

December 2000

**Review of competition in gas and
electricity connections**

Survey document

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1. Introduction and Executive Summary

Purpose of this document

- 1.1 This document includes the survey pro forma which forms part of Ofgem's review of competition in the markets for gas and electricity connections. The Ofgem plan and budget, published in March 2000, highlighted the importance of ensuring that competition in the provision of connections develops in an effective way. A report summarising the results of the review of competition in connections will be published in March 2001.
- 1.2 The enclosed survey seeks facts and opinions on the current practices and constraints on existing providers and purchasers of gas and electricity connections and the future development of competition in this area. Responses are invited from existing providers and purchasers of gas and electricity connections. Additionally, responses are encouraged from anyone who would consider providing connection services if market conditions were appropriate.
- 1.3 In the gas industry competition in the provision of network connections has been developing since 1995. Ofgas chaired a gas connections steering group comprising Transco, independent Public Gas Transporters, contractors, representatives from the Health & Safety Executive and customers between 1997 and the end of 1999. This group facilitated the development of independent connections providers. During this time Ofgas also undertook an investigation of Transco following complaints of anti-competitive behaviour, which resulted in a Gas Act enforcement Order against Transco in February 1999. In the electricity industry there has been less progress toward competition in the provision of network connections, despite OFFER publishing a consultation paper on these matters in December 1998. In July 2000 Ofgem published a proposals document and an electricity connections steering group has now been established (further details of the work and operation of this group can be found on Ofgem's web site at www.ofgem.gov.uk). The results of this survey will be used to ensure that future policy initiatives are effectively focused on delivering a fully competitive market in gas and electricity connections.

Rationale

- 1.4 The Utilities Act 2000 sets out Ofgem's principal statutory duty to "protect the interests of consumers..., wherever appropriate by promoting effective competition".
- 1.5 Ofgem is committed to promoting effective competition, in contestable activities, where it benefits the consumer. The provision of connections is one such activity. The benefits of effective competition include greater choice of products and service providers, improved services and value for money for customers.
- 1.6 To effectively promote competition it is necessary to develop appropriate and timely policies to achieve this aim. The review of competition in the provision of gas and electricity connections will:
- ◆ establish a baseline with which to assess future changes to the gas and electricity connection markets; and
 - ◆ inform future policy decisions aimed at reducing barriers to the development of effective competition.

Structure of the document

- 1.7 Chapter 2 of this document addresses the regulatory background to the provision of connections for gas and electricity and sets out Ofgem's proposed approach to assessing competition. Chapter 3 provides information on completing the survey. Chapter 4 contains the survey questionnaire.

Responses

- 1.8 Responses should be returned to Ofgem by no later than the 12 January 2001 to.

Sean O'Hara

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- 1.9 If you have any questions concerning the review or completing the survey then please contact John Holmes (020 7901 7072, John.Holmes@ofgem.gov.uk) or Sean O'Hara (020 7901 7037, Sean.O'Hara@ofgem.gov.uk). It is possible for respondents to obtain electronic versions of the survey, in Word 97 format, on request. Electronic responses can be submitted via floppy disk to the above address, or email attachment to John Holmes or Sean O'Hara.

Confidentiality

- 1.10 Responses to the survey will be placed in the Ofgem library, unless the respondent marks some or all of their response as confidential.

2. Background

Gas connections

- 2.1 Public Gas Transporters (PGTs) are responsible for maintaining Great Britain's gas pipeline network. BG Transco is responsible for maintaining and operating the National Transmission System, as well as its own local distribution systems.
- 2.2 The Gas Act 1986 was amended in 1995 to allow for the creation of Independent Public Gas Transporters (IPGTs). These organisations, now numbering 10 companies, develop, operate and maintain local gas transportation networks, primarily on new housing estates.
- 2.3 At present only BG Transco holds a national gas transportation licence. IPGTs receive licences for specific geographical areas. The Utilities Act 2000 will enable all Gas Transporters¹ to apply for national licences
- 2.4 Sections 9 and 10 of the Gas Act 1986 (as amended 1995 and 2000) impose a duty (upon Gas Transporters) to connect new customers. This duty applies to all premises within 23 metres of a gas main which consume 2,196,000 kWh (75,000 therms) or less within a twelve month period.
- 2.5 In addition to the duty to connect, all Gas Transporters are required to establish charging methods through condition 3 and 4 of the standard licences, setting out how charges to shippers are determined. Charges for connections are governed by standard licence condition 5. Supplementary connection charges may be levied upon shippers under standard licence condition 6. These charges are only applicable in specific circumstances, set out in the licence condition, and again require the gas transporter to establish a charging method.

