SP Energy Networks 2013 Competition Test Notice

SP Distribution Ltd
SP Manweb Plc
August 2013

SP ENERGY NETWORKS

**SP DISTRIBUTION LIMITED (SPD) AND SP MANWEB PLC (SPM)
APPLICATION TO THE AUTHORITY TO CHARGE AN UNREGULATED MARGIN ON CERTAIN CONTESTABLE CONNECTIONS SERVICES**

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APPLICATION TO THE AUTHORITY TO CHARGE AN UNREGULATED MARGIN ON CONTESTABLE CONNECTIONS SERVICES

A EXECUTIVE SUMMARY

These Competition Notices are submitted by SP Energy Networks (SPEN) on behalf of SP Distribution (SPD) Ltd and SP Manweb plc (SPM), in accordance with special condition CRC12 of SPD and SPM's Electricity Distribution Licences.

These Notices relate to all the Relevant Market Segments[1] (RMS), as defined in the Licences, namely:

1) Metered demand connections – low voltage (LV) work
2) Metered demand connections – high voltage (HV) work
3) Metered demand connections – high voltage (HV) and extra high voltage (EHV) work
4) Metered demand connections – extra high voltage (EHV) work and 132kV Connection Activities
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8) Unmetered connections – Private Finance Initiatives (PFI) work
9) Unmetered connections – Other

In these Notices, SPEN sets out the evidence that is required to demonstrate that, for each of SPD and SPM, Ofgem's requirements for competition have been met for all the RMS.

SPD and SPM submit that:

1) SPD and SPM have met their Legal Requirements in all respects and in respect of all Relevant Market Segments as it currently has no enforced breaches of the Competition Act 1998 or of the relevant connections-related licence conditions.

2) Effective competition has developed in all the RMS, for both SPD and SPM, and this competitive activity justifies SPEN's submission of these Competitive Notices.

Effective competition has developed and become established in all the RMS in both the SPD and SPM Distribution Service Areas (DSAs). This is demonstrated by:

- Collectively SPD (22.6%) and SPM (6.6%) distribution service areas (DSAs) having the highest percentage of MPANs connected to IDNO networks;
- Market shares;
- Number of competitors that are active in the market;

[1] As defined in Part 1 of Appendix 1 of special licence condition CRC12

- Number of new competitors which have entered the market since 2010; and
- Measures that SPEN has taken to reduce potential and perceived barriers to entry.

SPD and SPM deal proactively with competitors and customers and have engaged on a regular basis with ICPs and IDNOs at both workshops and during regular liaison meetings.

SPD and SPM's efforts to remove perceived or actual barriers to competition have focused on developing relationships and improving upon:

- The provision of information;
- Our service timescales;
- Commercial arrangements;
- Legal land rights processes; and
- Dispute resolution.

Our updated responses to the concerns raised by the Electricity Connections Steering Group (ECSG) and Competitive Networks Association (CNA) on these points are provided in Appendices 4 and 5.

SPD and SPM publish a range of material which is designed to inform our customers about the options available to them and to help them understand the charges they will pay. These include:

- The Common Connection Charging Methodology and Connection Charging Statements;
- A schedule of UMS charges for Local Authorities; and
- A "heat map" and a budget calculator for our DG customers.

SPD and SPM have dedicated significant resources to promoting competition. Since 2003, we have had separate teams to administer Competition in Connections activities within our SPD and SPM distribution service areas. The backbones of these teams are the dedicated designers who manage the process from initial contact, through the connection application stage until design approval is granted. At this stage, management of the connection project is passed to our delivery team who engage with the ICP through the completion of the non contestable works. SPD and SPM manage the full process within SLC15 timescales.

Within the Connections business we also have established a dedicated Process and Compliance team who are responsible for all connections regulatory reporting (including SLC12, 15 and 15A) and for ensuring internal licence compliance generally. A key focus of the Process and Compliance team is the discharge of our SLC19 obligations, prohibition of discrimination in the provision of non-contestable services.

SPD and SPM have worked to develop robust systems and processes to support the management of Competition in Connections, ensure compliance with regulatory obligations while also ensuring optimum delivery of service to our customers.

SPD and SPM have a long history of promoting competition in this area. SPD and SPM were amongst the first DNOs to positively respond to Competition in Connections, launching a dedicated web based IT system for managing and facilitating Competition in Connections (CRAM) during 2003. At the time of its launch, the CRAM system was ground breaking and an upgraded version of that original system remains in use today. This system provides a consistent and open interface to all parties seeking to participate in competition, ensuring fairness and clarity to all parties.

SPD and SPM continue to invest in systems and processes to facilitate competition. Following feedback from our customers, we are currently in the final stages of introducing a new web based IT system RAdAR which will replace CRAM. Following feedback from our customers, this new IT system has been designed to further improve communications and the ease of sharing of information.

RAdAR will be a secure, document/file sharing collaborative communications management system. A comprehensive reporting module is included to ensure we continue to achieve our regulatory obligations.

SPD and SPM continually seek to improve the quality of service SPD and SPM offer to all of our customers and the means by which SPD and SPM can ensure that our customers are aware of competitive alternatives to our own connections business.

- Raising awareness of the process of competition on our website;
- Providing guidance for frequently asked questions on our application form;
- Issuing guidance leaflets on Competition in Connections;
- Highlighting the customer's right to seek a competitive quotation in our quotation letters; and
- Enhancing the information we provide in response to enquiries about new or modified connections, so as to raise customer awareness of their options for competition.

We attach at Appendix 7, testimonials from Aptus Utilities, Duttons, FES and IUS, which show that a good, co-operative relationship has developed between SPD/SPM and the ICPs.

In summary, SPEN contends that SPD and SPM have each:

1) Met the Legal Requirements in all Relevant Market Segments; and
2) Met the requirements of the Competition Test, as set out in the DPCR5 Final Proposals.

Accordingly, we look forward to the Authority's recognition of the development of competition in our distribution service areas (DSAs) and its determination of the Legal Requirements Test and the Competition Test.

**SP DISTRIBUTION LIMITED (SPD) SP MANWEB PLC (SPM)
APPLICATION TO THE AUTHORITY TO CHARGE AN UNREGULATED MARGIN ON CONTESTABLE CONNECTIONS SERVICES**

THE DETAILED APPLICATION

B. INTRODUCTION AND APPLICATION

We refer to Charge Restriction Condition 12, (CRC12), of the electricity distribution licences granted or treated as granted to SPM and SPD under the *Electricity Act 1989*. This document constitutes a Competition Notice under CRC12 for each of SPD and SPM.

1.1 Segments applied for

SPD and SPM make this Application in relation to the following Relevant Market Segments, (the RMS), as defined in CRC12:

Segment	Description
Demand connections in respect of Metered premises owned or occupied by Demand Customers.	
LV Work	Low voltage Connection Activities involving only low voltage work, other than in respect of Excluded Market Segments.
HV Work	Low voltage or high voltage Connection Activities involving high voltage work (including where that work is required in respect of Connection Activities within an Excluded Market Segment)
HV and EHV Work	Low voltage or high voltage Connection Activities involving extra high voltage work.
EHV work and above	Extra high voltage and 132kV Connection Activities
Distributed generation in respect of Metered premises in which Distributed Generation is situated	
LV Work	Low voltage Connection Activities involving only low voltage work
HV and EHV work	Any Connection Activities involving work at high voltage or above
Unmetered connections	
LA Work	New Connection Activities in respect of local authority premises
PFI Work	New Connection Activities under private finance initiatives
Other work	All other non-local authority and non-PFI unmetered connections work.

Terms of determination sought

SPD and SPM consider that the Legal Requirements Test and the Competition Test, (the Tests), are satisfied in respect of each such RMS. Accordingly the Authority is requested to determine that:

1) The Legal Requirements Test has been satisfied in respect of each such RMS;
2) The Competition Test has been satisfied in respect of each such RMS; and
3) SPD and SPM shall be entitled (but not obliged) to charge an Unregulated Margin in its Connection Charges in relation to its Connection Activities.

The reasons why SPD and SPM consider that the Legal Requirements Test and the Competition Test are satisfied in respect of each RMS are summarised as follows.

1.2 Outline of the Legal Requirements Test

In terms of CRC12.23 the Legal Requirements Test involves an assessment of SPD and SPM's: *"compliance with such legal requirements in respect of the making of the making of connections to its Distribution System as are set out in Chapter 12 of the Authority's decision document published on 7 December 2009 under reference 145/09."*

That decision document provides that:

"The legal requirements are for the DNO to have no enforced breaches in the given regulatory year of:

- *standard licence condition 12.6(c): Requirement to offer terms for use of system and connection,*
- *amended standard licence condition 15: Standards for the provision of Non-Contestable Connections Services,*
- *new standard licence condition 15A: Connections policy and connection performance,*
- *standard licence condition 19: Prohibition of discrimination under Chapters 4 and 5, and*
- *the Competition Act 1998."*

1.3 SPD and SPM satisfy the legal requirements test

SPD and SPM confirm that they have no enforced breaches of these requirements in the regulatory years 2010-2011, 2011-2012, 2012-2013, and 2013 to the date of this Application.

It follows that SPD and SPM meet the Legal Requirements Test.

1.4 Outline of the Competition Test

In terms of CRC12.24 *"the Competition Test involves an assessment of whether there is effective competition in a Relevant Market Segment as defined in Chapters 10 and 12 of the Authority's decision document published on 7 December 2009 under reference 145/09."*

That decision document provides as follows.

> *"The overriding objective of the competition test is to enable DNOs to demonstrate that the market is working effectively for their customers. The DNO's evidence should enable Ofgem to take a holistic view of the effectiveness of the market and prescribe an appropriate course of action (i.e. allow regulated or unregulated margins, or further work to remove barriers). Accepting that all markets are different, there will be a flexible approach to the format and scope of the DNO's evidence case subject to the legal requirements being met."* (12.16).

It is to be seen that the principal question to be addressed is whether the market is working effectively for customers.

Paragraph 12.18 of that decision document goes on to set out the core of the assessment:

> *"Overall, we will be looking to see whether we can rely on real competition or the threat of competition to protect consumer interests rather than regulation of the margin earned by the DNO."*

It is to be noted Paragraph 12.18 of that decision document goes on to set out a number of key issues:

> *"There are a number of key issues that DNOs should consider in making their evidence case. This is not intended to be an exhaustive list of requirements but provides guidance on aspects of the market that we will look at:*
>
> - *barriers to competition, including parts of the market where competition is not feasible and the reasons why,*
> - *actual and potential competition (this is intended to capture views on levels of competitive activity),*
> - *price and transparency of pricing to customers,*
> - *promoting awareness of competitive alternatives amongst connections customers,*
> - *Competition in Connections procedures and processes, and*
> - *efforts to open up non-contestable activities to competition."*

1.5 SPD and SPM satisfy the Competition Test

In this Application we summarise the position as follows in that we have:

- demonstrable competition in the market segments. This level of competition has been sustained over a number of years.
- removed perceived barriers to entry identified by the ECSG and the CNA have been removed.

- a significant number of active ICPs and IDNOs which highlights an open competitive market is working.
- actively promoted awareness of competitive alternatives to customers.
- facilitated the connections process for ICPs and IDNOs with revised processes and procedures.

In all the circumstances SPD and SPM submit that the Competition Test is satisfied.

1.6 Evidence that the tests are satisfied

This document sets out evidence that SPD and SPM consider is necessary to establish that those tests are satisfied. If the Authority during the process of making its determination considers that the evidence requires to be supplemented or clarified in any way, the Authority is asked to contact SPD and SPM.

1.7 Order of this document

The remainder of this document deals with matters in the following order:

Section C	Background and facts
Section D	Development of competition
Section E	Removing perceived barriers to competition
Section F	Increasing customer awareness of competitive alternatives
Section G	Facilitating competition through improved procedures and processes
Section H	Pricing and transparency of pricing to customers
Section I	Efforts to open up non-contestable activities to competition

C BACKGROUND FACTS

The purpose of this section is to set out some relevant background to give context to the Application.

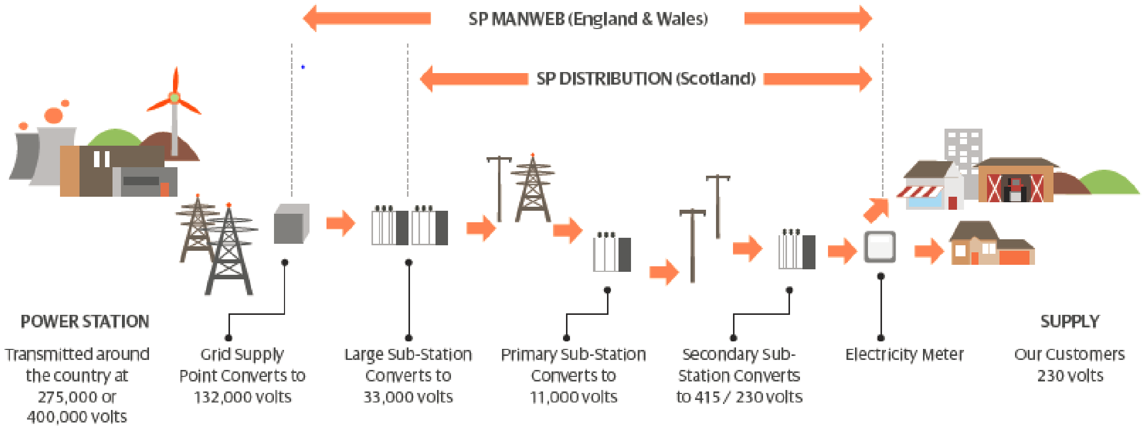
1. OUR NETWORK

SPD are the licensed Distribution Network Operator (DNO) for the South of Scotland and the Borders.

SPM are the licensed DNO for Merseyside, Cheshire, North Wales and North Shropshire.

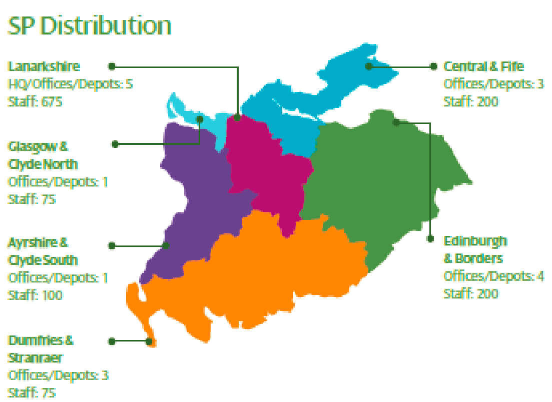
SP Energy Network (SPEN) is the brand and organisation name that is responsible for the networks mentioned above.

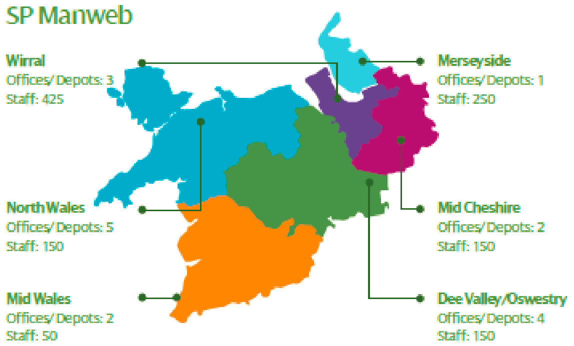
We have 30,000 substations (one substation for every 100 customers), 40,000km overhead lines and 70,000km underground cables. Our network is vast and to replace it today would cost more than £10bn.



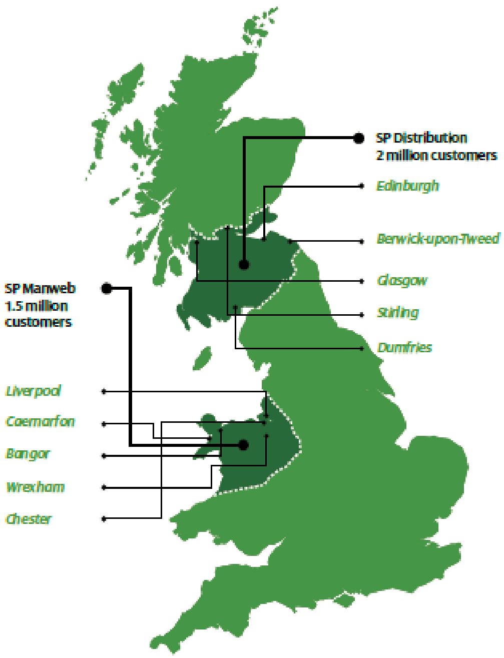
1.1 Our Communities

We are a substantial employer with a workforce of 2500 employees based at 17 locations in the South of Scotland and 17 locations in England and Wales. We engage around 2800 contractors across these areas.





