

**May 2001**

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

**Report**

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# 1. Summary

## *Purpose of this document*

- 1.1 This document sets out the results of Ofgem's December 2000 survey of competition in gas and electricity connections. The document is organised into three chapters. This chapter provides an introduction and summary. Chapter two presents the results of the December 2000 survey that gives a picture of the present state of competition in connections. Chapter three sets out the way forward in dealing with the constraints on competition identified in chapter two.
- 1.2 The initial conclusions of this review are that there is competition in the provision of gas connections for new housing developments and high value business connections. However, lower value and simple one-off domestic connections are still provided principally by the relevant gas transporter. This report identifies a number of statutory barriers to the development of competition for lower value domestic connections.
- 1.3 Electricity connections are provided almost exclusively by the host Public Electricity Supplier (PES) distribution businesses operating within their authorised areas. The principal barriers preventing the development of effective competition relate to the policies and procedures adopted by each PES distribution business in dealing with other providers of connection services.
- 1.4 The results of the survey support Ofgem's existing policies in tackling constraints on competition in gas and electricity connections. Specifically, the development of competitive final connections and the contractor registration scheme in gas, and the continuing work of the electricity connections steering group.
- 1.5 A further competitive market review will be undertaken in the coming year, drawing on lessons learnt from this review, to allow for the continued monitoring of market developments, and effectiveness of policy. Ofgem will consult with the industry to improve the specification and quality of the information request and subsequent responses.

## ***Rationale***

- 1.6 The review of competition in electricity and gas connections is seeking to:
- ◆ establish a baseline with which to assess future changes to the gas and electricity connections markets; and
  - ◆ inform future policy decisions aimed at reducing barriers to the development of effective competition.
- 1.7 Customer contributions towards the costs of gas and electricity connections amounted to around £400 million in 2000, with electricity connections accounting for approximately £300 million and gas around £100 million. Competition should bring benefits to purchasers of connections by putting downward pressure on prices, improving quality, customer service and encouraging innovation. The conclusions of this document will contribute to monitoring the success and appropriateness of existing policy initiatives designed to promote effective competition for connection services.

## ***Scope of the review***

- 1.8 For this review, connections and connection services are defined as the design, installation and final connection to existing gas or electricity networks. This includes:
- ◆ provision of new connections to existing or new domestic, commercial or industrial premises, including system extensions; and
  - ◆ new unmetered connections (for example street lighting) and the maintenance and repair of existing unmetered connections where reconnection is required.

## ***Regulatory framework***

- 1.9 The legal and regulatory framework in which gas and electricity connections are provided was summarised in the December 2000 survey document, available on the Ofgem website.

## 2. Report on connection competition

### *Introduction*

- 2.1 This chapter provides an overview of the present market structure for the provision of gas and electricity connections and presents the results of the December 2000 survey.

### *Market Structure*

#### **Gas**

- 2.2 Gas transporters (GTs) own and operate the gas transportation infrastructure. Transco is the largest gas transporter with responsibility for operating the National Transmission System (NTS). Its lower pressure transportation system is divided into twelve local distribution zones (LDZs), other GTs' licensed areas are within the LDZs. At present there are eleven licensed gas transporters in Great Britain (GB) including Transco.
- 2.3 The Gas Act 1986, Utilities Act 2000 and Public Gas Transporter's licence impose duties upon GTs when connecting premises. The duties only apply in certain circumstances and do not apply to Independent Connection Providers<sup>1</sup> (ICPs). These duties influence the environment in which gas connections are provided within GB and impact upon the way in which connection providers compete for business. This is discussed in more detail below.

#### *The 23 metres rule*

- 2.4 Section 10 (1), (2) and (5) of the Gas Act obliges a GT to:
- ◆ connect premises within 23m of a relevant main and supply and lay the necessary pipe. The customer may be charged for provision and laying of the pipes but not for the final connection; or

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<sup>1</sup> ICPs are also termed Utility Infrastructure Providers (UIPs) and are organisations which, unlike licensed GTs and PESS, do not operate networks after they have constructed them.

- ◆ connect a pipe supplied and laid by the owner or occupier of a premises if the pipe is fit for purpose, charging for the final connection to the relevant mains. The pipe then becomes the property of the GT.

2.5 The above duties only apply to connections where the supply of gas will not exceed 2,196,000 kWh per year.

*The 10 metres rule*

2.6 Standard condition 5 of the Public Gas Transporter licence requires that a GT connecting premises under the 23m rule, which consume no more than 73,200 kWh per year, does not:

- ◆ charge for supplying and laying a pipe on property dedicated to public use; and/or
- ◆ charge for the first 10 metres of pipe laid from the relevant main.

2.7 The combined effect of the 23m and 10m rules, termed statutory connections, is to distort competition in the provision of connections made at the request of a customer, particularly for simple domestic connections. A GT is able to recover the costs incurred in providing the statutory connection from all its customers through transportation charges. ICPs are unlikely to be able to successfully compete on price in these circumstances.

