, which will enable DNOs to develop solutions locally in association with their stakeholders and then propose the optimum solution for incorporation into a later version of the CoP.

I hope that our comments are helpful and demonstrate our continued commitment to ensuring a level playing field in the connections market.

If any part of our response requires further explanation or clarification, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'K Hutton', written over a light blue horizontal line.

Keith Hutton
Head of Regulation
UK Power Networks

Copy Paul Measday, Regulatory Returns & Compliance Manager, UK Power Networks
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