



Making a positive difference
for energy consumers

All DNOs, IDNOs, connection customers and other interested stakeholders.

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Dear Stakeholders,

Review of regional electricity distribution connection costs and the information provided to prospective connection customers

It is important that customers pay a fair price for getting connected to the network. There are a number of protections in place to ensure that this happens. Late last year, there were concerns that connection customers were being charged different amounts to complete similar connections work, depending on where they lived. This letter explains how connection charges are calculated, summarises the steps we took to investigate these concerns and the actions that we expect network companies to take.

Background to connection charges

The companies that own and operate the electricity distribution network are called distribution network operators (DNOs). The DNOs are regional monopolies. The DNOs must connect any customer who wants to connect to their electricity distribution network.¹ There is a cost associated with providing connections and the DNOs are allowed to charge for this service.

There are no standard charges for getting connected to the electricity network. Connections charges are calculated on a project specific basis. However, there are a number of rules in place to ensure that connection customers pay a fair price. For example, DNO connection charges must be calculated in accordance with the DNOs' obligations under the Electricity Act 1989 and the electricity distribution licence. This requires the DNOs to connect customers as cost-efficiently as possible. The DNOs are also not allowed to earn a profit for work on relatively low-cost connections.² Independent Connection Providers (ICPs) and licensed Independent Distribution Network Operators (IDNOs) can compete with Distribution Network Operators (DNOs) to complete some connection activities. Effective competition for new connections should help reduce connection costs, improve customer service and encourage innovation.

Connection charges concerns

All DNOs are required to publish a Connection Charging Statement which should help customers estimate the potential cost of getting a connection. We approve the form of the Connection Charging Statement, but we don't approve the financial values specified in it. These values are not actual connection costs, they provide indicative information on the range between the minimum and maximum cost that a customer will be required to pay for a specific service. Each DNO has a licence requirement to review the Connection Charging Statement at least once a year and make any changes necessary to ensure that it remains as accurate as possible.

¹ For more information on who the DNO is your region, please go to the Energy Network Association website: <http://www.energynetworks.org/info/faqs/electricity-distribution-map.html>

² CRC 2K. (Margins on licensee's Connection Activities) of the special electricity distribution licence states that the DNOs are unable to earn a margin for any connections work in the Excluded Market Segments.

Based on the information published in the DNOs' Connection Charging Statements, we had concerns that customers could seemingly be charged significantly different amounts to complete similar connections work, depending on in which DNO's region the customer was located.

Review actual connection charges

In response, we asked all DNOs to provide additional data on actual costs that have been quoted to prospective connection customers. At this stage we have not identified any evidence to suggest that DNOs are overcharging customers.

The data has however revealed some regional differences in the actual average connection cost quoted. The DNOs told us that this was due to -

- **Regional differences in the average amount of work needed to connect in each region** (eg some regions have a higher proportion of work that requires excavation and reinstatement).³
- **Regional differences in costs** (eg regional differences in contractor costs and street work permits costs).
- **Differences in the amount of excavation/reinstatement work assumed to be completed by the DNO.**

The appendix to this letter provides some case studies to illustrate the impact that these factors can have on the overall connection cost. We consider that the DNOs need to improve the quality of information provided to prospective connection customers about these factors.

Review Connection Charging Statement

As part of our review we also considered the quality of information published by the DNOs in their Connection Charging Statements. We identified two key issues -

- **Lack of clarity** - we consider that in its current format, it is difficult to draw confident conclusions from the Connection Charging Statement on the likely total cost of getting connected to the network.
- **Inconsistency** - the DNOs use different approaches to calculate the indicative cost values identified in the Connection Charging Statement.

Way forward

At this stage, we have not identified any evidence to suggest that DNOs are overcharging customers or earning a profit on this type of connections work. However, we consider that there are opportunities to provide connection customers with better quality information. We want all DNOs to do the following:

1. **Review and improve the quality of information provided to prospective connection customers about the cost of getting connected.** This includes -
 - Making the information published in the Connection Charging Statement easier to interpret and use, so that customers can reasonably estimate the total cost of getting connected. This includes publishing clearer information on the factors that may affect the cost of getting connection.

³ Where the electricity distribution network is located underground, connecting to the network requires additional work to dig a trench (ie excavate), make the connection, fill the trench back in and reinstate any surface materials (ie reinstatement). The proportion of the electricity distribution network that is underground varies across the country.

- Improving the consistency of the methodologies used to calculate the indicative cost values published in the Connection Charging Statement.