We operate in three of the UK's largest cities (Glasgow, Edinburgh and Liverpool), accounting for 1.6m (43%) of our customers, as well as three significant rural areas (Scottish Borders, Dumfries and Galloway and North Wales). In total, we have 3.5m customers.



Within our licensed areas are a range of communities, from some of the UK's most deprived and fuel poor locations to remote rural communities, some of which are off gas grid and solely reliant upon electricity for energy.

1.2 ScottishPower Energy Networks Holdings Limited and SP Power Systems Limited

SP Energy Networks is responsible for the Licence Holders SPD and SPM and for the effective management and day to day operation of the regulated business within the ScottishPower Group. SP Power Systems Limited, also a wholly owned subsidiary of ScottishPower Energy Networks Holdings Limited, manages and operates the network assets on behalf of the Licence Holders.

These act as an integrated business unit, with the aim of outperforming our regulatory targets and implementing our investment strategy to expand the network.

All of our businesses have key drivers, which are:

- Health and safety of employees, contractors and the public;
- Maintaining security of supply;
- Improving customer service; and
- Delivering capital investment to modernise the network and connect new customers.

1.3 Regulated Margin

SPD and SPM gave to the Authority a Regulated Margin Notice under CRC12.18 on 10th September 2010. The Authority accepted the Notice.

D. DEVELOPMENT OF COMPETITION

1.1 Overview

This section sets out the levels of activity by SPD and SPM, in each respective distribution service area, and by alternative providers, Independent Connection Providers (ICPs) and Independent Distribution Network Operators (IDNOs), in each of the nine RMS.

In the next sub-section we highlight the key messages from this chapter. We then set out the methodology we have adopted for the compilation of data and our evaluation of the effectiveness of competition. Next, we describe the impact of the adverse economic background on the demand segments. We then demonstrate the historic volume of competitive activity within the SPD and SPM distribution service areas, where we present analysis of the actual number of connections made to the SPD, SPM and IDNO networks. Finally, we set out detailed market analysis for each RMS for each of SPD and SPM.

1.2 Key Messages

Data is provided to demonstrate that competition levels within the SPD and SPM distribution service areas have historically been the highest in Great Britain.

Furthermore, data is provided which demonstrates the range of competitive alternatives which are currently available to customers. We provide details of the significant volume of quotations issued, accepted and the number of customer connections contracted to be provided by ICPs and IDNOs.

For each RMS, we set out market shares of SPD and SPM and the ICPs and IDNOs competing for connections works within each distribution service area. However, we do not consider that, when assessing whether effective competition exists, market share should be considered in isolation, as it may underestimate the effectiveness of competition.

For some RMS the size of the market is small, most notably, PFI work in Scotland. In small market segments, apparent market share will underestimate the degree of competition, which arises from:

- Buying power of sophisticated and well informed buyers;
- Potential entry from providers active in similar segments, using the same or closely related skills and competencies;
- Potential entry from providers active in other parts of the value chain, such as installers of distributed generators and contractors;
- Potential entry from providers active in other geographic areas, which can extend the areas they serve; and
- Potential entry from providers related sectors, for example, other utility service providers.

The threat from potential competitors increases the effectiveness of competition beyond that suggested by market shares.

1.3 Methodology of Data Compilation and Evaluation

We refer to three types of quote:

1.3.1 An Independent Connection Provider (ICP) quote. This is a quote issued by SPD or SPM to carry out non-contestable work only for a project where an ICP carries out the contestable work. The network is adopted by either SPD or SPM as appropriate.

1.3.2 An Independent Distribution Network Operator (IDNO) quote. This is a quote issued by SPD or SPM to carry out non-contestable work only for a project where an IDNO will adopt the assets and where the contestable work is carried out by an ICP or an IDNO.

1.3.3 A SPD or SPM quote. This is a quote issued by SPD or SPM to carry out all the works, contestable and non-contestable, associated with a new connection.

A customer requesting a new connection can apply for each type of quote. When a customer requests more than one type of quote for the same connection (e.g. an ICP quote as well as an SPD or SPM quote), SPD and SPM treats these as separate quotes, for the purpose of our analysis.

We set out below data for each RMS separately for the time period 2010/11, 2011/12 and 2012/13. The RMS was defined in the DPCR5 Final Proposals and earlier data is not available on the same basis. Nevertheless, there was significant competitive activity in earlier years.

To demonstrate the historic volume of competitive activity, within the SPD and SPM distribution service areas, we present analysis of the actual number of connections made to the SPD/SPM and IDNO networks. Aggregate IDNO MPANs have been derived from IDNO portfolio billing data.

Comparisons with activity in other DNO areas have been taken from published DNO MPAN forecasts, compiled under the DCUSA Common Distribution Charging Methodology (CDCM).

Additional market share analysis has been carried out based upon:

- The number and activity of competitors;
- The volume of quotations accepted; and
- The value of quotations accepted.

Where relevant, we also provide details of the number of customer connections contracted to be provided by SPD/SPM and the ICPs/IDNOs.

Where we have analysed the market share based upon the value of quotes accepted, we have used an estimated value for ICP and IDNO quotes. Our rationale for doing so is that any comparison based solely upon the value of the ICP/IDNO quote would be meaningless, because these quotes include only the non-contestable portion of the electrical works. To calculate the estimated total value of these projects, therefore, we have taken the average cost per kVA of our own licensed quotations (SPD and SPM) and applied these to the ICP and IDNO projects.

Where we have analysed the market share based upon the number of customer connections provided, we have used the number of connections notified to us through the POC application process.

When assessing whether it is possible to rely on real competition or the threat of competition to protect consumer interests, our approach has been to consider a range of factors, in order to allow for a fuller evaluation of the effectiveness of competition.

To achieve this, we have considered various measures of market shares, the number of market participants and the number of new entrants in each RMS. These quantified indicators, however, will underestimate the threat of competition as there are other potential competitors which could enter a similar market segment, and alternative providers which could expand their geographic coverage, as well as other providers, which could extend the scope of their work within the value chain.

1.4 Weighting of Each

We have evaluated market shares based upon:

- Volume of quotations issued;
- Volume and value of quotations accepted; and
- Number of connections contracted to be provided.

The volume of quotations issued indicates the level of competitor activity within each market segment and demonstrates the awareness of competition.

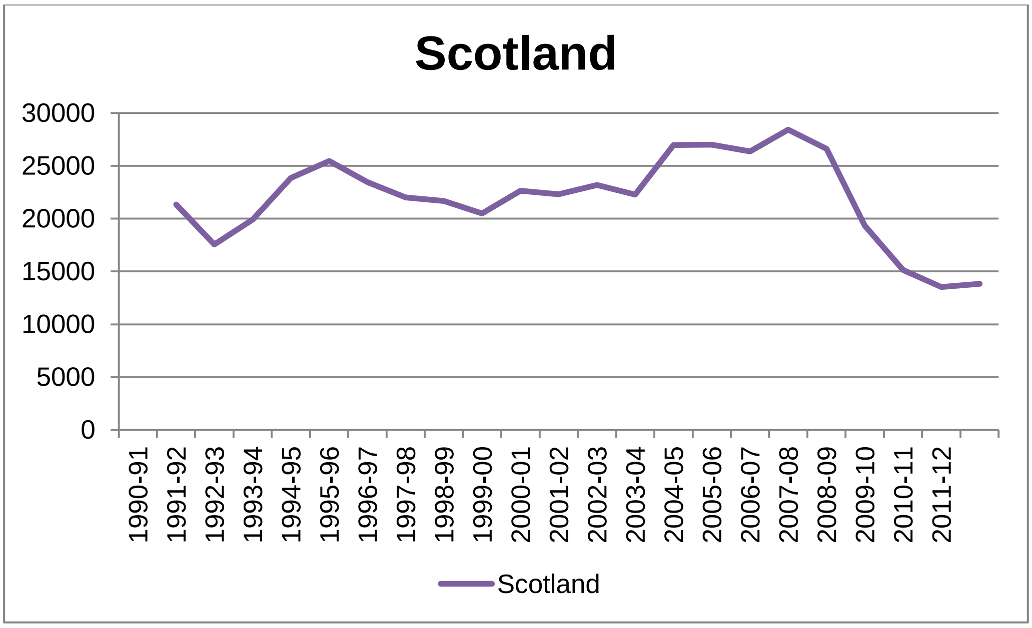
Quotations accepted indicate the outcome of customers' choices among the competitive alternatives and demonstrates that customers are taking advantage of the choices available to them.

Nevertheless, we believe that the volume of connections provided is the most important single indicator of market share as it reflects the actual work done. However, energised connections are a lagging indicator of market activity, whereas the number of connections contracted for is a forward looking indicator, which provides more information about recent developments in the market.

1.5 Economic Background to the Demand Segments

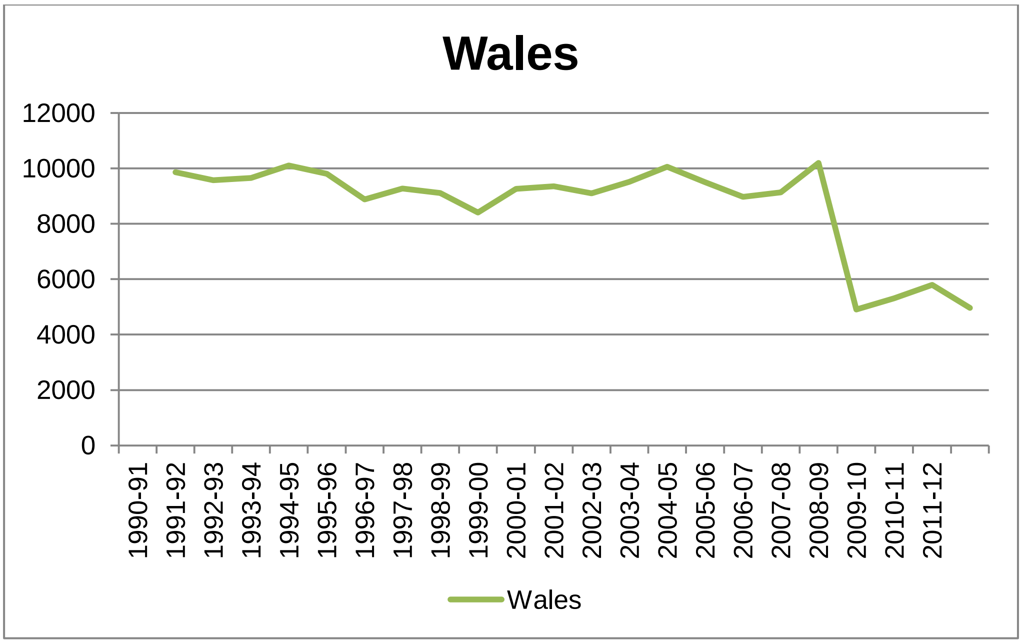
The data set out highlights that for the years following the peak of the financial crisis, when the economy has declined overall, credit conditions have been unfavourable (in particular in the property development and redevelopment sectors), and the construction and housing sectors have remained depressed. The latest economic data suggests that the economy may have begun slowly to improve, with most forecasts expecting growth to accelerate over the next year. The Government has recently taken steps to support the new housing market. We therefore expect connection activity to increase in the coming months, which will provide more opportunity for alternative providers to grow.

New Housing Starts - Scotland



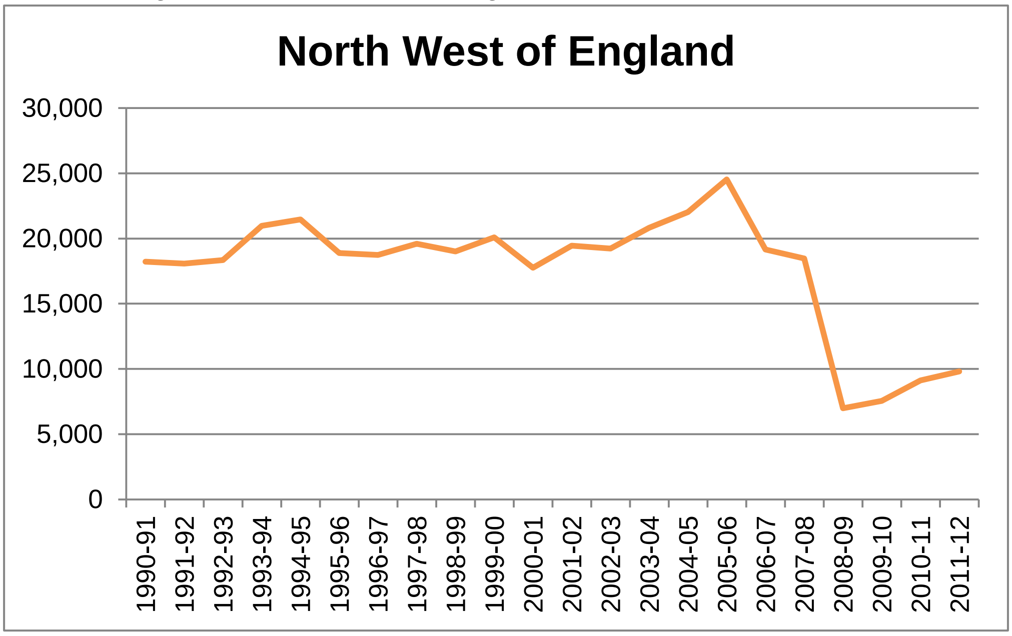
Source: DCLG House building statistics

New Housing Starts - Wales



Source: DCLG House building statistics

New Housing Starts- North West of England

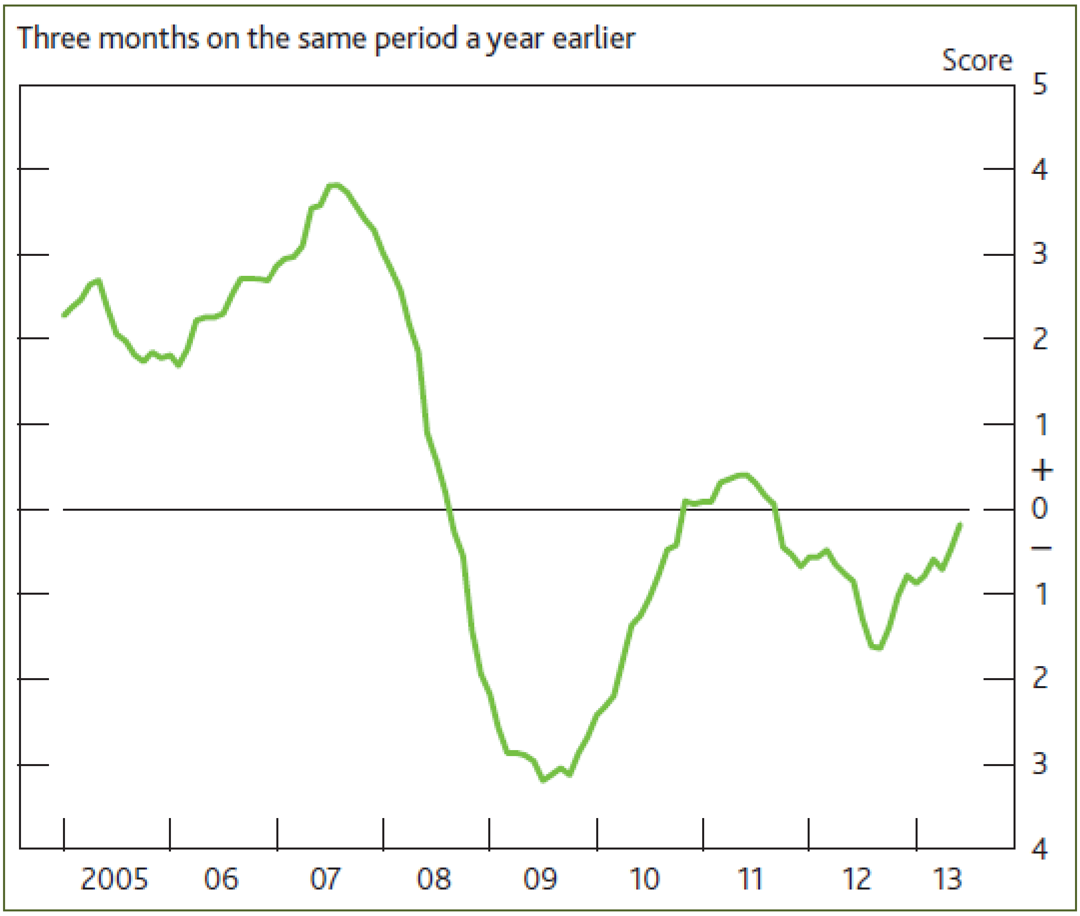


Source: DCLG House building statistics

The Bank of England Agents' Summary of Business Conditions, July 2013, states, in relation to construction:

"The annual rate of decline of construction output had continued to ease so that output in the past three months was little changed on a year earlier (Chart 3). House builders reported an improvement in sentiment; in part reflecting the introduction of the Government's Help to Buy scheme, with activity up in recent months and expected to accelerate further. Social housing build activity had also increased, with Housing Associations seeking to use the public funding available in the current financing cycle. Elsewhere in the sector, public sector construction activity was reported to be broadly stable, but low relative to pre-crisis levels and often focused on smaller-scale education and health projects. Infrastructure work remained robust, particularly for renewable energy development, though some regulatory-driven investment demand in rail and water utilities had started to wane. Private commercial activity remained weak outside London, with little or no speculative development under way."