Electricity connections

- 2.6 The Electricity Act 1989 established Public Electricity Suppliers(PES), who own and operate electricity distribution systems and supply electricity to customers within their authorised areas.

¹ "Gas Transporters" is the term in the Utilities Act replacing "Public Gas Transporters"

- 2.7 The Utilities Act 2000 will formally separate the distribution and supply businesses of licensed PES. Each electricity distribution business will have a duty to connect new customers.
- 2.8 Each PES is required by its licence to prepare a statement in respect of charges for connection to its distribution system. These statements should enable any person to make a reasonable estimate of the connection charges to the relevant distribution system.

Present initiatives

- 2.9 A number of initiatives, proposed or supported by Ofgem, are in place to promote competition in gas and electricity connections. The review of competition will help to assess the effectiveness of these initiatives.
- 2.10 The development of competition in gas connections is presently supported through two initiatives. First, a contractor registration scheme aiming to create national standards of competency for independent connection providers. Second, a trial of final connections to the relevant gas main to allow this work to be undertaken by registered independent connection providers.
- 2.11 Promotion of competition in electricity connections is presently supported through a connections steering group and streetlighting sub group. These steering groups consist of PES and customer representatives and are chaired by Ofgem. Further details are available in the July 2000 document Competition in connections to electricity distribution systems².

Assessing competition in connections

- 2.12 This survey draws on previous practice by Ofgem in conducting competitive market reviews of supply competition and of metering and meter reading. Where it is reasonable to do so it is appropriate to replace regulation with effective competition.
- 2.13 The dynamic nature of competition requires that Ofgem use a number of indicators if a comprehensive and useful view of prevailing market conditions is

² This document and minutes from the steering groups' meetings are available on the Ofgem website www.ofgem.gov.uk

to be ascertained. In assessing the development of competition it may be relevant to consider:

- ◆ the behaviour of any dominant incumbent firms;
- ◆ awareness of alternative providers among purchasers of connections;
- ◆ the number of competing providers and the range of services and prices on offer;
- ◆ how new providers compete and differentiate themselves to customers (in terms of branding, quality of service and so on);
- ◆ any evidence of barriers to entry or choice;
- ◆ market entry and exit;
- ◆ the market shares of incumbents and new entrants; and
- ◆ the extent to which all the above factors vary by types of customer or area.

2.14 The survey responses will be supported by data collected through information requests to regulated companies and industry work groups and meetings.

3. Completing the survey questionnaire

Structure of the survey

3.1 Respondents to this survey should have purchased or provided gas or electricity connections within the last 12 months. The survey is comprised of 5 sections A to E, as follows:

- ◆ Section A. Your organisation - information related to your organisation's name and main business activities;
- ◆ Section B. Purchasing and arranging gas connections - the experience of buying, or arranging on behalf of others, gas connections;
- ◆ Section C. Providing gas connections - surveys the practice and experience of gas connection providers and asks for opinions on the state of competition in the provision of gas connections;
- ◆ Section D. Purchasing and arranging electricity connections - the experience of buying, or arranging on behalf of others, electricity connections; and
- ◆ Section E. Providing electricity connections - surveys the practice and experience of electricity connection providers and asks for opinions on the state of competition in the provision of electricity connections.

3.2 It is unlikely you will need to complete all sections of this survey. All respondents need to complete section A, (your organisation). To help you identify the remaining sections relevant to you please refer to the signpost table below.