*Charging arrangements*

2.8 Standard condition 3 of the GT licence allows a GT to charge shippers for the costs of transporting gas through its pipeline. Standard condition 6 allows a GT to charge shippers for the costs of supplying and laying pipes to a particular site. Condition 6 charges can only be applied where at least half of the premises are more than 23m from an existing main, and gas has not been transported to the site in the last three years. Condition 6 is not used by all GTs.

2.9 Any GT wishing to apply charges under condition 3 or 6 must establish a charging methodology. The condition 6 charging methodology must be accepted by Ofgem.

- 2.10 It is possible for a GT to establish a methodology that reduces the initial connection charge to a customer, with the costs recovered over time through higher transportation charges. Such a charging method can most successfully be applied where transportation revenue is likely to be stable and secure, this is typically the case for new domestic housing estates. This type of charging method can distort the development of competition through reducing the initial connection charge against which ICPs have to compete to win contracts.
- 2.11 The Gas (Connections Charges) Regulations 1986 allow a GT to recover the costs of providing mains pipelines from the customers that connect to these pipelines. The period during which these regulations apply is limited to five years from when the main is commissioned. These regulations are usually applied when a GT undertakes construction of an infill scheme. An infill is the supply of a gas connection to existing properties which are more than 23m from an existing main.
- 2.12 Typically, infill projects are undertaken in relation to rural communities remote from the existing gas infrastructure; these premises are typically expensive to connect. It may not be economic for a GT to provide infill connections if very few customers connect in the first five years, or considerable uncertainty exists over the expected number of connections. Over the last few years there have been relatively few infill schemes.

*The gas connections steering group*

- 2.13 A number of important developments in the regulatory and competitive environment for the provision of gas connections have already occurred. From early 1997 to the end of 1999 Ofgas chaired a gas connection steering group. The group concluded its work with a number of recommendations as to how effective competition in gas connections could be further developed.
- 2.14 Two of the initiatives proposed by the Ofgas steering group are still being progressed by the industry and Ofgem. Firstly, a contractor registration scheme aiming to create national standards of competency for ICPs. Secondly, a trial of final connections to Transco's gas mains to allow this work to be undertaken by ICPs. The trial will establish systems and procedures to facilitate final connections by third parties to Transco's system and later to other GTs' systems.

At this time it is anticipated that the arrangements will be in place by the final quarter of 2001.

- 2.15 These two developments are particularly important if ICPs are to compete effectively to provide connection services. Without a nationally recognised registration scheme, ICPs face increased costs to satisfy GTs and customers that they are competent and qualified to safely provide connections. ICPs currently have to rely upon a GT to provide a final connection to the relevant main. This increases the time and cost for an ICP to provide a connection to a customer, particularly if the GT does not provide a final connection within an agreed timescale.

*The February 1999 Enforcement Order*

- 2.16 Customers and ICPs rely upon the information provided by GTs. Inaccurate information concerning existing capacity or unreasonable delays in the provision of such information add to ICPs' costs. In addition, if the incumbent firms' quotes are significantly inaccurate or delayed, customers cannot easily compare prices or make informed decisions.
- 2.17 In February 1999 an enforcement order under the Gas Act was imposed upon Transco following an Ofgas investigation of complaints about connection services provided by the company. A range of measures were imposed by the order including minimum standards of service with financial penalties for failure. This was intended to improve the timeliness and quality of information provided to customers and ICPs.

*Other developments*

- 2.18 Other industry developments likely to influence the competitive environment include Transco's separation of its connections business from its regulated activities, the forthcoming Ofgem review of the regulation of independent GTs, the development of metering competition and a standards of service consultation. These are briefly outlined below.
- 2.19 Transco intends to separate its connections business to become a subsidiary of the Lattice Group during 2002. This business will compete to provide connections services to both Transco's asset management business and other

customers in the connection market. It is important that discrimination or preference is not shown by Transco in appointing connection providers.

- 2.20 Ofgem intends to undertake a review during 2001 of the regulation of independent GTs, considering how best to protect the interests of customers in the future. The results of this review may influence the environment in which GTs and ICP compete to provide connections for customers.
- 2.21 Details of metering policy developments are contained within the March 2001 consultation document Ofgem's Strategy for Metering. Opportunities for competitive provision of metering are now available through the unbundling of Transco's metering charges from transportation charges. This is a newly opened and emerging market which will be monitored carefully. Metering competition should allow connection providers to procure and install meters for their customers, offering a comprehensive service.
- 2.22 In January 2001 Ofgem consulted upon the standards of service that should apply to regulated businesses. No proposals exist at the current time to apply connection standards of service to all GTs. Those in place under the February 1999 Enforcement Order for Transco will continue to remain in effect until Ofgem is satisfied that Transco's performance has improved sufficiently for the Order to be revoked.