Construction Output



Source: Bank of England Agents' Summary of Business Conditions, Chart 3, page 3, July 2013

In summary, our performance in promoting competition should be assessed against this difficult economic context.

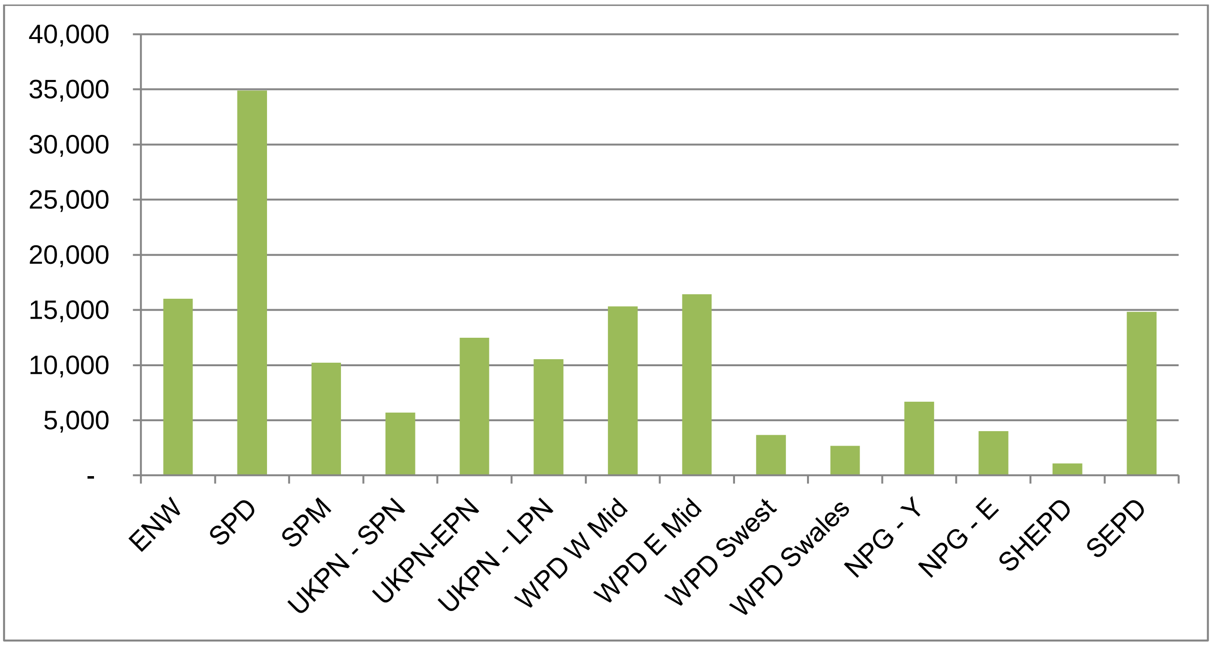
1.6 Connections to IDNO Networks within our Distribution Service Areas

We have been facilitating the provision of connections to Independent Electricity Distribution Network Operators (IDNOs) within our distribution service areas since Independent Distribution Licences were first granted.

Within the SPD network, we currently have more end customers connected to IDNO networks (based on the number of connected IDNO MPANs), than are connected to any other single DNO network elsewhere in the UK. There are currently 34,976 IDNO MPANS connected within the SPD distribution service area. Electricity North West has the second highest numbers with 16,030 IDNO MPANs[2].

[2] Data source: CDCM Analysis

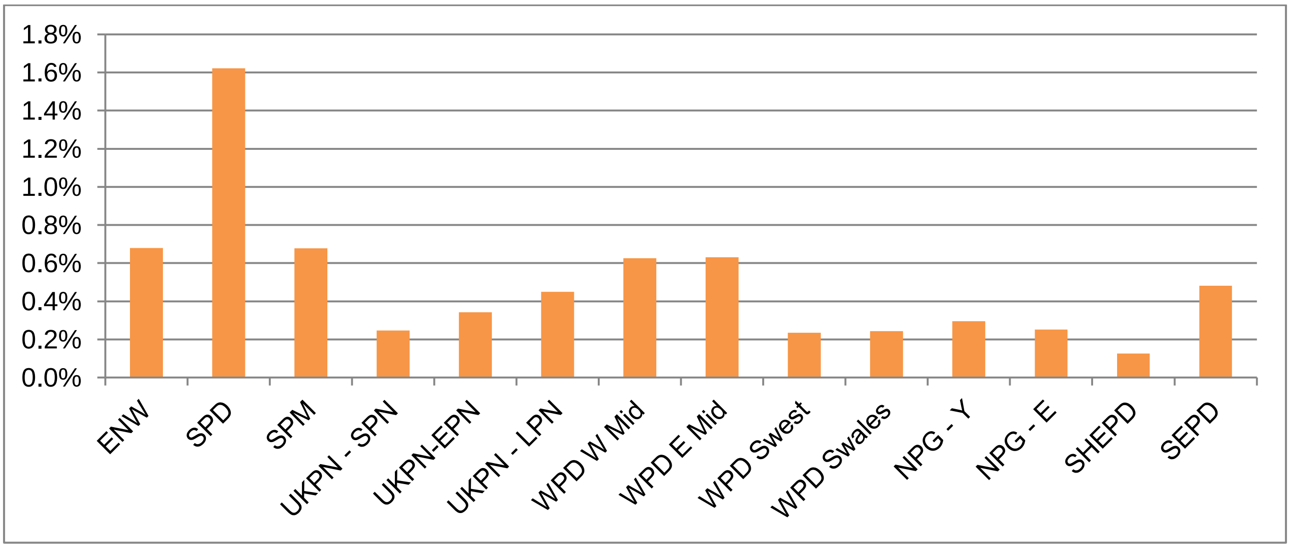
IDNO MPANS connected within each DNO's distribution service area



Source: DNO CDCM models

Based simply on the number of connected customers, SPM is one of the smaller UK electricity companies. Whilst there are 10,218 IDNO MPANs connected within the SPM distribution service area, we have to look beyond the simple comparison of connected MPANs to determine the levels of IDNO market penetration. A more accurate comparison is to consider the percentage of total connected IDNO MPANs against the total connected SPM MPANs. When considered on this basis, SPM can be seen to have the 3rd highest penetration of IDNO networks in the UK. SPEN has the highest proportion of IDNO connected customers.

Percentage of IDNO MPANS within each DNO's distribution service area



Source: DNO CDCM models

When calculated on the same percentage basis, the numbers of IDNO MPANs connected within the SPD distribution service area remain more than double those connected to any other DNO network elsewhere in the UK.

This has resulted from rapid growth, since April 2010, in the number of MPANs connected to IDNO networks in the SPD and SPM distribution service areas. This rapid growth has taken place during a period when the house building and construction markets have been severely depressed and remain well below pre-crisis levels of activity, especially outside the south-east of England.

Full details of the DNO/IDNO MPAN analysis are contained within Appendix 14 (Confidential).

We now turn to set a market segment by market segment analysis for the years 2010/11 to 2012/13.

QUOTED AND CONTRACTED CONNECTIONS (2010/11 TO 2012/13)

1.7 Metered Premises Low Voltage work (LV) – Overview

This market segment is predominantly for small load projects over 4 plots, for domestic properties or for commercial properties with over 2 connections. This segment also includes 400v 3 phase single connections of 70kVA or above. The connection point for these types of connections is solely at LV with no need for a substation or HV work.

In this market segment the work types are relatively high volume, quick turnover projects.

These are generally very competitive segments where the customer's main driver is often to award the project based on the most competitive price.

The typical types of connections within this market segment are small commercial properties, local supermarkets (many of which are part of national chains) and small to medium size housing developments. Typical customer types include small builders, contractors and consultants.

1.7.1 Low Voltage Work - SPD

Competitor Activity

Over the three year period (April 2010 to March 2013) SPD has faced significant levels of competition. 26 different market participants have been actively involved in this market segment. These include ICPs, IDNOs and intermediaries. There is a wide range of competitors active in this RMS including both national and regional businesses. There have been 10 new entrants during 2012/13.

This means that SPD has faced, and continues to face, robust competition from a range of experienced competitors with demonstrable track records in the utilities market. Given the extent of competitor activity, consumers continue to benefit from real competition and the threat of competition in this segment.

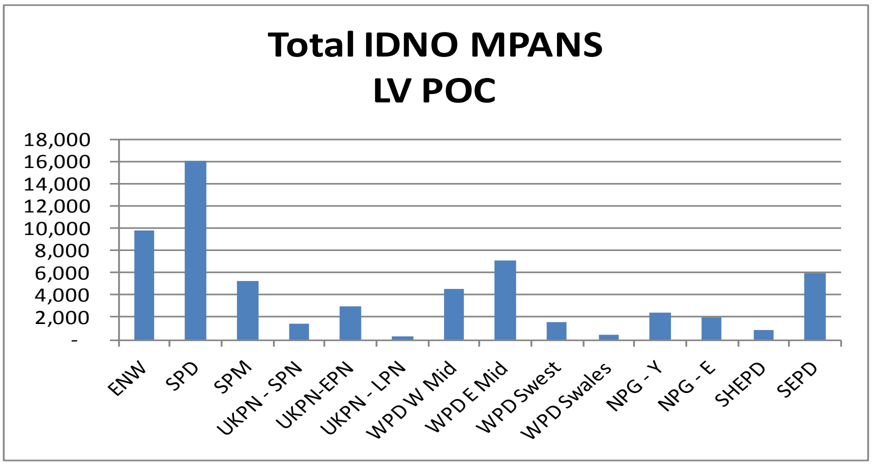
The number of competitors who received and accepted quotes per year is shown below:

ICP / IDNO Activity	2010-11	2011-12	2012-13
Number of parties receiving ICP or IDNO quotes	15	11	19
Number of parties that accepted ICP or IDNO quotes	13	8	8

Full detailed competitor analysis is provided in Appendix 2.

Volume of Customer Connections Provided

MPAN data has been used to estimate the number of customers currently connected to IDNO networks within the SPD DSA. This data shows us that there are approximately 16,000 customers currently connected to IDNO networks with an LV point of connection. Furthermore, the extent of this connection activity has doubled over the three year period (April 2010 to March 2013). Further detail is provided within Appendix 14 (Confidential).



Whilst this data evidences an extremely high level of market penetration by IDNOs, it underestimates the full scale of competition. Additional connections activity, which is being undertaken by ICPs (where the contestable connection assets have been handed over for adoption to SPD), is not included.

We consider this to be the strongest indicator that competition is established within this market segment, that significant competitive works have taken place and customers connected.

Volume of Customer Connections Contracted to be Provided

Over the three year period (April 2010 to March 2013) competitors contracted to provide an average of 66% of all new customer connections within this market segment. 7795 IDNO customer connections have been contracted to be provided over this time period. This continues the trend of high growth in IDNO networks in this market segment, higher than in any other DNO network in the UK.

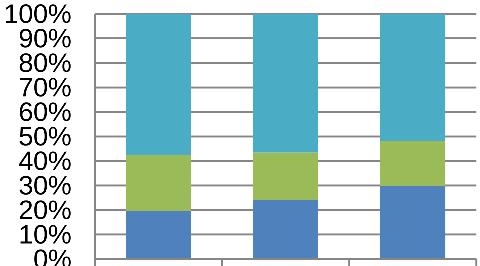
We believe this to be the strongest indicator of the strength of competitive activity within the SPD DSA. Despite very difficult economic conditions, customers are continuing to exercise their option to take up competitive alternatives.

Full detailed market analysis is provided in Appendix 2.

Quotes issued

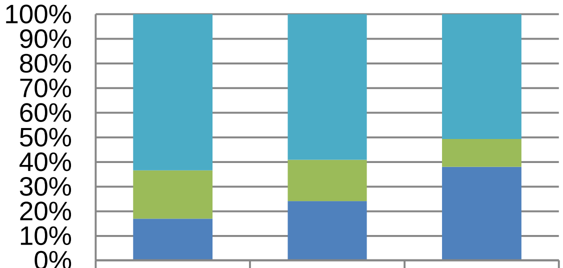
Over the three year period (April 2010 to March 2013) 45% of the quotations issued were to competitors. In total 1705 quotations were issued to competitors with an estimated value of £23.9 million. This provides a further strong indication that customers are aware of competitive alternatives within this market segment and are pursuing the opportunities provided by that competition.

Number of Quotes Issued - SPD



	2010-11	2011-12	2012-13
SPD	740	647	714
ICP	293	222	251
IDNO	252	276	411

Estimated Value of Quotes Issued- SPD

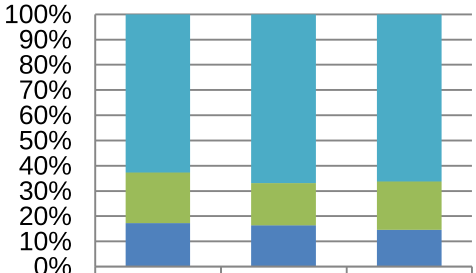


	2010-11	2011-12	2012-13
SPD	£14,627,580	£9,677,826	£9,030,672
ICP	£4,514,837	£2,736,594	£2,018,291
IDNO	£3,923,640	£3,942,660	£6,760,128

Acceptances

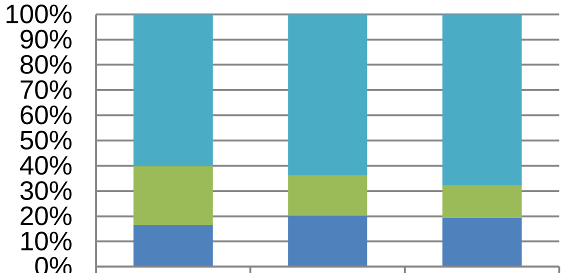
There have been 495 quotes accepted by 14 different competitors over the last three years (April 2010 to March 2013), with an estimated value of £6.3 million. This shows that customers are not only exploring the opportunities provided by competition, they are also choosing to place a significant volume of work with our competitors.

Number of Quotes Accepted - SPD



	2010-11	2011-12	2012-13
SPD	308	291	330
ICP	98	73	95
IDNO	85	71	73

Estimated value of Quotes Accepted- SPD



	2010-11	2011-12	2012-13
SPD	£4,274,424	£3,233,592	£3,443,880
ICP	£1,663,648	£797,087	£649,325
IDNO	£1,175,635	£1,023,465	£976,375

From April 2010 to March 2013, the percentage of the value of connections contracted to be provided by competitors was 36%.

Observations

We make the following observations about this RMS:

- 14 competitors have been awarded work demonstrating a good level of competitor activity.

- The analysis shows that in each of the three years there are new competitors entering the market.
- 57% of the number of total customer connections awarded for 2012/13 was to competitors demonstrating a high level of competitor connections activity.
- The value of total competitor awards during the last three years is approximately £6 million and licensed awards to SPD £11 million.
- Requests for quotations by IDNOs increased by 63% from 2010/11 to 2012/13.
- Between 15 and 19 competitors have been issued with quotations over the three year period.
- An average of 568 quotes has been sent to competitors each year.

Conclusions

We draw the following conclusions on the levels of competitive activity in this RMS:

- Independent providers are very active in this RMS.
- The majority of customer connections are provided by our competitors.
- Customers are both aware of competitive alternatives and are choosing these alternatives.
- There is significant competition within this segment.
- There is scope for competitors in other DSAs to extend the scope of their work into this segment.
- There are high levels of actual competition in this RMS. There continues to be high levels of competition. SPD is subject to real competition and the threat of competition.

1.7.2 Low Voltage Work - SPM

Competitor Activity

Over the three year period (April 2010 to March 2013) SPM has faced significant levels of competition. 41 different market participants have been actively involved in this market segment. These include ICPs, IDNOs and intermediaries. There is a wide range of competitors active in this RMS including both national and regional businesses. There have been 8 new entrants during 2012/13.

This means that SPM has faced, and continues to face, robust competition from a range of experienced competitors with demonstrable track records in the utilities market. Given the extent of competitor activity, consumers continue to benefit from real competition and the threat of competition in this segment.