SIGNPOST TABLE

Respondent	Survey section			
	B	C	D	E
Gas consumers	✓			
Electricity consumers			✓	
Gas/electricity suppliers that arrange connections on behalf of consumers	✓		✓	
Other agents, e.g. engineering consultants, architects etc.	✓		✓	
Builders and Developers	✓		✓	
Private electricity distribution networks			✓	
Self-lay connection installers		✓		✓
Public Gas Transporters		✓		
Public Electricity Suppliers (distributors)				✓

Important guidance for completing the survey

Gas

- 3.3 The term gas connection, and gas connection services, in this survey refers to the laying of pipes and connection to a premises' meter(s) to supply domestic or industrial and commercial premises with gas and final connection to the relevant gas main.
- 3.4 If any of the services you offer, or may plan to offer in the future, differ from the definition of gas connections in 3.3 above, please make this clear in your response and provide definitions of the connection service you are providing.
- 3.5 Please indicate when answering questions in sections A, B and C of the survey whether you purchase or provide domestic and/or non-domestic gas connections.

Electricity

- 3.6 Electricity connection, and electricity connection services, in this survey means the provision of electrical line, and where necessary electrical plant, and connection to a premises' meter(s) to supply electricity to domestic or industrial and commercial premises and the final live connection to the relevant distribution network.
- 3.7 If any of the services you offer or may plan to offer in the future differ from the definition of electricity connections in 3.5 above, please make this clear in your response and provide definitions of the connection service you are providing.
- 3.8 Please indicate in answering questions in sections A, D and E of the survey whether you purchase or provide domestic and/or non-domestic electricity connections.

Continuation sheets

- 3.9 If the pre-formatted tables provided with the questions below do not allow sufficient space to fully answer the relevant question, please continue on a separate sheet. Please mark any continuation sheets with your company name and the section and question number.

4. Survey questionnaire

Section A: your organisation

4.1 Please complete the following questions:

Question A1

Name of your organisation.

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Question A2

If your organisation is part of a larger group of companies, please give the group name.

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Question A3

Please describe your organisation's main business activities and relevant trading name(s) for the activities.

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Question A4

If you hold any licences under the Gas Act 1986 (as amended 1995 and 2000) and Electricity Act 1989 (as amended 2000), please list the licences.

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Question A5

Please tick the relevant box below to indicate whether you are a purchaser or provider of gas or electricity and domestic or non-domestic connections.

	Gas		Electricity	
Purchaser	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Provider	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Domestic	Non-Domestic	Domestic	Non-Domestic

Section B: purchasing and arranging gas connections

4.2 Please complete these questions if:

- ◆ you have purchased a gas connection directly for a domestic premises or industrial and commercial premises during the last twelve months;
- ◆ you have arranged a gas connection to domestic or industrial and commercial premises during the last twelve months.

Question B1

Please describe how you typically purchase gas connections in Great Britain. Please include details such as:

- ◆ how you select gas connection providers e.g. through competitive tender;
- ◆ the number, and type (e.g. independent connection provider, public gas transporters, suppliers or other agents³ etc), of connection providers you use when buying or arranging a connection; and
- ◆ the number of quotations you consider when buying or arranging a gas connection.

³ "Agents" include any individual or organisation that arranges connections, with connection providers, on behalf of a customer.

Question B2

Are you able to influence the price and/or quality of service you receive from gas connection providers? If yes, please describe how are you able to influence price and/or quality.