### **Electricity**

- 2.23 Each Public Electricity Supply (PES) distribution business owns and operates the electricity distribution system within its own authorised area. There are twelve authorised areas in England and Wales, and two authorised areas in Scotland.
- 2.24 A number of firms own more than one PES distribution licence and fulfil the distribution obligations for each of these areas. The Utilities Act will require the formal separation of the distribution and supply businesses of each PES, although in some cases supply and distribution businesses are already separated and owned by different companies.
- 2.25 The Electricity Act 1989, Utilities Act and policy developments initiated by OFFER and Ofgem have influenced the environment in which electricity connections are provided. OFFER's 1998 consultation Competition in

Connections, and Ofgem's subsequent July 2000 document Competition in Connections to Electricity Distribution Systems address a number of concerns over the development of effective connection competition. These issues are described in more detail below.

#### *Charging arrangements*

- 2.26 Each PES distribution business has a duty to connect customers within its authorised area at the request of a customer or supplier acting on the customer's behalf. In addition, the PES licence requires that standard terms of connection are offered to each customer and that each PES distribution business publishes a connection charging statement, setting out the methods and principles used to calculate connection charges.
- 2.27 Charges for connections by PES distribution businesses reflect the costs of connection assets, direct costs, appropriate overheads and a reasonable rate of return. In addition, a number of PES distribution businesses levy capitalised operation and maintenance (O&M) charges on connection assets and offer prospective customers a tariff support allowance (TSA).
- 2.28 O&M charges and TSA may distort competition. First by making price comparisons between PES distribution businesses and ICPs more difficult. Second through the manner in which O&M charges are calculated or the timing of when TSA is made available to customers using ICPs.

#### *The scope for contestable work*

- 2.29 PES distribution businesses, following consultation with OFFER in 1995, opened some areas of connection work to competitive providers – termed contestable and non-contestable work. The type of work considered contestable or non-contestable by each PES distribution business is presented in appendix one. The principle reasons given by PES distribution businesses for this separation of contestable and non-contestable services are discussed in Ofgem's July 2000 document.
- 2.30 The existing scope of contestable work, in particular, the restriction on ICPs to undertake live connections work or design to customers, constrains the effectiveness of competition. ICPs are restricted in the scope of value added

services offered to customers, and customers cannot benefit from greater choice or effective price competition. Ofgem considers that a wider scope for contestable work is feasible and while distribution businesses may lose market share these arrangements should not lead to other significant risks to the PES distribution businesses.

#### *Contractor approval and the provision of information*

- 2.31 For ICPs to compete effectively they must be able to demonstrate they are qualified and competent to safely provide connections. The number of contractor approval schemes presently in operation raises the costs of any ICP attempting to seek approval across all PES distribution business authorised areas since each PES applies its own criteria. Additionally, it has been alleged that the granting of contractor approval is unduly restrictive – limiting the number of effective competitors.
- 2.32 Customers and ICPs rely upon the information provided by PES distribution businesses. Inaccurate information concerning existing distribution capacity or unreasonable delays in the provision of such information add to competitors' costs. In addition, if incumbent businesses' quotes are significantly inaccurate, delayed or do not clearly identify contestable and non-contestable work, customers cannot easily compare prices or make informed decisions.
- 2.33 Ofgem has established two steering groups to address the concerns over the effectiveness of electricity connection competition, the connections steering group and the unmetered connections sub group. These steering groups are chaired by Ofgem with representatives from PES distribution businesses, the Health and Safety Executive (HSE), customer representatives and new entrant representatives (e.g. contractors). The agendas and minutes of these groups' discussions are available on the Ofgem website<sup>2</sup>.

#### *Other developments*

- 2.34 Ofgem published The Structure of Electricity Distribution Charges Initial Consultation document in December 2000. This document discusses the structure of PES distribution business DUoS charges. A number of the issues

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<sup>2</sup> [www.ofgem.gov.uk/connections/connections.htm](http://www.ofgem.gov.uk/connections/connections.htm)

under consideration may have a direct bearing on developments in effective connection competition. The boundary between use of system and connection charges will influence both the level of charges and the range of competitive connection work available. Both DUoS and connection charges can be used to influence where customers choose to connect to a distribution system. The review also provides an opportunity to consider whether capitalised operating and maintenance charges and tariff support allowances, as discussed in paragraph 2.28, should affect the level or structure of connection charges.

- 2.35 It will be desirable to consider harmonising any standards of service applying to electricity connections with those applicable to gas. The January 2001 consultation on standards of service proposed to wait until the Ofgem electricity connections steering group had further considered the issues before proposing any changes.