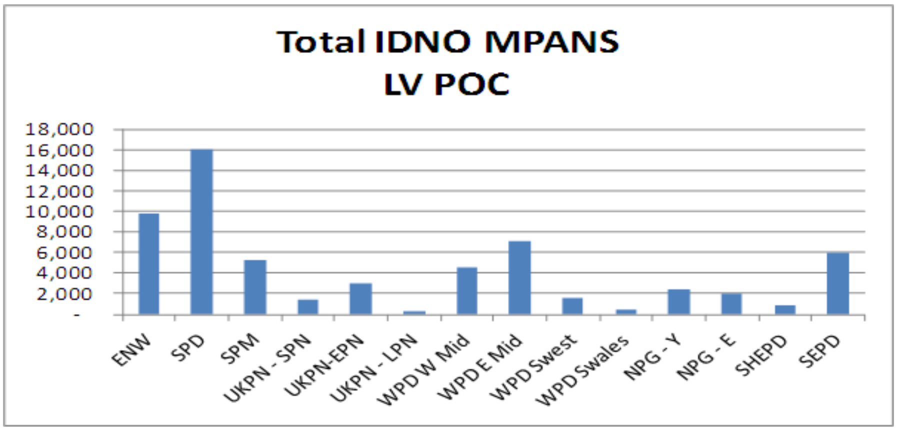
The number of competitors who received and accepted quotes per year is shown below:

ICP / IDNO Activity	2010-11	2011-12	2012-13
Number of parties receiving ICP or IDNO quotes	29	24	28
Number of parties that accepted ICP or IDNO quotes	11	11	12

Full detailed competitor analysis is provided in Appendix 2.

Volume of Customer Connections Provided

MPAN data has been used to estimate the number of customers currently connected to IDNO networks within the SPM DSA. This data shows that there are approximately 5,300 customers currently connected to IDNO networks with an LV point of connection. Furthermore, the extent of this connection activity has trebled over the three year period (April 2010 to March 2013). Further detail is provided within Appendix 14 (Confidential).



Whilst this data evidences an extremely high level of market penetration by IDNOs, it underestimates the full scale of competition. Additional connections activity, which is being undertaken by ICPs (where the contestable connection assets have been handed over for adoption to SPM), is not included.

IDNOs have significant volumes of work and have connected significant numbers of customers. We consider this to be the strongest indicator that competition is established within this market segment.

Volume of Customer Connections Contracted to be Provided

Over the three year period (April 2010 to March 2013) competitors contracted to provide an average of 44% of all new customer connections within this market segment. 4916 IDNO customer connections have been contracted to be provided over this time period. This continues the trend of high growth in IDNO networks in this market segment. SPM has amongst the highest proportion of customers connected to IDNO networks, within its DSA, across the UK.

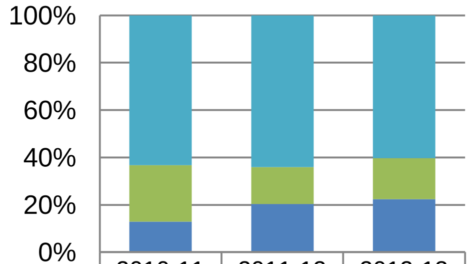
We believe this to be the strongest indicator of the strength of competitive activity within the SPM DSA and that, despite economic conditions, customers are continuing to exercise their option to take up competitive alternatives.

Full detailed market analysis is provided in Appendix 2.

Quotes issued

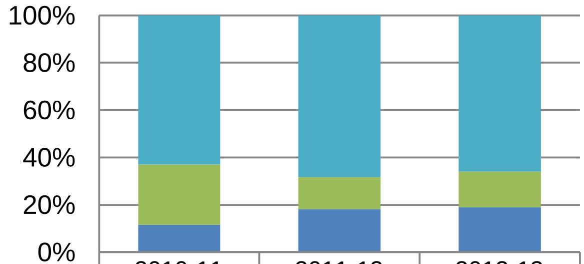
Over the three year period (April 2010 to March 2013) 37% of the quotations issued were to competitors. In total 1199 quotations were issued to competitors with an estimated value of £15.6 million. This provides a further strong indication that customers are aware of competitive alternatives within this market segment and are pursuing the opportunities provided by that competition.

Number of Quotes Issued - SPM



	2010-11	2011-12	2012-13
SPM	663	669	670
ICP	249	163	191
IDNO	135	212	249

Estimated value of Quotes Issued- SPM

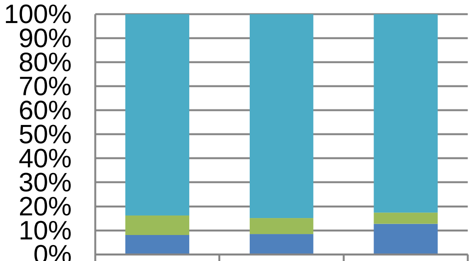


	2010-11	2011-12	2012-13
SPM	£8,881,548	£10,931,460	£10,211,470
ICP	£3,586,596	£2,169,693	£2,304,797
IDNO	£1,626,210	£2,923,056	£2,945,172

Acceptances

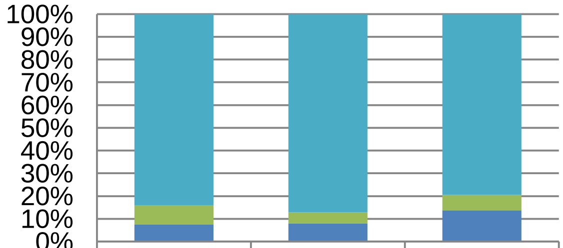
There have been 195 quotes accepted by 16 different competitors over the last three years (April 2010 to March 2013), with an estimated value of £2.3 million. This shows that customers are not only exploring the opportunities provided by competition, they are choosing to place a significant volume of work with our competitors.

Number of Quotes Accepted - SPM



	2010-11	2011-12	2012-13
SPM	352	320	331
ICP	34	25	19
IDNO	34	32	51

Estimated value of Quotes Accepted - SPM



	2010-11	2011-12	2012-13
SPM	£4,278,912	£3,625,280	£3,724,412
ICP	£419,492	£207,125	£311,866
IDNO	£389,164	£331,552	£646,272

From April 2010 to March 2013, the percentage of the value of connections contracted to be provided by competitors was 17%.

Observations

We make the following observations about this RMS:

- 16 competitors have been awarded work demonstrating a good level of competitor activity.
- The analysis shows that in each of the three years there are new competitors entering the market.
- Approximately 49% of the number of total customer connections awarded for 2012/2013 was to competitors demonstrating a high level of competitor connections activity.
- The estimated value of total competitor awards during the last three years is approximately £2.3 million and licensed awards to SPM £11.6million.
- Requests for quotations by IDNOs increased by 84% from 2010/11 to 2012/13.
- Between 24 and 29 competitors have been issued with quotations over the three year period.
- An average of 400 quotes have been sent to competitors each year.

Conclusions

We draw the following conclusions on the level of competitive activity in this RMS:

- Independent providers are very active in this RMS.
- A significant proportion of customer connections are provided by our competitors.
- Customers are both aware of competitive alternatives and are choosing these alternatives.
- There is significant competition within this segment.
- There is scope for competitors in other DSAs to extend the scope of their work into this segment.
- There are high levels of actual competition in this RMS. There continues to be high levels of competition. SPM is subject to real competition and the threat of competition.

1.8 High Voltage work (HV) – Overview

This market segment is generally for medium demand size projects for HV/LV connections or HV developments up to approximately 5MVA. This market segment covers new connections which require HV work or an HV substation to be connected to our networks. The relevant mains and services to be installed could be connected to the LV network, or if a HV voltage connection is required the metering point would be at the HV Substation. No EHV works are involved with these types of connections. This market segment also includes rural connections which require a HV pole mounted transformer to enable the connections to be made.

The typical types of connections within this market segment are major supermarkets; housing developments; small retail or commercial developments and medium size factories (many of which are part of national undertakings). Customer types include national house builders, construction companies, consultants and developers.

1.8.1 High Voltage Work – SPD

<u>Competitor Activity</u>

Over the three year period (April 2010 to March 2013) SPD has faced significant levels of competition. 31 different market participants have been actively involved in this market segment. These include ICPs, IDNOs and intermediaries. There is a wide range of competitors active in this RMS including both national and regional businesses. There have been 9 new entrants during 2012/13.

This means that SPD has faced, and continues to face, robust competition from a range of experienced competitors with demonstrable track records in the utilities market. Given the extent of competitor activity, consumers continue to benefit from real competition and the threat of competition in this segment.

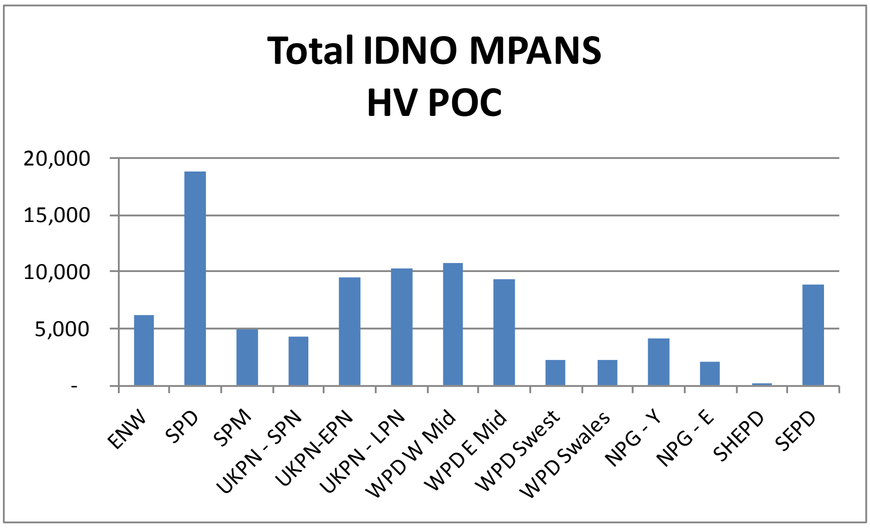
The number of competitors who received and accepted quotes per year is shown below.

ICP/ IDNO Activity	2010-11	2011-12	2012-13
Number of parties receiving ICP or IDNO quotes	16	21	20
Number of parties that accepted ICP or IDNO quotes	9	9	9

Full detailed competitor analysis is provided in Appendix 2.

<u>Volume of Customer Connections Provided</u>

MPAN data has been used to estimate the number of customers currently connected to IDNO networks within the SPD DSA. This data shows that there are approximately 18,800 customers currently connected to IDNO networks with a HV point of connection. Furthermore, the extent of this connection activity has doubled over the three year period (April 2010 to March 2013). Further detail is provided within Appendix 14 (Confidential).



Whilst this data evidences an extremely high level of market penetration by IDNOs, it underestimates the full scale of competition. Additional connections activity, which is being undertaken by ICPs (where the contestable connection assets have been handed over for adoption to SPD), is not included.

We consider this to be the strongest indicator that competition is established within this market segment, that significant competitive works have taken place and customers connected.

<u>Volume of Customer Connections Contracted to be Provided</u>

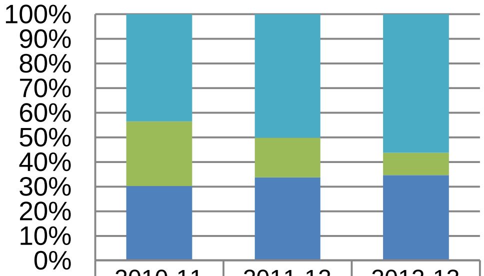
Over the three year period (April 2010 to March 2013) competitors provided an average of 91% of new customer connections within this market segment. 12985 IDNO customer connections have been contracted to be provided over this time period. This continues the trend of high growth of IDNO networks in this market segment, SPD has amongst the highest proportion of customers connected to IDNO networks, within its DSA, across the UK.

We believe this to be the strongest indicator that, despite economic conditions, customers are continuing to exercise their option to take up competitive alternatives.

<u>Quotes issued</u>

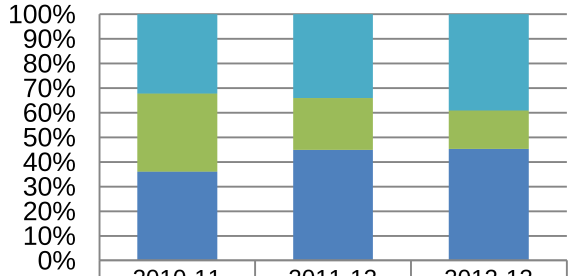
Over the three year period (April 2010 to March 2013) 50% of the quotations issued were to competitors. In total 1659 quotations were issued with an estimated value of £154 million. This provides a further strong indication that customers are aware of competitive alternatives within this market segment and are pursuing the opportunities provided by that competition.

Number of Quotes Issued - SPD



	2010-11	2011-12	2012-13
SPD	472	551	641
ICP	285	177	105
IDNO	327	371	394

Estimated Value of Quotes Issued- SPD

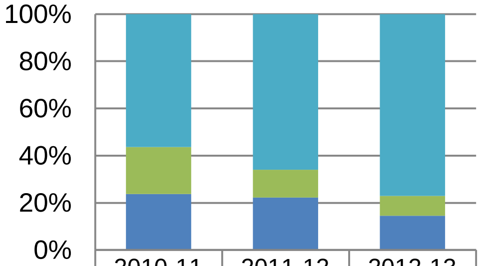


	2010-11	2011-12	2012-13
SPD	£25,103,320	£29,722,593	£27,915,550
ICP	£24,689,835	£18,266,577	£11,143,125
IDNO	£28,045,482	£39,163,131	£32,341,096

<u>Acceptances</u>

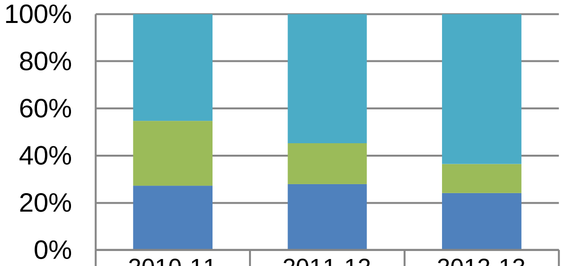
There have been 273 quotes accepted by 13 different competitors over the last three years (April 2010 to March 2013), with an estimated value of £20.6 million. This shows that customers are not only exploring the opportunities provided by competition, they are choosing to place a significant volume of work with our competitors.

Number of Quotes Accepted - SPD



	2010-11	2011-12	2012-13
SPD	145	178	233
ICP	51	32	25
IDNO	61	60	44

Estimated value of Quotes Accepted - SPD



	2010-11	2011-12	2012-13
SPD	£7,256,235	£8,301,030	£8,665,270
ICP	£4,414,917	£2,625,696	£1,685,450
IDNO	£4,371,199	£4,222,020	£3,281,388

From April 2010 to March 2013, the percentage of the value of connections contracted to be provided by competitors was 46%.

<u>Observations</u>

We draw the following observations about this RMS:

- 13 competitors have been awarded work demonstrating a good level of competitor activity.
- The analysis shows that in each of the three years there are new competitors entering the market.

- Approximately 84% of the number of total customer connections awarded for 2012/2013 was to competitors demonstrating a very high level of competitor connections activity.
- There has been a 25% increase in competitors in the market over last 3 years (from 16 to 20).
- Requests for quotations by IDNOs have risen by 20% from 2010/11 to 2012/13.
- Between 16 and 21 competitors have been issued with quotations over the three year period.
- An average of 553 quotes has been sent to competitors each year.

Conclusions

We draw the following conclusions on the levels of competitive activity in this RMS:

- Independent providers are active in this RMS.
- The majority of customer connections are provided by our competitors.
- Customers are both aware of competitive alternatives and are choosing these alternatives.
- There is significant competition within this segment.
- There is scope for competitors in other DSAs to extend the scope of their work into this segment.
- There are high levels of actual competition in this RMS. There continues to be high levels of competition. SPD is subject to real competition and the threat of competition.

1.8.2 High Voltage Work – SPM

Competitor Activity

Over the three year period (April 2010 to March 2013) SPM has faced significant levels of competition. 41 different market participants have been actively involved in this market segment. These include ICPs, IDNOs and intermediaries. There is a wide range of competitors active in this RMS including both national and regional businesses. There have been 9 new entrants during 2012/13.

This means that SPM has faced, and continues to face, robust competition from a range of experienced competitors with demonstrable track records in the utilities market.

Given the extent of competitor activity, consumers continue to benefit from real competition and the threat of competition in this segment.