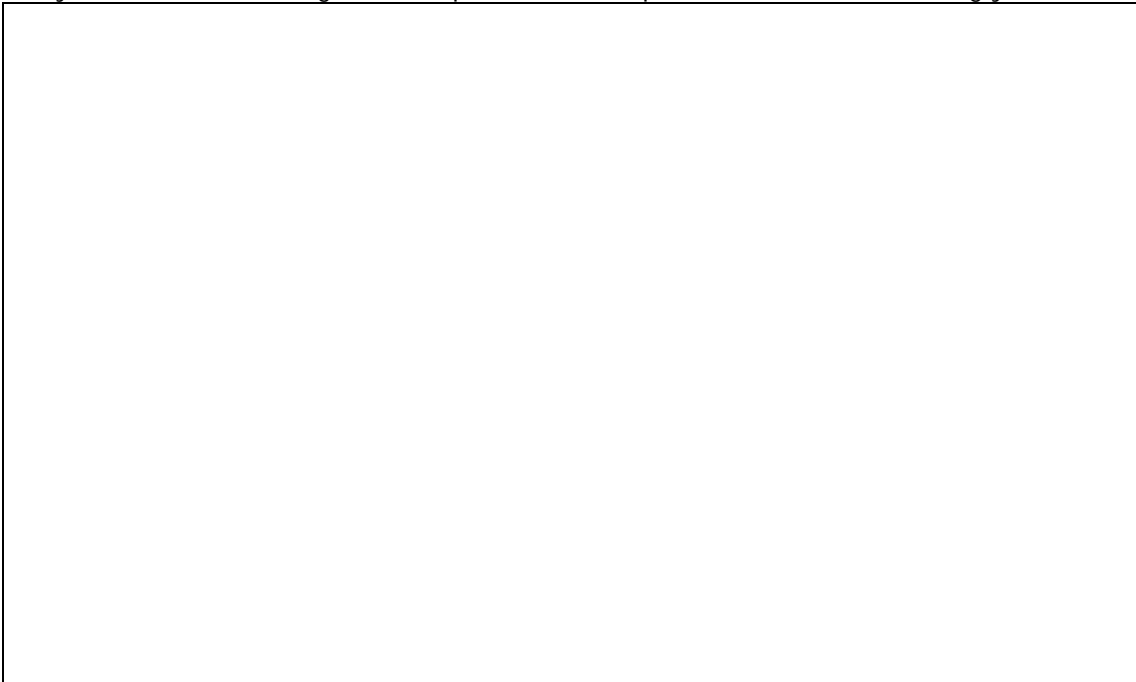
Question B3

Please describe and rank, from most important to least important, the factors that influence your choice of connection provider. Examples of factors may include: price, quality⁴ or timeliness of work, geographical area covered by the connection provider, existing commercial relationship.