#### **The New Roads and Street Works Act (NRSWA) 1991**

- 2.36 NRSWA affects providers of both gas and electricity connections. GTs and PES distribution businesses are granted street breaking powers by Schedule 4 of the Gas Act and Electricity Act respectively. ICPs, who are not acting as contractors for a GT or PES distribution business, must apply to Local Authorities for a licence under the NRSWA on a case by case basis to break streets. This raises the ICPs' costs and delays the speed with which they can provide a connection to the customer.

#### ***Results of the December 2000 survey***

##### **Background**

- 2.37 The December 2000 survey Review of Competition in Gas and Electricity Connections sought the views of participants in the connections markets. These included the providers of connections (principally GTs, PES distribution businesses and ICPs) and those who had recently purchased gas or electricity connections. The types of connections purchased included those to domestic and business premises and, in the case of electricity, unmetered connections such as street lighting.

- 2.38 The survey included separate questions for purchasers of connections and providers of connections, covering both gas and electricity. The types of questions can be broadly categorised into those relating to market structure (seeking views on how market participants currently purchase or provide connections) and those relating to competition (seeking views and opinions as to the extent and nature of competition in the provision of connections). Appendix two lists the questions included in the December 2000 survey.
- 2.39 A total of 52 responses were received by Ofgem. Respondents included GTs, PES distribution businesses, ICPs, shippers and suppliers and customers. A list of non-confidential respondents is in appendix three.

### Survey results

#### *Gas*

- 2.40 Respondents reported using the following types of connection providers.

**Table 1 - type of connection provider used by respondents**

Type of connection provider	% of respondents using connection provider
Gas Transporter	83
Independent connection providers	25
Agents or consultants	33

- 2.41 The majority of respondents purchase gas connections from a GT. Respondents reported that where the value of the connection exceeded £20-30k, competitive tender was used to appoint connection providers. For connections of lower value, and most domestic connections, the relevant GT tended to automatically be selected by purchasers.
- 2.42 Half of respondents considered that a competitive market exists for gas connections, indicating they were able to influence the price or quality of service they received. Respondents reported that prices of gas connections were more easily influenced than quality of service. In particular, multi-utility connections and new housing developments offered the greatest scope for influencing price or service offered. In addition when the purchaser had access to independent technical expertise the price and service quality offered by providers could be challenged and monitored.

2.43 Where competitively selecting connection providers, the factors that influenced the respondents' choice of provider are listed below, ranked in order of importance.

**Table 2 - factors influencing purchasers choice of provider**

Factor	Rank
Price	Joint 1 <sup>st</sup>
Timeliness	Joint 1 <sup>st</sup>
Quality/service	2 <sup>nd</sup>
Existing commercial relationship	3 <sup>rd</sup>
Geographic area covered	4 <sup>th</sup>

2.44 Price and timeliness were considered equally important by respondents when selecting a connection provider. Timeliness is the ability to provide a connection within an agreed timescale. Respondents emphasised the increased costs incurred if a connection is not provided within time.

2.45 Providers of connections reported the following as important factors influencing their ability to win connection contracts.

**Table 3 - factors influencing providers ability to win connection contracts**

Factor	Rank
Quality/customer service/timeliness	1 <sup>st</sup>
Brand and customer awareness	2 <sup>nd</sup>
Price	3 <sup>rd</sup>
Investment contributed toward scheme	4 <sup>th</sup>
Ability to offer multi-utility connections	5 <sup>th</sup>

2.46 A number of respondents reported that customers are not fully aware of the range of competitive connection services available.

2.47 The proportion of connection providers offering a GB wide service, and proportion offering multi-utility is presented below.

**Table 4 - respondents offering GB wide service, and/or multi-utility**

Type of respondent	GB wide service %	Multi-utility %
Gas Transporter	50	50
Independent connection provider	40	50

- 2.48 Overall respondents indicated that some types of gas connections are competitively provided e.g. new housing developments and other high value connections. This view is supported by evidence cited in paragraph 2.41.
- 2.49 However, not all connections are provided competitively. Respondents reported that connections with a low capital value, commonly cited as below £20-30k, are unlikely to be competitively provided. In particular, one-off gas connections to individual premises are usually automatically awarded to the relevant GT.
- 2.50 A number of specific constraints to the development of effective competition for gas connections were identified by purchasers and providers of gas connections. These barriers are set out below.