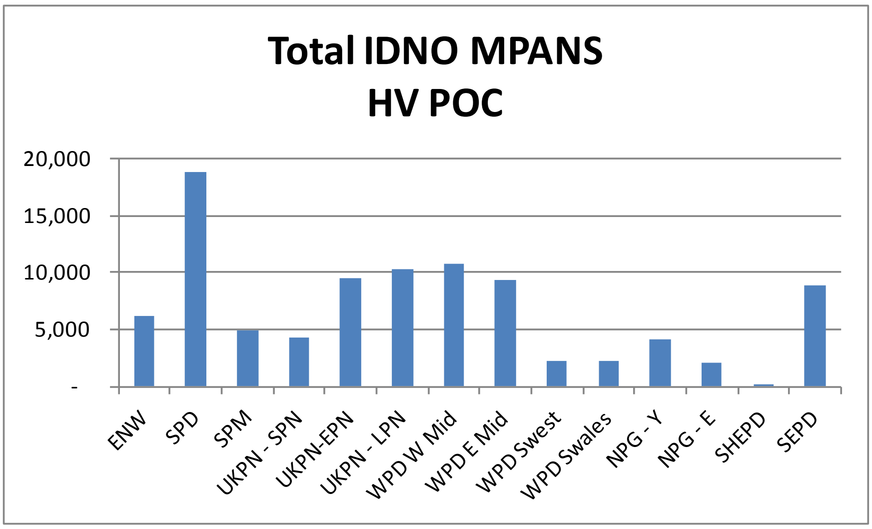
The number of competitors who received and accepted quotes per year is shown below.

ICP/ IDNO Activity	2010-11	2011-12	2012-13
Number of parties receiving ICP or IDNO quotes	30	26	31
Number of parties that accepted ICP or IDNO quotes	11	10	10

Full detailed competitor analysis is provided in Appendix 2.

Volume of Customer Connections Provided

MPAN data has been used to estimate the number of customers currently connected to IDNO networks within the SPM DSA. This data shows us that there are approximately 5,000 customers currently connected to IDNO networks with an HV point of connection. Furthermore, the extent of this connection activity has quadrupled over the three year period (April 2010 to March 2013). Further detail is provided within Appendix 14 (Confidential).



Whilst this data evidences an extremely high level of market penetration by IDNOs, it underestimates the full scale of competition. Additional connections activity, which is being undertaken by ICPs (where the contestable connection assets have been handed over for adoption to SPM), is not included.

We consider this to be the strongest indicator that competition is established within this market segment, that significant competitive works have taken place and customers connected.

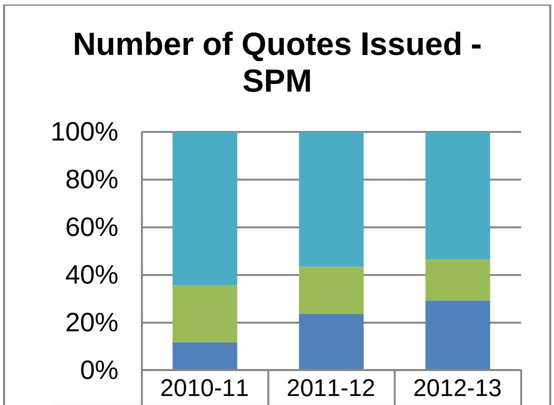
Volume of Customer Connections Contracted to be Provided

Over the three year period (April 2010 to March 2013) competitors contracted to provide an average of 76% of all new customer connections within this market segment. 5815 IDNO customer connections have been contracted to be provided over this time period. This continues the trend of high growth in IDNO networks in this market segment. SPM has amongst the highest proportion of customers connected to IDNO networks, within its DSA, across the UK.

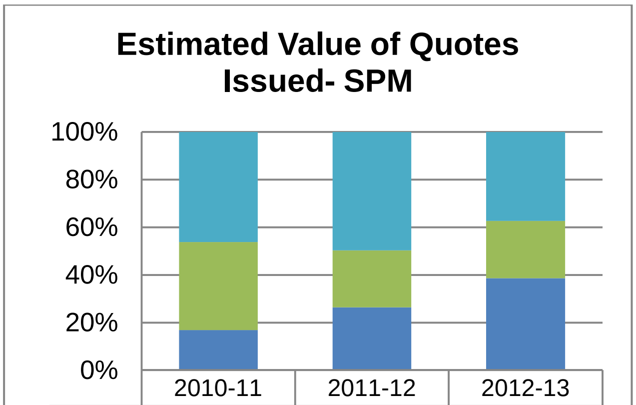
We believe this to be the strongest indicator that, despite economic conditions, customers are continuing to exercise their option to take up competitive alternatives.

Quotes issued

Over the three year period (April 2010 to March 2013) 42% of the quotations issued were to competitors. In total 1110 quotations were issued with an estimated value of £108 million. This provides a further strong indication that customers are aware of competitive alternatives within this market segment and are pursuing the opportunities provided by that competition.



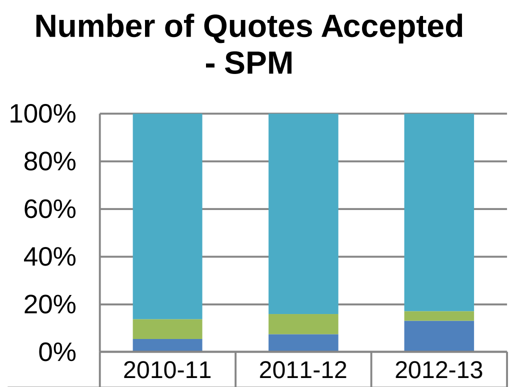
	2010-11	2011-12	2012-13
SPM	478	459	567
ICP	178	161	183
IDNO	87	192	309



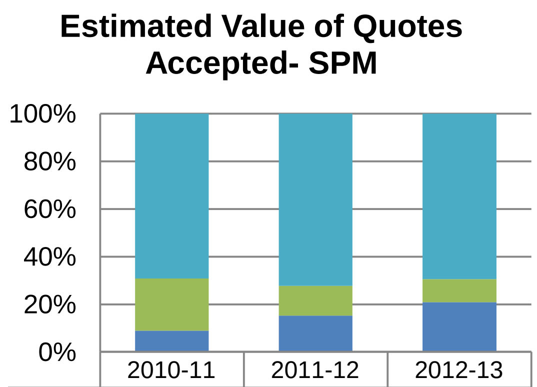
	2010-11	2011-12	2012-13
SPM	£28,805,236	£26,240,571	£28,462,266
ICP	£23,058,476	£12,662,167	£18,375,579
IDNO	£10,514,907	£13,898,496	£29,454,189

Acceptances

There have been 102 quotes accepted by 16 different competitors over the last three years (April 2010 to March 2013), with an estimated value of £10 million. This shows that customers are not only exploring the opportunities provided by competition, they are choosing to place a significant volume of work with our competitors.



	2010-11	2011-12	2012-13
SPM	189	158	203
ICP	18	16	10
IDNO	12	14	32



	2010-11	2011-12	2012-13
SPM	£8,525,412	£7,117,742	£7,744,450
ICP	£2,704,356	£1,237,088	£1,090,940
IDNO	£1,103,328	£1,495,298	£2,324,192

Between April 2010 and March 2013, the percentage of the value of connections contracted to be provided by competitors was 30%.

Observations

We make the following observations about this RMS:

- 16 competitors have been awarded work demonstrating a good level of competitor activity.
- The analysis shows that in each of the three years there are new competitors entering the market.
- Approximately 85% of the number of total customer connections awarded for 2012/2013, were to competitors demonstrating a very high level of competitor connections activity.
- The approximate value of total competitor awards during the last three years is approximately £10 million and licensed awards to SPM £23.4 million.
- Requests for quotations by IDNOs have risen by 255% from 2010/11 to 2012/13.
- Between 26 and 31 competitors have been issued with quotations over the three year period.
- An average of 370 quotes has been sent to competitors each year.

Conclusions

We draw the following conclusions on the levels of competitive activity in this RMS:

- Independent providers are active in this RMS.
- The majority of customer connections are provided by our competitors.
- Customers are both aware of competitive alternatives and are choosing these alternatives.
- There is significant competition within this segment.
- There is scope for competitors in other DSAs to extend the scope of their work into this segment.
- There are high levels of actual competition in this RMS. There continues to be high levels of competition. SPM is subject to real competition and the threat of competition.

1.9 High Voltage and Extra High Voltage work (HV/EHV) – Overview

This market segment is predominantly for large demand projects or developments typically over 5MVA requiring EHV work or the installation of 33kV primary substations. The extent of the EHV works may include reinforcement of the existing network which is currently a non-contestable activity. In these circumstances this market segment is little different to High Voltage demand.

In this market segment the work types tend be of low volume and of potentially high value. The high value of contestable works makes them extremely attractive to competitors pursuing large individual projects.

The typical types of connections within this market segment are major retail parks, large commercial developments and factories. The customer types include construction companies, consultants and developers.

1.9.1 High Voltage and Extra High Voltage work – SPD

Competitor Activity

Over the three year period (April 2010 to March 2013) SPD has faced significant levels of competition. 7 different market participants have been actively involved in this market segment. These include ICPs, IDNOs and intermediaries. All of the competitors active in this RMS operate at a national level and have skills which are cross transferrable with other SPD market segments.

Whilst the numbers of contract awards within this RMS have reduced in the last two years, competitor interest remains high. This means that SPD has faced, and continues to face, robust competition from a range of experienced competitors with demonstrable track records in the utilities market. Given the extent of competitor activity, consumers continue to benefit from real competition and the threat of competition in this segment.

The number of competitors who received and accepted quotes per year is shown below.

Number of competative alternatives in the RMS	2010-11	2011-12	2012-13
Number of parties receiving ICP or IDNO quotes	4	5	4
Number of parties that accepted ICP or IDNO quotes	4	0	1

Full detailed competitor analysis is provided in Appendix 2.

Volume of Customer Connections Provided

MPAN data has been used to estimate the number of customers currently connected to IDNO networks within the SPD DSA. This data shows us that there are in excess of 2,200 customers currently connected to IDNO networks with an EHV point of connection.

Whilst this data evidences an extremely high level of market penetration by IDNOs, it underestimates the full scale of competition. Additional connections activity, undertaken by ICPs (where the contestable connection assets have been handed over for adoption to SPD), is not included.

We consider this to be the strongest indicator that competition is established within this market segment, that significant competitive works have taken place and customers connected.

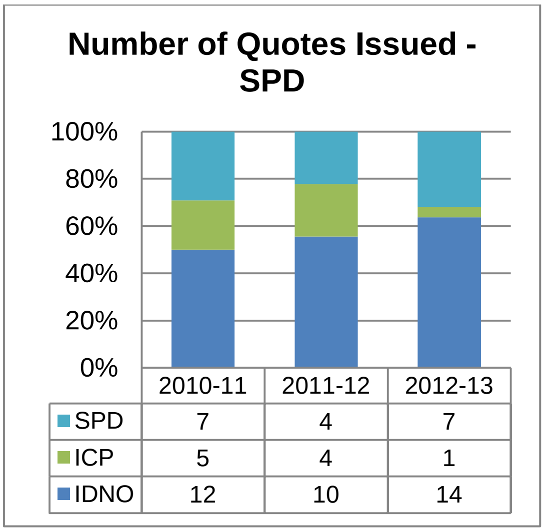
Volume of Customer Connections Contracted to be Provided

This RMS has been adversely impacted by the economic downturn in the construction and house building market. Whilst the contracted customer numbers remain relatively low at this time, they do not take into account developments completed immediately outwith the three year timescales.

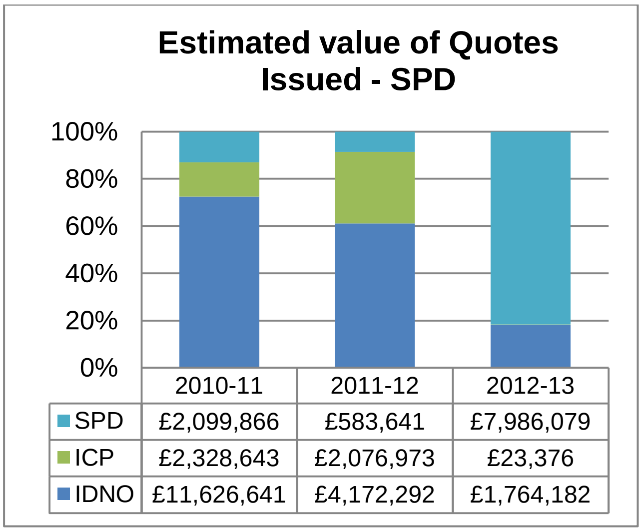
For example, the Glasgow Harbour development was completed in 2009 and comprises of in excess of 800 apartments across six storey towers. The electrical infrastructure for this significant commercial and housing development was provided by a competitor and is operated and maintained today by an IDNO which remains active in this market segment.

Quotes issued

Over the three year period (April 2010 to March 2013) 72% of the quotations issued were to competitors. In total 46 quotations were issued with an estimated value of £21.9 million. This provides a further strong indication that, despite the economic downturn, customers are aware of competitive alternatives within this market segment and are pursuing the opportunities provided by that competition.



	2010-11	2011-12	2012-13
SPD	7	4	7
ICP	5	4	1
IDNO	12	10	14

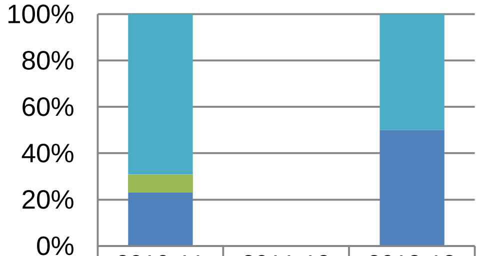


	2010-11	2011-12	2012-13
SPD	£2,099,866	£583,641	£7,986,079
ICP	£2,328,643	£2,076,973	£23,376
IDNO	£11,626,641	£4,172,292	£1,764,182

Acceptances

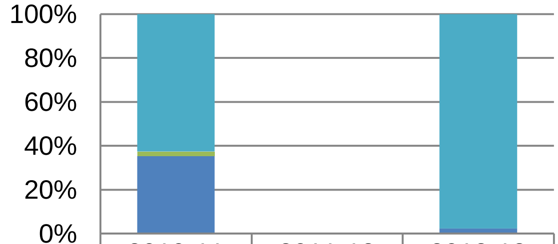
There have been 5 quotes accepted by 4 different competitors over the last three years (April 2010 to March 2013), with an estimated value of £2.2 million. This shows that customers are not only exploring the opportunities provided by competition, they are choosing to place a significant volume of work with our competitors.

Number of Quotes Accepted - SPD



	2010-11	2011-12	2012-13
SPD	9	0	1
ICP	1	0	0
IDNO	3	0	1

Estimated value of Quotes Accepted - SPD



	2010-11	2011-12	2012-13
SPD	£3,693,584	£-	£1,270,602
ICP	£114,962	£-	£-
IDNO	£2,088,469	£-	£30,656

<u>Conclusions</u>

We make the following observations about this RMS:

- 4 competitors have been awarded work demonstrating a good level of competitor activity within a relatively small market segment.
- Activity across the three year period has remained relatively stable with a core group of 4 competitors consistently requesting quotations each year.
- The approximate value of total competitor awards during the last three years is approximately £2.2 million.
- Requests for quotations by IDNOs have remained relatively stable having risen by 17% from 2010/11 to 2012/13.
- Between 4 and 5 competitors have been issued with quotations over the three year period.
- An average of 15 quotes has been sent to competitors each year.

We draw the following conclusions on the levels of competitive activity in this RMS:

- Independent providers are active in this RMS.
- Competitors have provided significant volumes of customer connections in this RMS.
- This market segment has been particularly hit by the economic downturn.
- Customers remain aware of competitive alternatives and are choosing these alternatives.
- There remains significant potential for competition within this segment.
- There is scope for competitors in other segments and DSAs to extend the scope of their work into this segment.

1.9.2 High Voltage and Extra High Voltage work – SPM

Competitor Activity

Over the three year period (April 2010 to March 2013) SPM has faced significant levels of competition. 13 different market participants have been actively involved in this market segment. These include ICPs, IDNOs and intermediaries. There is a wide range of competitors active in this RMS including both national and regional businesses. These competitors have skills which are cross transferrable with other SPM market segments. There have been 5 new entrants during 2012/13.

Whilst the value of contract awards within this RMS has reduced over the three year period, competitor interest has increased. This means that SPM has faced, and continues to face, robust competition from a range of experienced competitors with demonstrable track records in the utilities market.

Given the extent of competitor activity, consumers continue to benefit from real competition and the threat of competition in this segment.

The number of competitors who received and accepted quotes per year is shown below.

ICP/IDNO Activity	2010-11	2011-12	2012-13
Number of parties receiving ICP or IDNO quotes	6	7	11
Number of parties that accepted ICP or IDNO quotes	2	2	2

Full detailed competitor analysis is provided in Appendix 2.

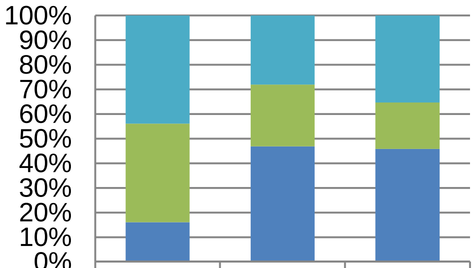
Volume of Customer Connections Provided

This is a relatively small market segment in terms of the numbers of new connections. The economic downturn in the construction and housing market has adversely impacted this RMS. Over the three year period (April 2010 to March 2013) competitors provided an average of 39% of new customer connections within this RMS.