We want the review to focus on the information provided to the high volume of relatively routine, low cost connections made by the DNOs. To ensure that the Connection Charging Statement provides useful information to prospective connection customers, we are willing to consider fundamental changes to its content and format.

Whilst our review has focused on the information provided to customers wanting to connect the DNO's networks, we consider that there may be benefits to involve IDNOs as part of this review. We consider that there may be a benefit in the network operators undertaking aspects of this work together, potentially through the Energy Networks Association (ENA).

2. **We want all DNOs to identify clearly the work that can be undertaken by customers** (eg excavation work) – so that, where possible, connection customers can choose the amount of work that is undertaken by the DNO.

We expect all DNOs to report back to us on how they have addressed these issues - **by the end of June 2016**.⁴

If you have any queries regarding the information contained within this letter you please contact Stephen Perry on 020 7901 1806 or by email stephen.perry@ofgem.gov.uk.

Yours faithfully,

James Veaney
Head of Connections and Constraint Management

⁴ The reporting back to us could form part of the DNOs' next RIIO-ED1 Incentive on Connection Engagement - Looking Forward reports that are due to be submitted to us at the end of May 2016

Appendix 1 - Useful information for prospective connection customers

If a connection customer considers that it has been overcharged for a connection, then it can raise a complaint with the DNO. If the customer considers that it cannot resolve the dispute with the DNO directly that it can contact 'Ombudsman Services: Energy' on 0330 440 1624, or via their website: <http://www.ombudsman-services.org/energy.html> Ultimately, if the customer considers that it has exhausted the alternative dispute resolution routes, then it can ask us to determine the dispute. For more information on our determination powers please refer to our Determinations Guidance.⁵

Customers also have a choice about who they get a connection from. This is because not all new connections to the distribution network are made by electricity distribution network operators (DNOs). Competition exists for some work. A customer can choose to use an alternative provider for some connections work known as "contestable work".⁶ Effective competition for connection work should help reduce connection costs, improve quality of service and encourage more innovative connection solutions.

We have published a useful guide for prospective connection customers that explains the steps to getting a connection, what you may need to pay for and how to make sure you get a fair deal.⁷

We have also published a useful to guide to electricity distribution connections policy that explains the connections process and the regulations that are in place to protect consumers.⁸

⁵ https://www.ofgem.gov.uk/sites/default/files/docs/2012/08/determinationsguidanceaug2012_0.pdf

⁶ For a list of independent distribution network operators go to: <https://www.ofgem.gov.uk/electricity/distribution-networks/connections-and-competition/independent-distribution-network-operators> and for a list of independent connection providers go to: <http://www.lloydsregister.co.uk/schemes/NERS/providers-list.aspx>

⁷ <https://www.ofgem.gov.uk/publications-and-updates/how-get-electricity-connection>

⁸ https://www.ofgem.gov.uk/sites/default/files/docs/2014/04/guide_electricity_distribution_connections_policy_0.pdf

Appendix 2 – Illustrative differences in connection costs

These case studies aim to illustrate the impact that some factors can have on the overall connection cost.

- 1. Tarmac driveway:** For example, there are two houses on the same street, connected to the same DNO, that have the exact same connection capacity requirements. However one customer has a tarmac front garden and the other has a grass front garden. If, to complete the connection, the DNO needs to excavate a trench, then the customer with a tarmac front garden could expect to pay more for their connection. This is because of the additional work required to excavate and reinstate tarmac rather than grass.
- 2. Underground:** For example, there are two houses in the same neighbourhood, connected to the same DNO, that have the exact same connection capacity requirements. However, one customer is connected to an overhead line and the other is connected to an underground line. To complete a new connection, the customer connected to the overhead line could expect to pay less than the customer that requires work to be completed underground. This is because of the additional work required to complete work underground (eg digging trenches).
- 3. Streetworks:** For example, there are two houses on the same street, connected to the same DNO, that have the exact same connection capacity requirements. However, one customer has a front garden and the other does not (it is directly on the road). If, to complete the connection, the DNO needs to excavate a trench, the customer with a front garden could expect to pay less for their connection. This is because of the additional costs associated with obtaining permission to undertake work in a public highway (ie streetworks).
- 4. Same street, different DNOs:** For example, there are two houses on the same street, that have the exact same connection capacity requirements and the exact same amount of work to be completed, that are connected to different DNO networks. In this situation we would expect the connections costs for the two customers to be similar.