**Table 5 - constraints to the development of competition**

Respondent	Constraints to competition
Purchasers of gas connections	<ul style="list-style-type: none"> <li>◆ Lack of customer awareness of third party connection providers (see paragraph 3.4)</li> <li>◆ The connection and transportation charging practices of some Independent GTs (see paragraphs 2.8 – 2.10)</li> <li>◆ The accuracy and timeliness of connection quotes provided by Transco (see paragraphs 2.16 – 2.17)</li> </ul>
Providers of gas connections	<ul style="list-style-type: none"> <li>◆ Slow progress in establishing a process for final connection by third parties to Transco's, and other GT's, networks (see paragraphs 2.14 – 2.15)</li> <li>◆ Slow progress by the gas industry in establishing a process to deal with ICPs, in particular a national registration scheme for accredited third party contractors (see paragraphs 2.14 – 2.15)</li> <li>◆ Meter provision bundled with transportation charging (see paragraph 2.21)</li> <li>◆ The charging practices of GTs, in particular the impact of standard licence condition 6 charging (see paragraphs 2.8 – 2.10)</li> <li>◆ Gas Act section 10 and standard licence condition 5 - the 23m and 10m rules (see paragraph 2.4 – 2.7)</li> <li>◆ The New Roads and Street Works Act 1991 (see paragraph 2.36)</li> </ul>

- 2.51 In addition to the specific barriers above, concerns were raised about barriers for provision of multi-utility connections, particularly for water and electricity. A number of respondents expressed interest in being able to offer a fully comprehensive service across utilities. Such a service could be expected to improve customers' choice and prices paid for connections.

2.52 Respondents commented on the future of gas connections competition, the range of views included:

- ◆ satisfaction with the current provision of services, with no expectation of change;
- ◆ a desire to see the remaining barriers to self-lay and multi-utility connections removed, allowing a wider choice of competitive connection services; and
- ◆ concern about the on-going service and transportation prices offered by gas transporters once a new connection is made.

*Electricity*

2.53 Respondents reported using the following types of connection providers.

**Table 6 - type of connection provider used by respondents**

Type of connection provider	% of respondents using connection provider
PES distribution businesses	100
Independent connection providers	7
Agents or consultants	0

2.54 All purchasers of electricity connections reported using the host PES distribution business for some stages of the connections process. Purchasers reported that they were able to consider appointing an ICP for some parts of the connection work for industrial or commercial connections.

2.55 Only 10% of respondents considered that a competitive market exists for electricity connections, but 30% indicated they were able to influence price and 40% said they were able to influence quality of service received. Where price or quality could be influenced the purchaser was either an industrial consumer or Local Authority (LA). Some LA respondents, principally buying unmetered connections, influenced host PES distribution businesses through collective bargaining. The success of bargaining varied across PES distribution businesses, with some more responsive than others to customer demands.

2.56 Very few respondents expressed a view over which factors influence their choice of connection provider, citing that they have no effective choice of service provider and use the host PES distribution business by default. Respondents who did identify factors that influenced their choice of connection provider included the following (ranked in order of importance).

**Table 7 - factors influencing purchasers choice of provider**

Factor	Rank
Price	1 <sup>st</sup>
Quality and service	2 <sup>nd</sup>
Timeliness	3 <sup>rd</sup>
Geographic area covered	4 <sup>th</sup>
On-going working relationship	5 <sup>th</sup>

2.57 Providers of connections reported the following as important factors influencing their ability to win connection contracts.

**Table 8 - factors influencing providers ability to win connection contracts**

Connection provider	Factor	Rank
PES distribution businesses	Quality/customer service	1 <sup>st</sup>
	Price	2 <sup>nd</sup>
	Brand/reputation/customer awareness	3 <sup>rd</sup>
	Timeliness	Joint 4 <sup>th</sup>
	After sales service (fault repair)	Joint 4 <sup>th</sup>
ICP	(Lack of PES distribution business) customer service or quality	Joint 1 <sup>st</sup>
	Price	Joint 1 <sup>st</sup>
	Provision of multi-utility	Joint 1 <sup>st</sup>

2.58 ICPs reported that a key factor influencing their ability to win contracts was poor service offered to customers by PES distribution businesses. This view contrasts with the views expressed by PES distribution businesses that the quality of service offered is the primary factor allowing them to win contracts.

2.59 The proportion of connection providers offering a GB wide service, and the proportion offering multi-utility is presented below.

**Table 9 - respondents offering GB wide service, and/or multi-utility**

Type of respondent	GB wide service %	Multi-utility %
PES distribution business	30	70
Independent connection provider <sup>3</sup>	50	0

2.60 The majority of PES distribution businesses operate mainly within their own authorised area. Connection work undertaken outside of an authorised area tends to be on a project specific basis, often including multi-utility connections. ICPs reported that existing commercial relationships with PES distribution businesses (as appointed contractors) constrained their ability to offer a GB wide service.

2.61 A number of specific constraints to the development of effective competition were identified by purchasers and providers of electricity connections, these are set out below.