Quotes issued

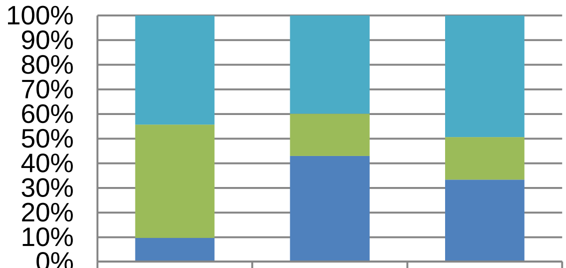
Over the three year period (April 2010 to March 2013) 65% of the quotations issued were to competitors. In total 68 quotations were issued with an estimated value of £62.6 million. This provides a further strong indication that, despite the economic downturn, customers are aware of competitive alternatives within this market segment and are pursuing the opportunities provided by that competition.

Number of Quotes Issued - SPM



	2010-11	2011-12	2012-13
SPM	11	9	17
ICP	10	8	9
IDNO	4	15	22

Estimated value of Quotes Issued- SPM

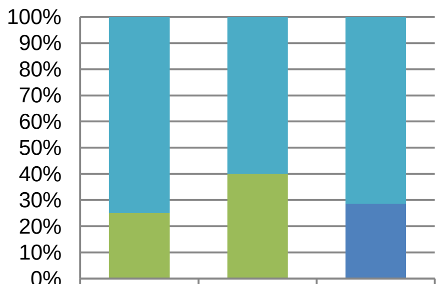


	2010-11	2011-12	2012-13
SPM	£17,254,811	£11,113,662	£23,652,776
ICP	£17,899,717	£4,780,749	£8,241,052
IDNO	£3,767,276	£11,975,757	£15,947,139

Acceptances

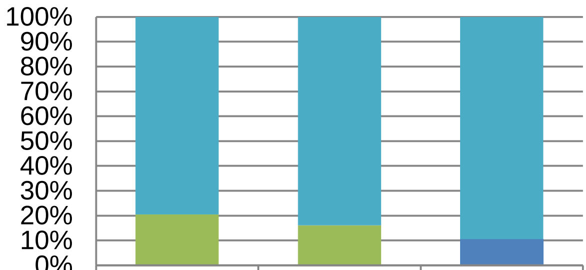
There have been 6 quotes accepted by 6 different competitors over the last three years (April 2010 to March 2013), with an estimated value of £2.8 million. This shows that customers are not only exploring the opportunities provided by competition, they are choosing to place a significant volume of work with our competitors.

Number of Quotes Accepted - SPM



	2010-11	2011-12	2012-13
SPM	6	3	5
ICP	2	2	0
IDNO	0	0	2

Estimated value of Quotes Accepted- SPM



	2010-11	2011-12	2012-13
SPM	£7,340,978	£2,936,140	£2,615,816
ICP	£1,884,181	£560,477	£-
IDNO	£-	£-	£308,873

Observations

We make the following observations about this RMS:

- 6 competitors have been awarded work demonstrating a good level of competitor activity within a relatively small market segment.
- The number of active competitors within this market segment has increased over the three year period (2010/11 to 2012/13).
- Approximately 69% of the number of total customer connections awarded for 2012/2013 were to competitors demonstrating a very high level of competitor connections activity.
- The approximate value of total competitor awards during the last three years is approximately £2.8 million.
- Requests for quotations by IDNOs have risen by 450% from 2010/11 to 2012/13.
- Between 6 and 11 competitors have been issued with quotations over the three year period.
- An average of 23 quotes has been sent to competitors each year.

Conclusions

We draw the following conclusions on the levels of competitive activity in this RMS:

- Independent providers are active in this RMS.
- The majority of customer connections were provided by our competitors in 2012/13.
- Customers are both aware of competitive alternatives and are choosing these alternatives.
- There remains significant potential for competition within this segment.
- There is scope for competitors in other segments and DSAs to extend the scope of their work into this segment.

1.10 Extra High Voltage work and above (EHV & above) - Overview

This market segment is predominantly for very large demand projects connected at EHV or 132kV (SPM only).

In this market segment the work types are low volume / high value. The value of contestable work tends to be higher compared to the lower voltage market segments and therefore is extremely attractive to competitors pursuing large individual projects.

The typical types of connections within this market segment are major retail parks, large commercial developments and factories (many of which are part of national undertakings). Customer types include Local Authorities, construction companies, consultants and developers.

1.10.1 EHV and above Work- SPD

Competitor Activity

There have been 3 active competitors who have received quotes in this market segment between April 2011 and March 2013. No quotations were issued during 2010/11.

SPD has faced significant levels of competition between April 2011 and March 2013 with 3 different market participants actively involved in this market segment. These include ICPs and IDNOs. All of the competitors active in this RMS operate at a national level and have skills which are cross transferrable with other SPD market segments. There was 1 new entrant during 2012/13.

Whilst there have been no contract awards in this RMS in the last two years, the number of quotations issued to competitors have exceeded those issued as licensed quotations by SPD. SPD has faced, and will continue to face, robust competition from a range of experienced competitors with demonstrable track records in the utilities market. Given the extent of competitor activity, consumers will continue to benefit from real competition and the threat of competition in this segment.

The number of competitors receiving and accepting quotes per year is shown below:

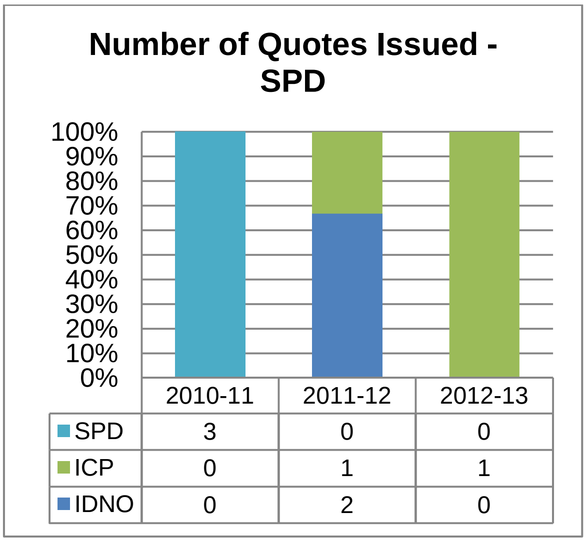
ICP/ IDNO Activity	2010-11	2011-12	2012-13
Number of parties receiving ICP or IDNO quotes	0	2	1
Number of parties that accepted ICP or IDNO quotes	0	0	0

Full detailed competitor analysis is provided in Appendix 2.

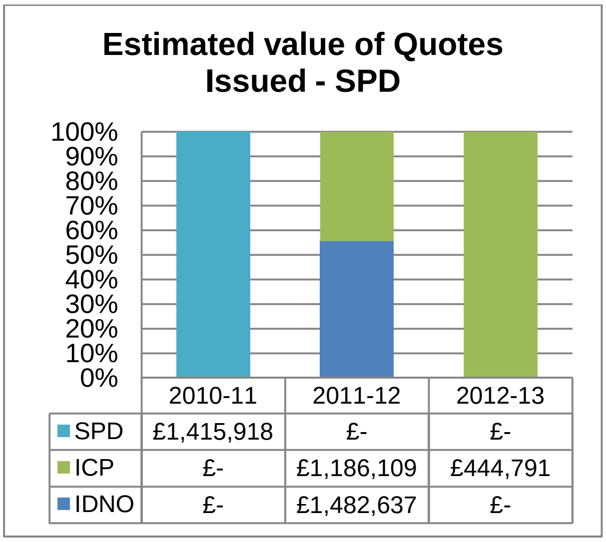
Quotes issued

Over the three year period (April 2010 to March 2013) 57% of the quotations issued were to competitors. In the last two years 4 quotations were issued with an estimated value of £3.1 million. No licensed quotations were issued by SPD during 2012/13.

This provides a strong indicator that, despite the economic downturn, customers are aware of competitive alternatives within this market segment and are pursuing the opportunities provided by that competition. Customers are aware of and actively seek these opportunities.



	2010-11	2011-12	2012-13
SPD	3	0	0
ICP	0	1	1
IDNO	0	2	0



	2010-11	2011-12	2012-13
SPD	£1,415,918	£-	£-
ICP	£-	£1,186,109	£444,791
IDNO	£-	£1,482,637	£-

Acceptances

There have been no quotations accepted within this market segment between April 2011 and March 2013.

Observations

We make the following observations about this RMS:

- The volume for demand connections is relatively low in this market segment.
- There were no acceptances in this market segment after April 2011.
- 57% of quotations were issued to competitors over the three year time period.
- Significantly greater numbers and average value of quotation were issued to competitors in the last two years in comparison to licensed quotations issued by SPD.

Conclusions

We draw the following conclusions on the levels of competitive activity in this RMS:

- Independent providers are active in this RMS.
- Customers are fully aware of competitive alternatives.
- There remains significant potential for competition within this segment.
- There is scope for competitors in other segments and DSAs to extend the scope of their work into this segment.

1.10.2 EHV and above work – SPM

Competitor Activity

This market segment has been dominated by a single very large development for which 3 different competitors received quotes between April 2012 and March 2013.

SPM faced significant levels of competition for this development from ICPs and IDNOs. The competitors active in this RMS operate at a national level and have skills which are cross transferrable with other SPM market segments.

Whilst there have been no contract awards in this RMS, the experience and demonstrable track records of the competitors to whom quotations have been issued, evidence the robust competition which is faced, and will continue to be faced, by SPM.

Given the extent of competitor activity, consumers will continue to benefit from real competition and the threat of competition in this segment.

The number of competitors receiving and accepting quotes per year is shown below:

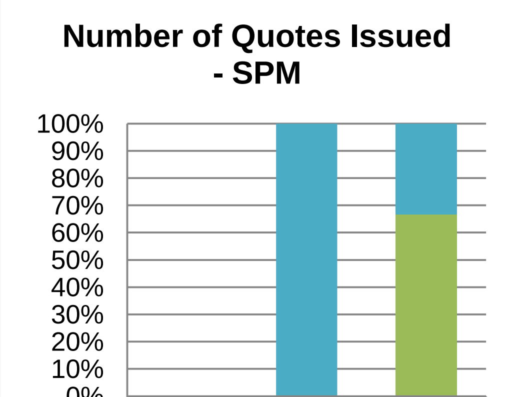
ICP/ IDNO Activity	2010-11	2011-12	2012-13
Number of parties receiving ICP or IDNO quotes	0	0	3
Number of parties that accepted ICP or IDNO quotes	0	0	0

Full detailed competitor analysis is provided in Appendix 2.

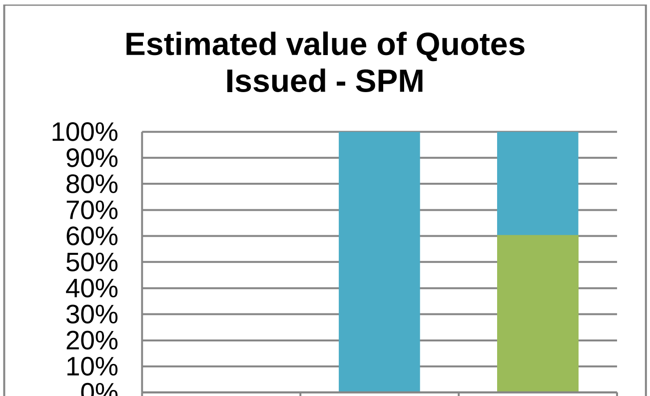
Quotes issued

No quotations were issued to competitors between April 2010 and March 2011. In this time only 1 licensed quotation was issued (of value £31,382). During the year 2012/13, 4 quotations were issued to 3 different competitors for a single development with an estimated value of £14 million.

This provides a strong indication that customers within this market segment are aware of competitive alternatives and are pursuing the opportunities provided by that competition.



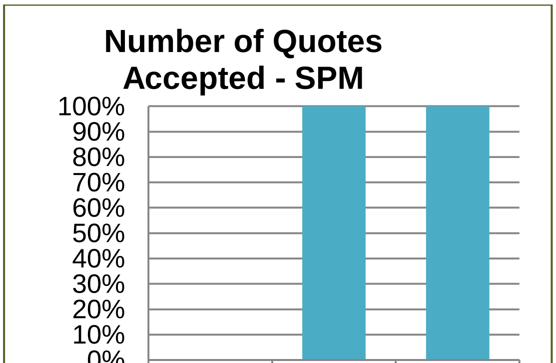
	2010-11	2011-12	2012-13
SPM	0	1	2
ICP	0	0	4
IDNO	0	0	0



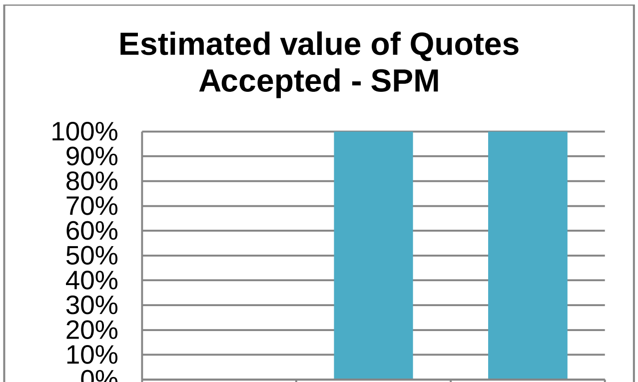
	2010-11	2011-12	2012-13
SPM	£-	£31,382	£37,677,417
ICP	£-	£-	£57,521,897
IDNO	£-	£-	£-

Acceptances

There have been no quotations accepted by competitors over the last three years (April 2010 to March 2013).



	2010-11	2011-12	2012-13
SPM	0	1	1
ICP	0	0	0
IDNO	0	0	0



	2010-11	2011-12	2012-13
SPM	£-	£31,382	£18,535,168
ICP	£-	£-	£-
IDNO	£-	£-	£-

Observations

We make the following observations about this RMS:

- The volume for demand connections is low in this market segment.
- This RMS has been dominated by one single large development.
- There is a good level of awareness of competition within this market segment.
- More competitor quotes were sent over the 3 year period than licensed quotes (4 competitor quotes and 3 licensed).

- Within the HV/EHV Generation RMS, one competitor has contracted to construct and own extensive electrical distribution network infrastructure associated with a generation connection. As this activity is similar to that which would be conducted in this RMS there is potential for repetition here.

Conclusions

We draw the following conclusions on the levels of competitive activity in this RMS:

- Independent providers are active in this RMS.
- Customers are fully aware of competitive alternatives.
- There remains significant potential for competition within this segment.
- There is scope for competitors in other segments and DSAs to extend the scope of their work into this segment.
- There exists real potential for connections to be provided/ owned by businesses already active within this DSA to own distribution infrastructure at this voltage level.

1.11 LV Distributed Generation – Overview

This market segment considers the connection of small distributed generation projects (typically below 300kW). The connection point for these types of connections is solely at LV with no need for a substation or HV work.

The most significant volume of activity within this market segment is attributed to connecting distributed generation to existing premises. As a result the majority of connections take place without physical works being required. Quotation costs are often limited therefore to non-contestable activities such as studies and witness testing. Accordingly all quotations containing non-contestable costs only have been excluded from the data provided in support of this application.

The typical distributed generation connections within this market segment are any form of renewable energy, wind turbine(s), combined heat and power (CHP), photovoltaic panels (PV) or biomass.

1.11.1 LV Distribution - SPD

Competitor Activity

There have been 6 active competitors who have received quotes in this market segment over the last three years (April 2010 to March 2013). These competitors include ICPs and IDNOs who operate at a regional and national level and have skills which are cross transferrable with other SPD market segments.

Although this is a developing market segment it requires broadly the same skill set as is found within, for example, the LV demand RMS where the same processes and procedures apply. Additionally, it should be noted that the extent of contestability has been extended within the last year to include jointing to existing DNO mains. Consequently there is a clear threat of competition from a range of experienced competitors with demonstrable track records in the utilities market who are already operating within the SPD DSA and other DSAs in close proximity.

It is to be expected therefore that levels of competitor activity will increase in this market segment and that consumers will benefit as a result from real competition and the threat of competition.