⁴ Or range of services e.g. the ability to offer multi-utility connections

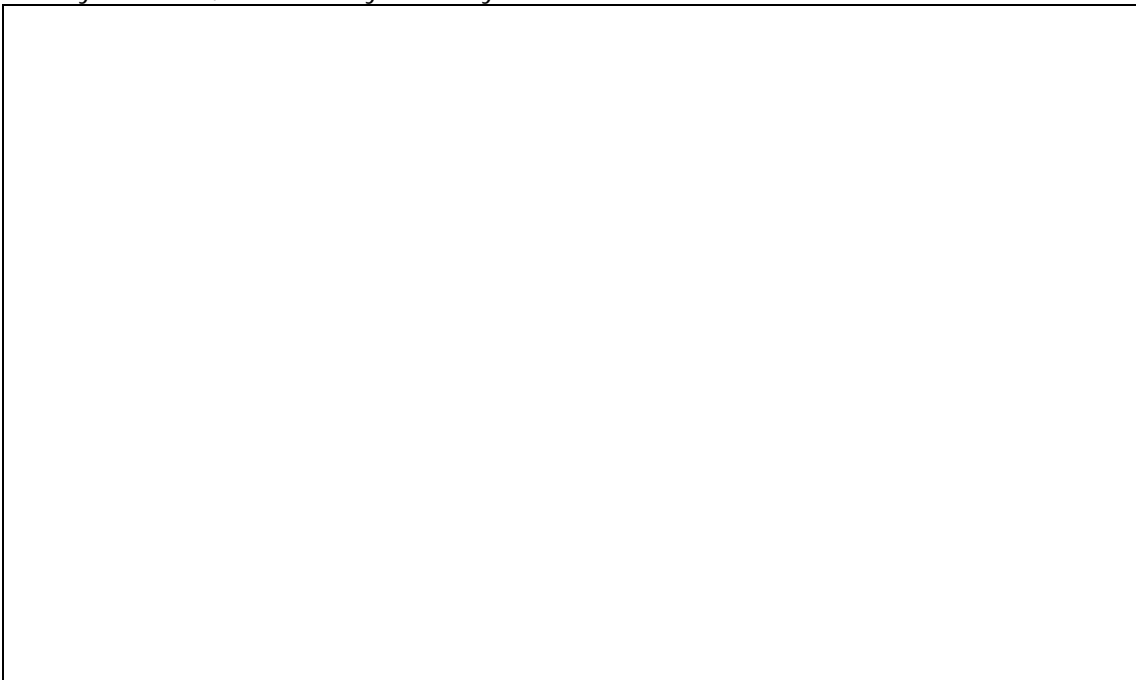
Question B4

Do you think there is a competitive market in the provision of gas connections? If there are important factors or barriers that limit or distort competition please describe what they are and rank, from greatest impact to least impact, the barriers accordingly.



Question B5

Do you expect the way gas connections are purchased and provided to change over the next year? If so, in what way and why?



Section C: providing gas connections

4.3 Please complete these questions if:

- ◆ you have provided a gas connection(s) to domestic or industrial and commercial premises within the last twelve months; and/or
- ◆ have undertaken the connection work, either directly or through contract labour, at the request of a gas consumer or shipper/supplier/agent acting on their behalf.

Question C1

Is your firm a:

Licensed Public Gas Transporter	
Independent connection provider	
None of the above	

Question C1.1

If you are an independent connection provider, how long (years or months) has your firm been active in the gas connections market?

Question C2

If there are regions of Great Britain where you do not provide gas connections or are only able to provide a limited service then please explain why this is. For example: because of your overall business strategy; differences in the extent of competition; or, barriers to entry/other factors distorting competition.

Question C3

Please describe how your firm competes to provide gas connections to customers in Great Britain. Please include details such as:

- ◆ the types of customers you provide services to (e.g. domestic or non-domestic, shipper/supplier agents etc.);
- ◆ the types or range of services and products offered to customers (e.g. new housing developments, I&C sites, infill⁵ sites etc.);
- ◆ how you market your services/products to customers; and
- ◆ whether you offer multi-utility connection work alongside gas connection work, including the types of utilities connection work you undertake (e.g. water, telecommunications). Please see **section E** of the survey if you provide electricity connection work.

⁵ Infills refers to the extension of gas networks to existing premises outside the gas supply area

Question C4

In respect of question 3 above, please describe and rank, from most important to least important:

- ◆ the key factors that influence your ability to win contracts to provide gas connections in Great Britain;
- ◆ any constraints or barriers you experience in providing those services at present; and
- ◆ any constraints or barriers that prevent you offering a greater range of connection services, or, hinder the future development of connection competition⁶.

⁶ Respondents are invited to comment on the barriers experienced in multi-lay connections that may be relevant to the future development of competition in gas connections.

Question C5

Do you expect to change how you compete to provide gas connections in Great Britain over the next year? If so, in what way and why?

Section D: purchasing and arranging electricity connections

4.4 Please complete these questions if:

- ◆ you have purchased an electricity connection directly for a domestic premises or industrial and commercial premises during the last twelve months;
- ◆ you have arranged an electricity connection to domestic or industrial and commercial premises during the last twelve months.

Question D1

Please describe how you typically purchase electricity connections in Great Britain. Please include details such as:

- ◆ how you select electricity connection providers e.g. through competitive tender;
- ◆ the number, and type (e.g. independent connection provider, public electricity suppliers, other agents⁷ etc), of connection providers you consider when buying or arranging a connection; and
- ◆ the number of quotations you consider when buying or arranging an electricity connection.

⁷ "Agents" include any individual or organisation that arranges connections, with connection providers, on behalf of a customer

Question D2

Are you able to influence the price and/or quality of service you receive from electricity connection providers? If yes, please describe how are you able to influence price and/or quality.