**Table 10 - constraints to the development of competition**

Respondent	Constraints to competition
Purchasers of electricity connections	<ul style="list-style-type: none"> <li>◆ Restriction of live jointing by third parties to PES distribution businesses' networks (see paragraphs 2.29 – 2.30)</li> <li>◆ Restricted access to distribution network information and/or the poor quality of information when available (see paragraph 2.32)</li> <li>◆ No national accreditation scheme for third party contractors (see paragraph 2.31)</li> </ul>
Providers of electricity connections	<ul style="list-style-type: none"> <li>◆ Inconsistency, across PES distribution areas, between services identified as contestable and non-contestable (see paragraphs 2.29 – 2.30)</li> <li>◆ Inconsistent procedures across PES distribution areas for adoption of third party networks and restrictive nature of existing agreements (see paragraph 2.64)</li> <li>◆ Restriction of live jointing by third parties to PES distribution businesses' networks (see paragraphs 2.29 – 2.30)</li> <li>◆ Poor quality, and difficulty obtaining, network information in a timely manner (see paragraph 2.32)</li> <li>◆ No nationally recognised accreditation scheme for third party connection providers across different PES distribution areas (see paragraph 2.31)</li> <li>◆ No agreement on reasonable levels of third party liabilities (see paragraph 2.65)</li> </ul>

<sup>3</sup> Only two ICPs provided relevant data

	<ul style="list-style-type: none"> <li>◆ Lack of clarity of charging statements, particularly in respect of reinforcement charges for large customers (see paragraphs 2.26 – 2.28)</li> <li>◆ The poor quality and timeliness of connection work quotes, failing to clearly identify contestable and non-contestable work (see paragraph 2.32)</li> <li>◆ The New Roads and Street Works Act 1991 (see paragraph 2.36)</li> <li>◆ The feasibility of providing a multi-utility connection service, in particular the state of deregulation for water connections (see paragraph 2.66)</li> </ul>
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2.62 Overall, purchasers of electricity connections expressed concern over the failure of PES distribution businesses to facilitate competition. Purchasers found this particularly frustrating given their views on the poor customer service provided by PES distribution businesses. Many of these constraints are discussed in paragraphs 2.26 to 2.36 above. Further constraints mentioned by purchasers are set out below.

2.63 Each PES distribution business tends to offer different terms for adoption of connection assets. Unlike gas, there is no obligation upon a PES distribution business to automatically adopt assets. Competitors' costs, and the scope of feasible connection work, can be severely constrained if a host PES distribution business: requires unreasonable terms for adoption; is slow in adopting assets; or discriminates between different connection providers. These issue will be considered by the connections steering group (see paragraph 2.33).

2.64 Where ICPs undertake work on a distribution network they must accept liability for sub-standard connection work or supply failures due to their own activities. The level of these liabilities can constrain the ability of ICPs to successfully compete in the connections market. This issue will be considered by the connections steering group (see paragraph 2.33).

2.65 Multi-utility connections include the provision of some or all of electricity, gas, water and telecommunications. Undertaking such connections together can reduce costs and add value to the service a customer receives. Concern was expressed by respondents that the scope for providing multi-utility connections is constrained. For electricity connections the constraints noted above contribute to the difficulty in offering a GB wide multi-utility service. The Office

of Water Services (OFWAT) intends to issue a consultation document on competition in new infrastructure provision shortly and Ofgem is liaising with OFWAT on these issues.

- 2.66 Respondents commented on the future of electricity connections competition. Three quarters of respondents felt that the way electricity connections are purchased will change over the coming year. The majority of these expected a competitive market for electricity connections to emerge – particularly given the on-going work of the electricity connections steering group. Those respondents who felt that no change is likely indicated that the barriers to competition were sufficiently high to make rapid development of a competitive market unlikely. Furthermore, many of these respondents felt that quality and price of connections would continue to worsen under present arrangements in the absence of effective competition.

### **Conclusion**

- 2.67 Overall, competitive provision of gas connections has been established but with a number of exceptions e.g. low value connections (see paragraph 2.48). Additionally respondents expressed concern over on-going transportation charges and their impact upon the competitive provision of connections (see paragraphs 2.8 – 2.10). The development of effective competition for electricity connections lags behind that of gas connections. PES distribution businesses continue to dominate the provision of connections to their distribution networks, allowing little scope for purchasers to choose from competing providers (see paragraph 2.55).

### 3. The way forward

- 3.1 A number of specific constraints on the development of effective competition were raised by respondents to the December 2000 survey. These constraints and their impact upon competition have been discussed in chapter 2. Some of the constraints are specific to the provision of either gas or electricity connections, others are common to both. Ofgem's present view of the way forward on the main issues is set out below.

#### *Constraints to effective competition – Ofgem's response*

##### **Common constraints**

###### *New Roads and Street Works Act*

- 3.2 The NRSWA and its impact upon competition in connections is discussed in paragraph 2.36. It is hoped that the development of a contractor registration scheme will provide for appropriate professional standards and reassure local authorities that competition will not increase disruption caused by street works. In addition, when a GT adopts a connection from a third party it must now also take responsibility for the work that has been done to reinstate the public highway (for connections consuming no more than 2,196,000 kWh per year).