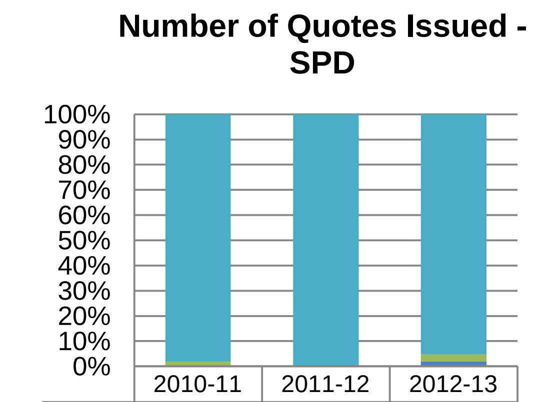
The number of ICP or IDNOs receiving and accepting quotes per year is shown below:

ICP/ IDNO Activity	2010-11	2011-12	2012-13
Number of parties receiving ICP or IDNO quotes	2	1	3
Number of parties that accepted ICP or IDNO quotes	1	0	1

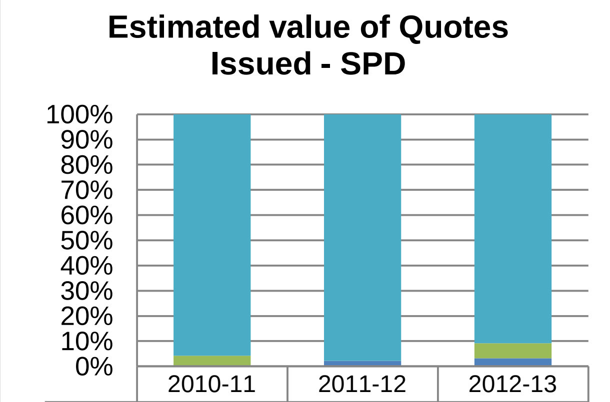
Full detailed competitor analysis is provided in Appendix 2.

Quotes issued

8 quotations have been sent to 6 different competitors for the three year period (April 2010 to March 2013), to a value of £211,747.



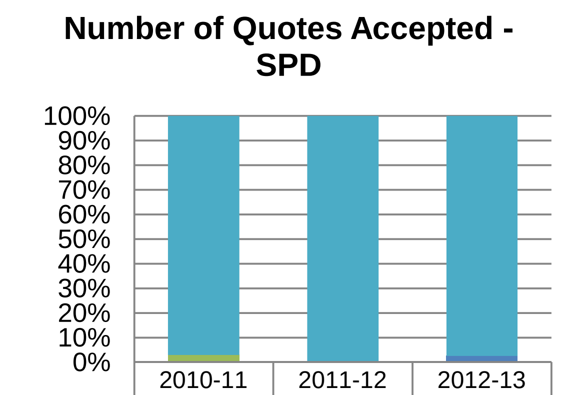
	2010-11	2011-12	2012-13
SPD	107	167	100
ICP	2	0	3
IDNO	0	1	2



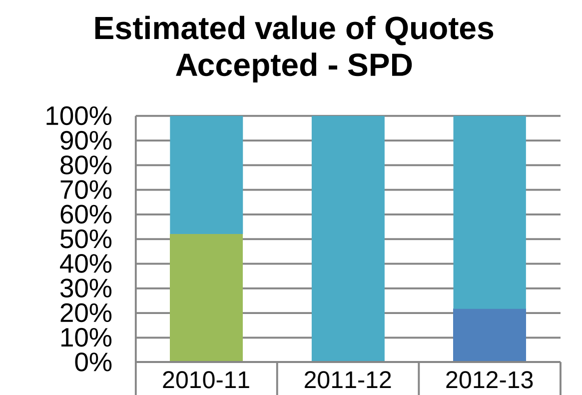
	2010-11	2011-12	2012-13
SPD	£1,277,802	£2,163,711	£1,070,248
ICP	£56,673	£-	£70,390
IDNO	£-	£47,648	£37,036

Acceptances

There have been 2 competitor quotes accepted by 2 parties over the three year period, with a value of £413,134.



	2010-11	2011-12	2012-13
SPD	33	39	39
ICP	1	0	0
IDNO	0	0	1



	2010-11	2011-12	2012-13
SPD	£318,712	£314,789	£241,929
ICP	£346,534	£-	£-
IDNO	£-	£-	£66,600

Observations

We make the following observations about this RMS:

- This is a developing market segment in which broadly the same skill sets as are found within other RMS may be readily transferred to.
- The same processes and procedures apply within this market segment as are found elsewhere within the SPD DSA.
- The competitors active in this RMS operate at both a regional and national level. They have skills which are readily cross transferrable with other market segments and possess the strength in depth of resources to significantly increase their presence in this RMS.
- Requests for quotations in 2012/13 increased by 150% from those issued in 2010/11.

Conclusions

We draw the following conclusions on the levels of competitive activity in this RMS:

- There is opportunity for competitors operating within other market segments to extend the scope of their work into this RMS.
- There is opportunity for competitors operating within other DSAs to widen their geographic coverage into this RMS.
- The same means of promoting competition in connections are applied in this RMS as they are in other RMSs (e.g. the guidance contained within licensed quotations relating to competitive alternatives).
- Major national competitors are active in this RMS.
- Increased levels of competitor activity have been experienced in 2012/13.
- Further increased levels of competitor activity would be welcomed and are expected.

1.11.2 LV Distribution – SPM

Competitor Activity

There have been 6 active competitors who have received quotes in this market segment over the last three years (April 2010 to March 2013). These competitors include ICPs, IDNOs and intermediaries who operate at a regional and national level and have skills which are cross transferrable with other SPM market segments.

Although this is a developing market segment it requires broadly the same skill set as is found within, for example, the LV demand RMS where the same processes and procedures apply. Additionally, it should be noted that the extent of contestability has been extended within the last year to include jointing to existing DNO mains. Consequently there is a clear threat of competition from a range of experienced competitors with demonstrable track records in the utilities market who are already operating within the SPM DSA and other DSAs in close proximity.

It is to be expected therefore that levels of competitor activity will increase in this market segment and that consumers will benefit as a result from real competition and the threat of competition.

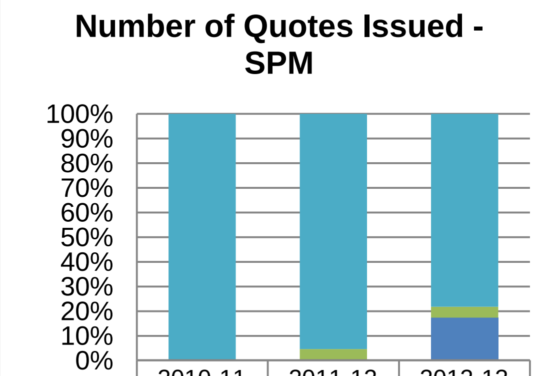
The number of ICP or IDNOs receiving and accepting quotes per year is shown below:

ICP/ IDNO Activity	2010-11	2011-12	2012-13
Number of parties receiving ICP or IDNO quotes	0	1	5
Number of parties that accepted ICP or IDNO quotes	0	0	0

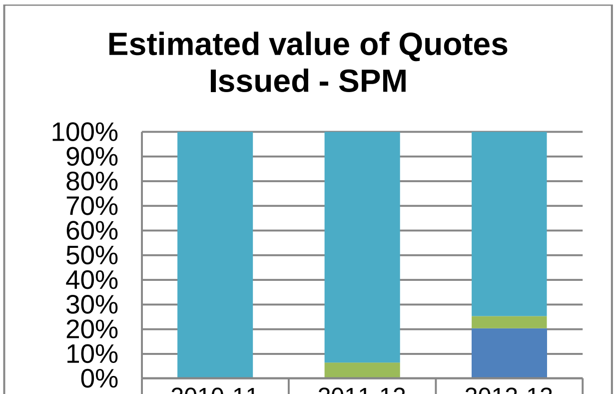
Full detailed competitor analysis is provided in Appendix 2.

Quotes issued

11 connection quotations have been sent to 6 different competitors over the last three years (April 2010 to March 2013), with a value of £139,614. A significant increase in the number of quotations issued was experienced in 2012/13.



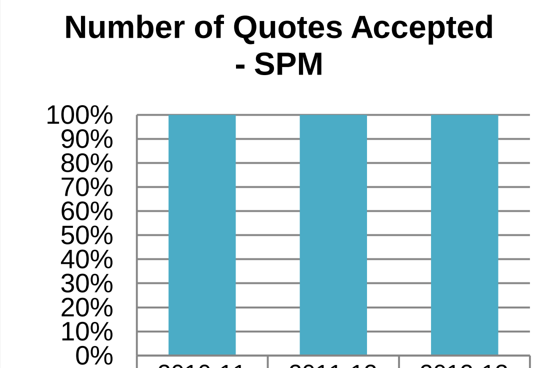
	2010-11	2011-12	2012-13
SPM	5	21	36
ICP	0	1	2
IDNO	0	0	8



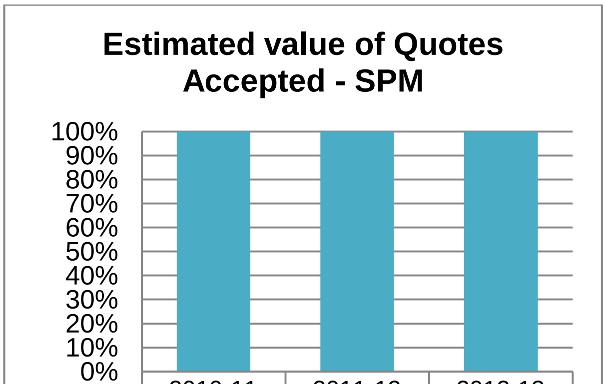
	2010-11	2011-12	2012-13
SPM	£16,977	£265,050	£358,702
ICP	£-	£18,155	£24,147
IDNO	£-	£-	£97,312

Acceptances

There have been no competitor quotes accepted in this market segment over the three year period.



	2010-11	2011-12	2012-13
SPM	2	5	16
ICP	0	0	0
IDNO	0	0	0



	2010-11	2011-12	2012-13
SPM	£2,859	£19,809	£134,670
ICP	£-	£-	£-
IDNO	£-	£-	£-

Observations

We make the following observations about this RMS:

- This is a developing market segment in which broadly the same skill sets as are found within other RMS may be readily transferred to.
- The same processes and procedures apply within this market segment as are found elsewhere within the SPM DSA.
- The competitors active in this RMS operate at both a regional and national level. They have skills which are readily cross transferrable with other market segments and possess the strength in depth of resources to significantly increase their presence in this RMS.
- Requests for quotations in 2012/13 increased by 900% from those issued in 2011/12.

Conclusions

We draw the following conclusions on the levels of competitive activity in this RMS:

- There is opportunity for competitors operating within other market segments to extend the scope of their work into this RMS.
- There is opportunity for competitors operating within other DSAs to widen their geographic coverage into this RMS.
- The same means of promoting competition in connections are applied in this RMS as they are in other RMS (e.g. the guidance contained within licensed quotations relating to competitive alternatives).
- Major national competitors are active in this RMS.
- Significantly increased levels of competitor activity have been experienced in 2012/13.
- Further increased levels of competitor activity would be welcomed and are expected.

1.12 HV and Above Distributed Generation – Overview

This market segment is predominantly to allow for the connection of medium to large distributed generation projects. This market segment covers new connections which require HV or EHV work (or 132kV work in SPM) to enable the generation project to be connected.

In this market segment the work types are low volume / high value. The value of contestable work tends to be higher compared to the lower voltage market segments and therefore is extremely attractive to competitors pursuing large individual projects.

The significant majority of connections in this market segment are wind farms.

1.12.1 HV/EHV Generation – SPD

Competitor Activity

Over the three year period (April 2010 to March 2013) SPD has faced increasing levels of competition. 58 different market participants have been actively involved in this market segment. These include ICPs, IDNOs and intermediaries. There is a wide range of competitors in this RMS including both national and regional businesses. Due to the nature of this RMS there is significant volatility of competitor activity from year to year.

This means that SPD has faced, and continues to face, robust competition from a range of experienced competitors with demonstrable track records in the utilities market. Given the extent of competitor activity, consumers continue to benefit from real competition and the threat of competition in this segment.

The number of competitors who received and accepted quotes per year is shown below.

ICP/ IDNO Activity	2010-11	2011-12	2012-13
Number of parties receiving ICP or IDNO quotes	14	30	36
Number of parties that accepted ICP or IDNO quotes	5	8	5

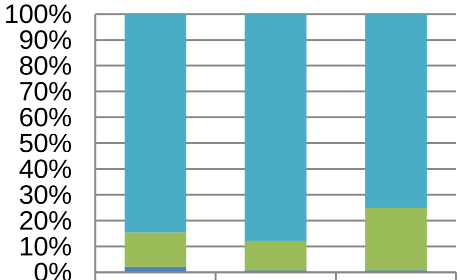
Full detailed competitor analysis is provided in Appendix 2.

Quotes issued

246 connection quotations have been sent to 58 different competitors for the three year period (April 2010 to March 2013), with an approximate value of £181 million. Over this time period SPD has experienced an increasing number of intermediaries who are acting on behalf of wind farm developers. These intermediaries are requesting increasing numbers of, particularly ICP, quotations.

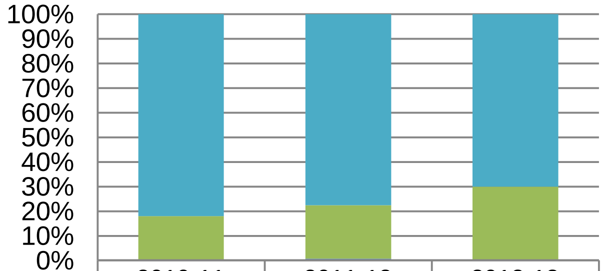
This provides a strong indication that customers are aware of competitive alternatives within this market segment and are pursuing the opportunities provided by that competition.

Number of Quotes Issued - SPD



	2010-11	2011-12	2012-13
SPD	121	342	537
ICP	19	44	172
IDNO	3	3	5

Estimated value of Quotes Issued- SPD

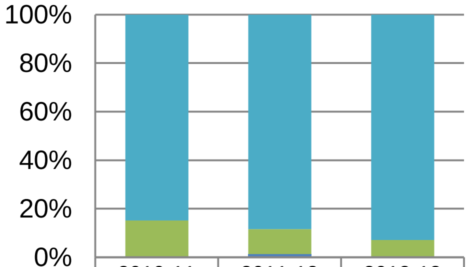


	2010-11	2011-12	2012-13
SPD	£121,830,857	£172,687,593	£245,185,797
ICP	£26,621,872	£48,351,252	£103,282,771
IDNO	£39,966	£1,547,362	£1,184,837

<u>Acceptances</u>

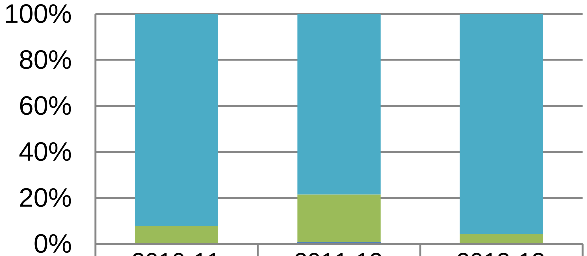
There have been 25 competitor quotes accepted by 14 different competitors over the last three years (April 2010 to March 2013), with an estimated value of £16.9 million. This shows that customers are not only exploring the opportunities provided by competition, they are also choosing to place a significant volume and value of work with our competitors.

Number of Quotes Accepted - SPD



	2010-11	2011-12	2012-13
SPD	28	69	145
ICP	5	8	11
IDNO	0	1	0

Estimated value of Quotes Accepted- SPD



	2010-11	2011-12	2012-13
SPD	£27,952,869	£38,471,071	£91,604,262
ICP	£2,375,156	£10,050,247	£4,061,692
IDNO	£-	£442,103	£-

<u>Observations</u>

We make the following observations about this RMS:

- 14 competitors have been awarded work demonstrating a good level of competitor activity within a relatively small market segment.
- The number of active competitors within this market segment has increased over the three year period (2010/11 to 2012/13).
- The number of quotes requested by single intermediaries has significantly increased over the same three year period.

- The estimated value of competitor quotations issued within the last three years is £181 million.
- The estimated value of competitor awards during the last three years is £16.9 million.
- Requests for competitive quotations have risen by 705% from 2010/11 to 2012/13.
- Between 14 and 36 competitors have been issued with quotations over the three year period.

Conclusions

We draw the following conclusions on the levels of competitive activity in this RMS:

- Independent providers are very active in this RMS.
- Customers are both aware of competitive alternatives and are choosing these alternatives.
- Customers are increasingly making use of intermediaries to explore competitive alternatives on their behalf.
- There is scope for competitors in other DSAs to extend the scope of their work into this segment.
- There is significant competition within this segment.
- There are high levels of actual competition in this RMS. There continues to be high levels of competition. SPD is subject to real competition and the threat of competition.

1.12.2 HV/ EHV Generation – SPM

Competitor Activity

Over the three year period (April 2010 to March 2013) SPM has faced increasing levels of competition. 30 different market participants have been actively involved in this market segment. These include ICPs, IDNOs and intermediaries. There is a wide range of competitors in this RMS including both national and regional businesses. Due to the nature of this RMS there is significant volatility of competitor activity from year to year.