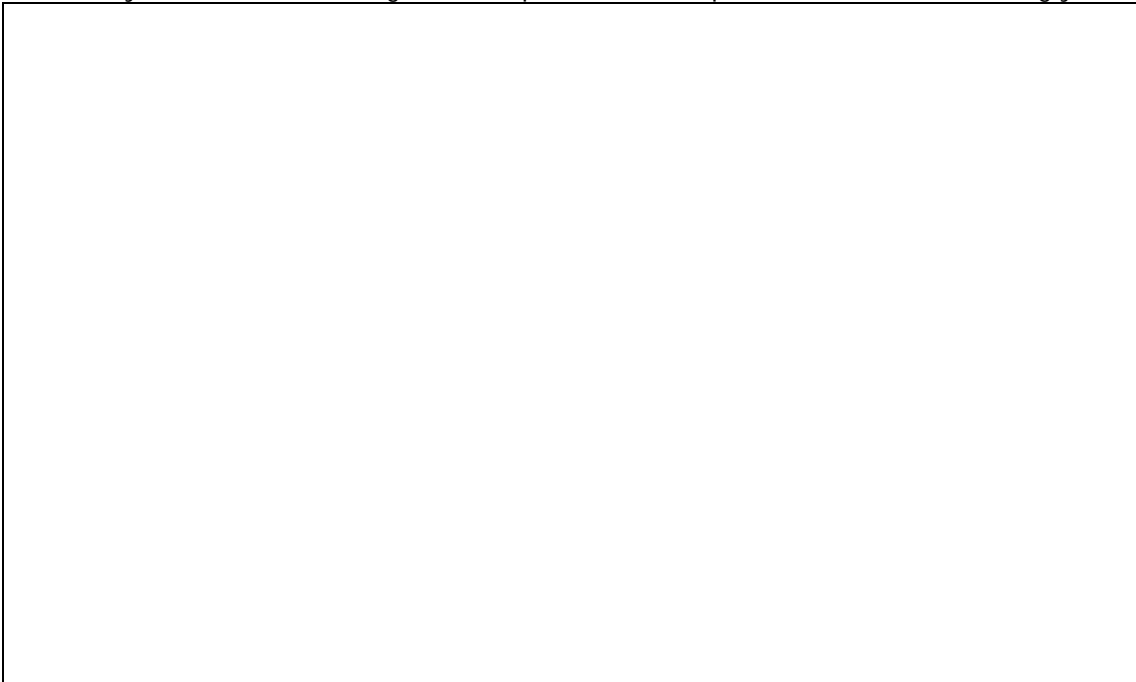
Question D3

Please describe and rank, from most important to least important, the factors that influence your choice of connection provider. Examples of factors may include: price, quality⁸ or timeliness of work, geographical area covered by the connection provider, existing commercial relationship.