###### *Final connections to utility networks*

- 3.3 Restrictions exist in both gas and electricity on third party contractors undertaking work to connect to existing networks as discussed in paragraphs 2.14 – 2.15 and 2.29 – 2.30. Ofgem recognises the concerns of network operators but sees no reason why appropriately competent third parties should not undertake connection work, including the final connection and live jointing.
- 3.4 To facilitate competition, work is in hand to establish a nationwide registration scheme for competent third party contractors. In gas such a scheme is being prepared, and a trial of final connections is to be undertaken on Transco's network (paragraphs 2.14 and 2.15). The electricity connections steering group is also addressing the issues of competency and developing a national registration scheme for ICPs. It is hoped that these registration schemes will also

increase consumer confidence in ICPs, allowing ICPs to market their services more effectively.

#### *Provision of network information and quotations*

- 3.5 The problems of inaccurate or incomplete information have been discussed in paragraphs 2.16 for gas and 2.32 for electricity.
- 3.6 An enforcement order was issued against Transco in 1999 to address concerns over the quality of its quotations (see paragraph 2.17). The electricity connections steering group is in the process of establishing the requirements for industry wide standards of service, with appropriate financial liabilities for poor performance. In addition the electricity steering group is to develop guidelines detailing the minimum information that should be provided to customers and ICPs, for example, quotations including a clearly defined breakdown of contestable and non-contestable work.

#### **Gas specific constraints**

##### *Charging regime for new system extensions*

- 3.7 Concerns over GT charging are discussed in paragraphs 2.8-2.10 and 2.52. Purchasers of connections should be able to make decisions based on efficient costs, without transportation charges significantly distorting the market price for connections. Customer and supplier concerns over the on-going charging and quality of service received from GTs is one of the issues that have prompted Ofgem to initiate a review of independent GT transportation pricing. This review will consider these issues during 2001 and 2002.

##### *Extension of the gas system to rural areas (infills)*

- 3.8 Very few survey respondents made direct reference to infill schemes. Information received by Ofgem indicates that these types of connections have formed a smaller proportion of total connections over the last three years. It will be important to continue to review the development of the market and consider what action may be taken to bring the benefits of competition in connections to rural consumers.

3.9 The DTI is setting up a working group (with representatives from the DETR and Ofgem amongst others) to consider how best to encourage the extension of the gas network to rural areas. In addition, Ofgem will shortly consult on a proposal to amend the Gas (Connections Charges) Regulations (see paragraph 2.11) to extend the period of cost recovery from 5 to 20 years. It is hoped this amendment will address some of the issues inhibiting infill development. The document will provide a fuller discussion of infill schemes and the difficulties associated with these investments.

*The 23m and 10m rules*

3.10 These issues are described in paragraphs 2.4 – 2.7 above. Potential solutions to the competitive constraints caused by the 10m rule include establishing an allowance scheme, through which GTs compensate customers for the 10m of pipe as appropriate, or removing the 10m obligation from the GT standard licence conditions.

3.11 An allowance scheme should enable GTs to meet their licence obligations and allow ICPs to undertake connection work on a domestic customer's behalf. Any allowance would have to strike a balance between reflecting the costs of a specific connection and the scheme's administration costs. An allowance set at an average level, or generalised for particular customer types, may result in inequitable treatment between customers. Ofgem will consult interested parties as to how an allowance scheme might work, including the possibility of modifying licence condition 5 to facilitate such a scheme.

3.12 It is also possible to consider modifying standard licence condition 5 to remove the 10m rule. Removal of the 10m rule has the advantage of creating a level playing field in which GTs and ICPs can compete to provide connections. Ofgas previously required Transco to phase out its voluntary connections allowance payments to customers for connection to newly built premises, as such payments distorted the market. However, the disadvantages of removing the 10m rule include an increase in the direct costs for domestic customers who wish to connect to an existing network.

## **Electricity specific constraints**

### *Lack of uniform procedures across PES distribution businesses*

- 3.13 A number of respondents raised concerns regarding the difficulty, and cost, of operating across many distribution areas when each distribution business imposed different requirements and procedures. Specific problems include adoption agreements (see paragraph 2.64), the split in contestable and non-contestable work (see paragraphs 2.29 – 2.30) and lack of national accreditation scheme (see paragraph 3.4).
- 3.14 These issues are being addressed by the electricity connections steering group. The group is developing proposals that will align PES distribution business processes wherever possible. A framework supporting a national adoption agreement, allowing ICPs to construct networks suitable for adoption by any host PES distribution business, is expected to be in place by the end of this year. In addition, Ofgem will consider carefully any complaints it receives relating to anti-competitive behaviour by licence holders.

### *Clarity of charging statements*

- 3.15 PES distribution businesses are required to publish charging statements (see paragraphs 2.26 – 2.27). The problems associated with lack of clarity in regard to information available to customer and ICPs (paragraph 2.32) applies equally to charging statements. The electricity connections steering group will establish guidelines for the form of charging statements and minimum information to be provided in them.

## Appendix 1 - Contestable and non-contestable work

1.1 The following table is reproduced from Ofgem's July 2000 document Competition in Connections to Electricity Distribution Systems. The table provides a breakdown of the categories of work deemed contestable "C", or non-contestable "N", across the PES distribution businesses' authorised areas.

<b>Distribution Business</b>														
Work	Eastern	East Midlands	London	Manweb	Midlands	Northern	Norweb	Scottish Hydro	Scottish Power	Seeboard	Southern	Swalec	Sweb	Yorkshire
<b>Connections Design</b>														
Design	N	N/C	N	N	N	N	C	N	N	C	N	N	N	C
Specification	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Determining Point of Connection	N	N	N	N	N	N	N	N	N	N	N		N	N
Existing connections removal/relocation/service alterations	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Obtaining necessary consents and wayleaves	N	C	N	N	N	N	C	N	N	N	N	N	N	N
<b>Connections Provision</b>														
This involves the provision of connection assets	C	C	C	C	C	C	C	N/C	C	C	C	C	C	C
<b>Connection installation</b>														
Trenching/reinstatement or construction of connection	C	C	C	C	C	C	C	C	C	C	C	C	C	C

Recording assets on site and sending report to distribution business	C	C	C	C	C	C	N	C	C	C	C	C	C	C
<b>Connection to the distribution system</b>														
including live working	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Energisation of connections	N	N/C	N	C	C	C	N	N	C	C	N	N	N	N
Inspection, monitoring and testing of installation	N	N	N	N	N	N	N	N	N	C (Low voltage only)	N	N	N	N
"C" = Contestable, "N" = Non – Contestable														

## Appendix 2 - Questions from the December 2000 survey

2.1 The December 2000 survey was organised into two broad sections covering gas connections and electricity connections. Each section comprised of questions for purchasers of connections (questions B1 – B5 for gas, and D1 – D5 for electricity), and questions for providers of connections (C1 – C5 for gas and E1 – E5 for electricity). The questions are reproduced below.

### Section B

#### 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 agents<sup>4</sup> 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.

#### 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.

#### 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, quality<sup>5</sup> or timeliness of work, geographical area covered by the connection provider, existing commercial relationship.

#### 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.

#### 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?

### Question C

#### C1

Is your firm a:

Licensed Public Gas Transporter	
Independent connection provider	
None of the above	

<sup>4</sup> "Agents" include any individual or organisation that arranges connections, with connection providers, on behalf of a customer.

<sup>5</sup> Or range of services e.g. the ability to offer multi-utility connections

### C1.1

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

### 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.

### 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, infill<sup>6</sup> 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.

### 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 competition<sup>7</sup>.

### 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

### 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 agents<sup>8</sup> 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.

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<sup>6</sup> Infills refers to the extension of gas networks to existing premises outside the gas supply area

<sup>7</sup> 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.

<sup>8</sup> "Agents" include any individual or organisation that arranges connections, with connection providers, on behalf of a customer

**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.

**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, quality<sup>9</sup> or timeliness of work, geographical area covered by the connection provider, existing commercial relationship.

**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

**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**

**E1**

Is your firm a:

Licensed Public Electricity Supplier	
Independent connection provider	
None of the above	

**E1.1**

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

**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.

**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,

<sup>9</sup> Or range of services e.g. the ability to offer multi-utility connections

telecommunications). Please see **section C** of the survey if you provide gas connection work.

#### **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 competition<sup>10</sup>.

#### **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?

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<sup>10</sup> Respondents are invited to comment on the barriers experienced in multi-layer connections that may be relevant to the future development of competition in electricity connections.

## Appendix 3 - List of survey respondents

3.16 A list of organisations who provided Non-confidential responses to the December 2000 survey document are provided below.

Ashville Properties Ltd  
Birmingham utility solutions  
BOC Group  
Bristol city council  
Bury metropolitan borough council  
City and County of Swansea  
David Webster Group Ltd  
Doncaster metropolitan borough council  
E.S Pipelines  
East Riding of Yorkshire  
Eastern Contracting Ltd  
Eco European  
Essex county council  
Gas and utility technology Ltd  
GPU Power Distribution  
Hampshire county council  
Herefordshire Council  
Innogy  
Kirklees metropolitan council  
Lattice Energy Services Ltd  
Leicester City Council  
London Electricity  
Norfolk county council  
Northern Electric and gas  
Northern Electric Distribution  
Norweb Plc (United Utilities)  
Oxfordshire county council  
Rhondda Cynon Taff County Council  
Scottish and Southern Energy  
Scottish Power/ Manweb  
SEEBOARD  
Sheffield city council  
South Wales Electricity  
Sunderland Council  
Swindon borough council  
Transco  
TXU Europe  
Western Power Distribution  
Worcestershire county council  
Yorkshire Electricity