⁸ Or range of services e.g. the ability to offer multi-utility connections

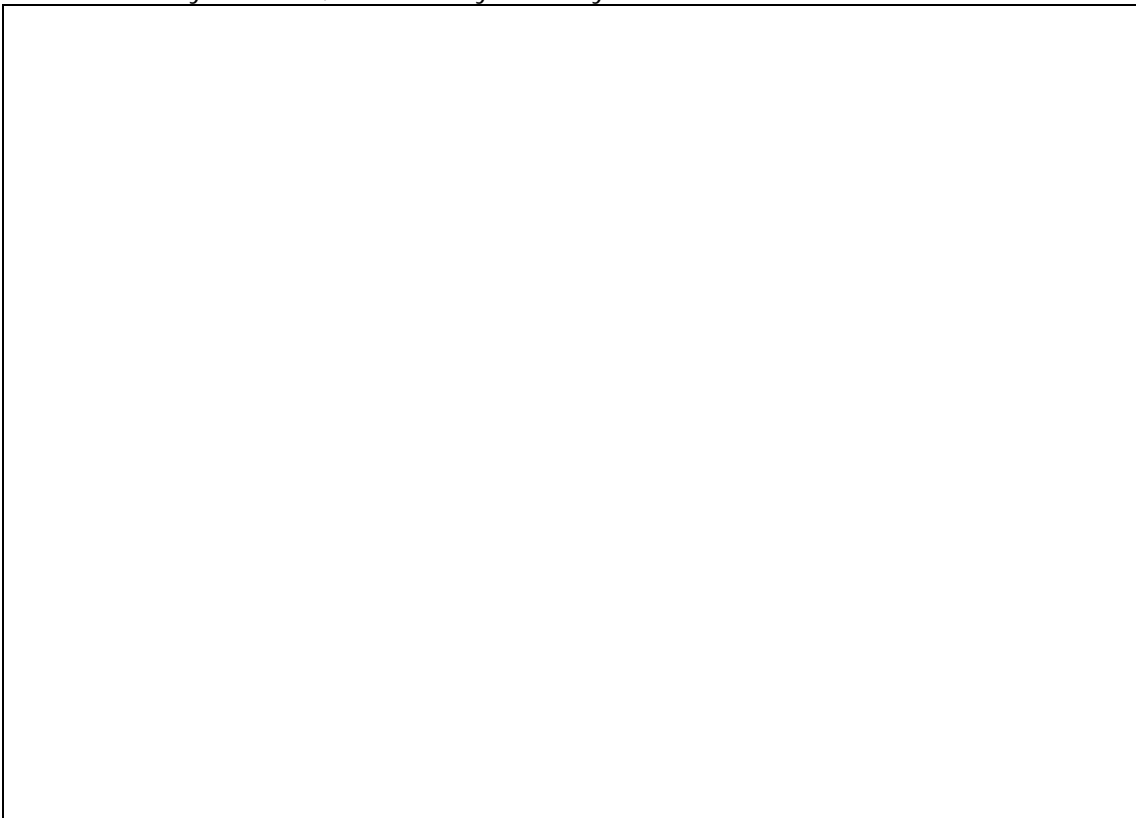
Question D4

Do you think there is a competitive market in the provision of electricity connections? If there are important factors or barriers that limit or distort competition please describe what they are and rank, from greatest impact to least impact, the barriers accordingly



Question D5

Do you expect the way electricity connections are purchased and provided to change over the next year? If so, in what way and why?



Section E: providing electricity connections

4.5 Please complete these questions if:

- ◆ you have provided an electricity connection(s) to domestic or industrial and commercial premises within the last twelve months; and/or
- ◆ have undertaken the connection work, either directly or through contract labour, at the request of an electricity consumer or supplier/agent acting on their behalf.

Question E1

Is your firm a:

Licensed Public Electricity Supplier	
Independent connection provider	
None of the above	

Question E1.1

If you are an independent connection provider, how long (years or months) has your firm been active in the electricity connections market?

Question E2

If there are regions of Great Britain where you do not provide electricity connections or are only able to provide a limited service then please explain why this is. For example: because of your overall business strategy; differences in the extent of competition; or, barriers to entry/other factors distorting competition.

Question E3

Please describe how your firm competes to provide electricity connections to customers in Great Britain. Please include details such as:

- ◆ the types of customers you provide services to (e.g. domestic or industrial end-users, shippers/suppliers/agents etc.);
- ◆ the types or range of services and products offered to customers (e.g. new housing developments, I&C sites etc.);
- ◆ how you market your services/products to customers; and
- ◆ whether you offer multi-utility connection work alongside electricity connection work, including the types of utilities connection work you undertake (e.g. water, telecommunications). Please see **section C** of the survey if you provide gas connection work.

Question E4

In respect of question 3 above, please describe and rank, from most important to least important:

- ◆ the key factors that influence your ability to win contracts to provide electricity connections in Great Britain;
- ◆ any constraints or barriers you experience in providing those services at present; and
- ◆ any constraints or barriers that prevent you offering a greater range of connection services, or, hinder the future development of connection competition⁹.

⁹ Respondents are invited to comment on the barriers experienced in multi-lay connections that may be relevant to the future development of competition in electricity connections.

Question E5

Do you expect to change how you compete to provide electricity connections in Great Britain over the next year? If so, in what way and why?