This means that SPM has faced, and continues to face, robust competition from a range of experienced competitors with demonstrable track records in the utilities market. Given the extent of competitor activity, consumers continue to benefit from real competition and the threat of competition in this segment.

The number of ICP or IDNOs receiving and accepting quotes per year is shown below:

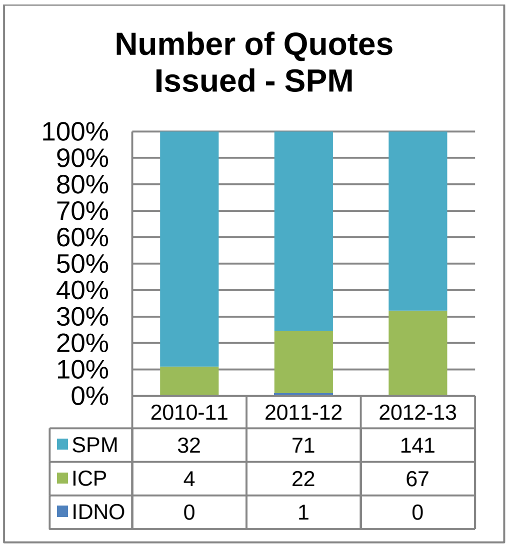
ICP/ IDNO Activity	2010-11	2011-12	2012-13
Number of parties receiving ICP or IDNO quotes	4	12	22
Number of parties that accepted ICP or IDNO quotes	0	6	6

Full detailed competitor analysis is provided in Appendix 2.

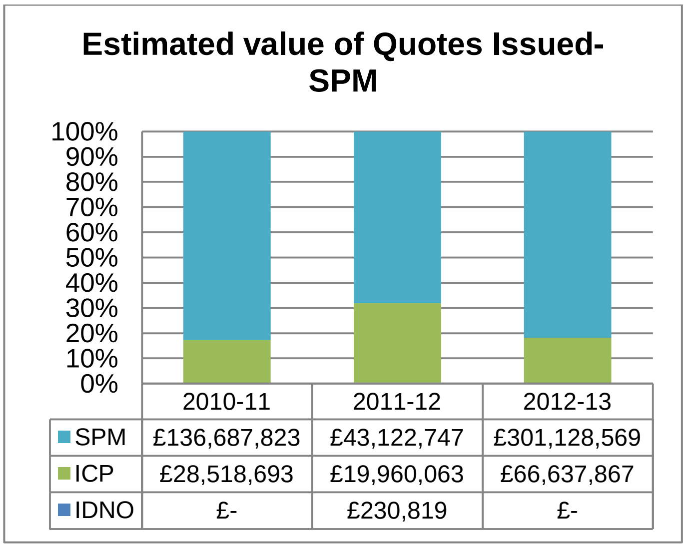
Quotes issued

94 connection quotations have been sent to 30 different competitors for the three year period (April 2010 to March 2013), with an approximate value of £115.3 million. Over this time period SPM has experienced an increasing number of intermediaries who are acting on behalf of wind farm developers. These intermediaries are requesting increasing numbers of, particularly ICP, quotations.

This provides a strong indication that customers are aware of competitive alternatives within this market segment and are pursuing the opportunities provided by that competition.



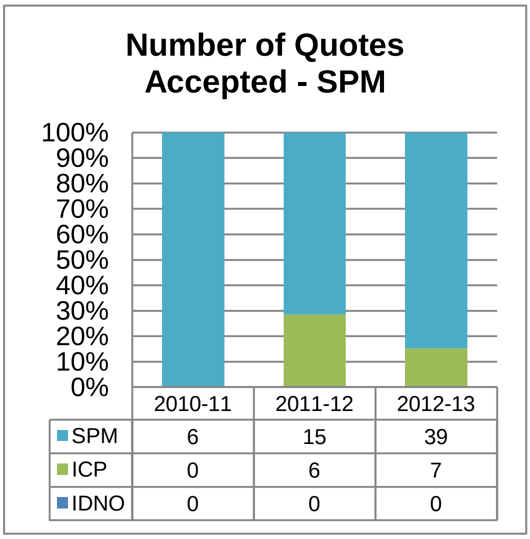
	2010-11	2011-12	2012-13
SPM	32	71	141
ICP	4	22	67
IDNO	0	1	0



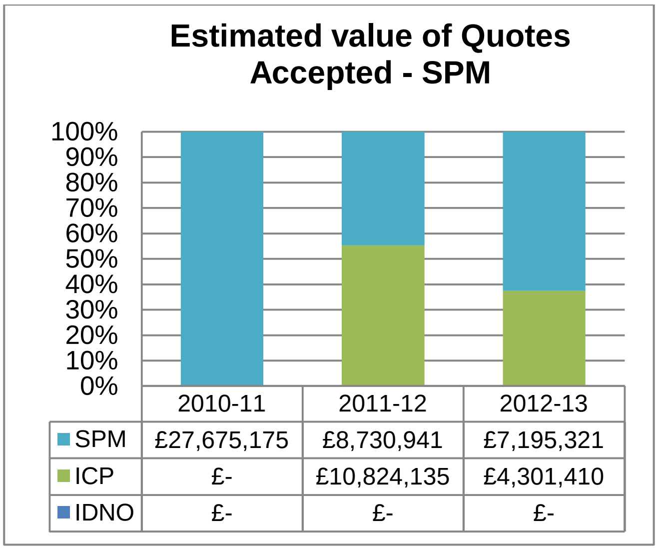
	2010-11	2011-12	2012-13
SPM	£136,687,823	£43,122,747	£301,128,569
ICP	£28,518,693	£19,960,063	£66,637,867
IDNO	£-	£230,819	£-

<u>Acceptances</u>

There have been 13 competitor quotes accepted by 9 different competitors over the last three years (April 2010 to March 2013), with an estimated value of £15.1 million. This shows that customers are not only exploring the opportunities provided by competition, they are also choosing to place a significant volume and value of work with our competitors.



	2010-11	2011-12	2012-13
SPM	6	15	39
ICP	0	6	7
IDNO	0	0	0



	2010-11	2011-12	2012-13
SPM	£27,675,175	£8,730,941	£7,195,321
ICP	£-	£10,824,135	£4,301,410
IDNO	£-	£-	£-

<u>Observations</u>

We make the following observations about this RMS:

- 9 competitors have been awarded work demonstrating a good level of competitor activity within a relatively small market segment.
- The number of active competitors within this market segment has increased over the three year period (2010/11 to 2012/13).

- The number of quotes requested by single intermediaries has significantly increased over the same three year period.
- The estimated value of competitor quotations within the last three years is £115.3 million.
- The estimated value of competitor awards during the last three years is £15.1 million.
- Requests for competitive quotations have risen by 1575% from 2010/11 to 2012/13.
- Between 4 and 22 competitors have been issued with quotations over the three year period.
- Within this RMS one competitor has been contracted to construct and own extensive electrical distribution network infrastructure associated with a new generation connection development. The associated connection will be made directly to the transmission network and is not therefore included within the analysis provided for this RMS.

Conclusions

We draw the following conclusions on the levels of competitive activity in this RMS:

- Independent providers are very active in this RMS.
- Customers are both aware of competitive alternatives and are choosing these alternatives.
- Customers are increasingly making use of intermediaries to explore competitive alternatives on their behalf.
- There is scope for competitors in other DSAs to extend the scope of their work into this segment.
- There exists real potential for connections to be provided/ owned by businesses already active within this DSA to own distribution infrastructure at this voltage level.
- There is significant competition within this segment.
- There are high levels of actual competition in this RMS. There continues to be high levels of competition. SPM is subject to real competition and the threat of competition.

1.13 Local Authority work (UMCLA) – Overview

There are three main ways that the local authority street lighting is connected to the SPD/SPM network:

- Supplied via a feeder pillar. For this option a SPD/SPM service is provided to a feeder pillar usually three phase. The local authority will install their own private network from the feeder pillar to supply their own street lighting in any particular location. As the local authorities own the network this option allows them to make their own new connections, transfers or disconnections.
- Supplied via service cable from the SPD/SPM network. For this option every street light is connected to the low voltage network by a SPD/SPM owned street light service cable. For this option the local authority would have to use an accredited ICP or SPD/SPM to complete any new connection, transfer or disconnection.
- Supplied from fifth core networks. These are street lighting connections fed from low voltage mains or overhead Lines. The street lighting or fifth core is only energised during the lighting up periods, by either time clocks or photovoltaic cells (magic eyes). The fifth core is owned by SPD/SPM. For this option the local authority would have to use an accredited ICP or SPD/SPM to complete any new connection, transfer or disconnection.

In SPM, the majority of street lighting services are fed directly from the low voltage mains cable with each individual column controlled using a magic eye. Although there are areas where this type of arrangement is used in Scotland, the majority of new supplies are supplied via a feeder pillar from the SPD network and a council owned and maintained private network from the feeder pillar to supply their own street lighting in any particular location.

There are 46 main local authorities across the SPD and SPM licensed areas with responsibility for unmetered street lighting. Unmetered supplies to street lighting or other street furniture comprises of new supplies, transfers which involve the disconnection of the existing service and the transfer to the new street light column, and the disconnections of redundant unmetered supplies.

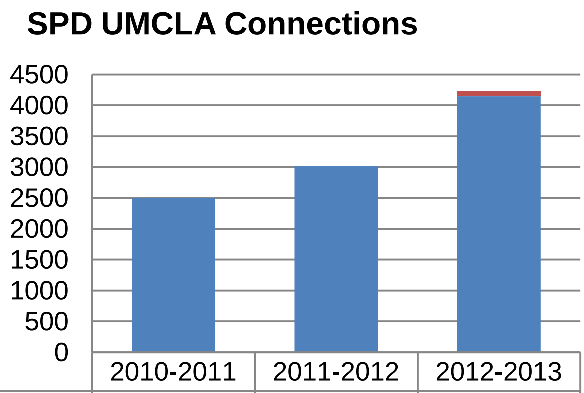
1.13.1 Local Authority Work – SPD

<u>Competitor Activity</u>

Within this RMS local authorities have the following options available to them:

- Conducting works (with an ICP) under a tripartite agreement. During 2012/13, 77 unmetered new works projects were completed under tripartite arrangements across Edinburgh and Midlothian.
- Discussions with a number of local authorities have recently resulted in further tripartite agreements being entered into.
- Jointer only, where the local authority or their contractor will complete all the necessary excavation and reinstatement. SPD will program its works to match local authorities' lamp installation and excavation programmes. SPD's schedule of charges provides sufficient cost breakdown to enable a comparison of charges with other providers of these works.
- Jointing and Excavation, where SPD will complete all the excavation, reinstatement and jointing works. SPD will program its works to match local authorities' lamp installation and excavation programmes.

- Rent a Jointer, where the local authority rents a jointer for a period of time. Under this arrangement the council has responsibility for programming the works and keeping the jointer productive. No councils currently use the Rent a Jointer arrangement in this Market Segment.



	2010-2011	2011-2012	2012-2013
ICP-Tripartite - Local Authority	0	0	77
SPD	2498	3020	4147

<u>Observations</u>

We make the following observations about this RMS:

- All underground unmetered works within this market segment are contestable
- 77 unmetered works projects were completed during 2012/13.
- The same processes and procedures are applied within this market segment as are in place within the SPM DSA.
- The volume of ICP works is expected to increase in SPD as:
    - more competitors enter the market;
    - the established competitor expands its works; and
    - further local authorities enter into tripartite agreements.
- Street lights are being connected on a regular basis to IDNO networks. These are not recorded within this market segment.
- Competitor take up of LV jointing to the main as part of the extensions of contestability will improve competiveness within this market segment.
- Invest to save sustainable street lighting programs are expected to increase the volumes of connections by replacing existing lighting columns and lanterns with energy-efficient LEDs.
- Competitors are expected to increase their presence to compete for works associated with the concrete street lamppost replacement programme.

<u>Conclusions</u>

We draw the following conclusions on the levels of competitive activity in this RMS:

- There is opportunity for competitors operating within other market segments to extend the scope of their work into this RMS.
- There is opportunity for competitors operating within other DSAs to widen their geographic coverage into this RMS.

- Increased levels of competitor activity have been experienced in 2012/13.
- Further increased levels of competitor activity are expected.

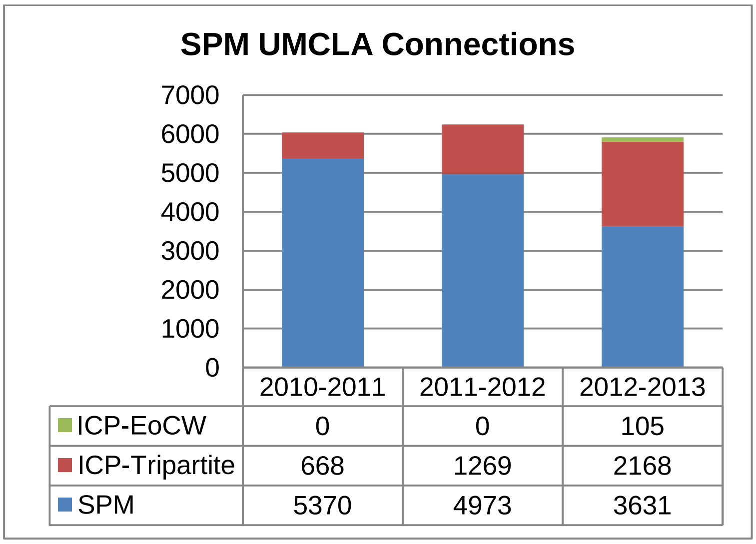
1.13.2 Local Authority Work – SPM

Competitor Activity

Within this RMS local authorities have the following options available to them:

- Conducting works (with an ICP) under a tripartite agreement. There are 6 ICPs who have been operating since 2008 and have been carrying out street lighting activities under tripartite agreements with SPM and the local authorities. The type of works that can be made under this arrangement are new connections, transfers and disconnections on street lighting services.
- In 2012 the boundaries of contestable activities were extended to allow live jointing to the existing main for street lighting services. Since the boundaries of contestable activities were opened up there have been 105 unmetered connections made to SPM existing LV Mains.
- Jointer only, where the local authority or their contractor will complete all the necessary excavation and reinstatement. SPM will program its works to match local authorities' lamp installation and excavation programmes. SPM's schedule of charges provides sufficient cost breakdown to enable a comparison of charges with other providers of these works.
- Jointing and excavation, where SPM will complete all the excavation, reinstatement and jointing works. SPM will program its works to match local authorities' lamp installation and excavation programmes.
- Rent a Jointer, where the local authority rents a jointer for a period of time. Under this arrangement the council has responsibility for programming the works and keeping the jointer productive. No councils currently use the Rent a Jointer arrangement in this Market Segment.

Full detailed analysis is provided in Appendix 2.



Observations

We make the following observations about this RMS:

- All underground unmetered works within this market segment are contestable.
- Competition has been established in this area and volumes of ICP tripartite works have increased steadily over the last three years. The extent of competitive works carried out has increased from 668 to 2168 jobs (approximately 225%) in this time period.
- SPM's market share has reduced year on year from 5370 to 3631 jobs (a decrease of 32%).
- The number of councils using ICPs has increased year on year, demonstrating council awareness of competition.
- Street lights are being connected on a regular basis to IDNO networks. These are not being recorded within this market segment.
- Invest to save sustainable street lighting programs are expected to increase the volumes of connections by replacing existing lighting columns and lanterns with energy-efficient LEDs.
- Competitors are expected to increase their presence to compete for works associated with the concrete street lamppost replacement programme.

Conclusions

We draw the following conclusions on the levels of competitive activity in this RMS:

- Independent providers are very active in this RMS.
- Local authorities are aware of competitive alternatives and are choosing these alternatives.
- There is significant competition within this segment.
- There are high levels of actual competition in this RMS. There will continue to be high levels of competition. SPM is subject to real competition and the threat of competition.

1.14 Private Finance Initiatives work (UMC PFI) – Overview

This market segment is for unmetered supplies to street lighting or other street furniture comprising of new supplies, transfers which involve the disconnection of the existing service and the transfer to the new supply and disconnections of redundant supplies.

This market segment covers unmetered work undertaken as part of a Private Finance agreement with the Local Authority.

1.14.1 PFI – SPD

Competitor Activity

There has been no PFI activity in this segment in the SPD DSA. Whilst there has been no PFI activity to date, there may be activity within this sector in the future.

Each Local Authority may have a different strategy regarding engaging in PFI works and depending on their budget requirements for the street lighting activities.

SPD will offer exactly the same service as is provided within the SPD DSA should it be approached to facilitate a PFI initiative under competition in connections. The same processes and procedures will be applied within this market segment as are in place within the SPD DSA.

1.14.2 PFI – SPM

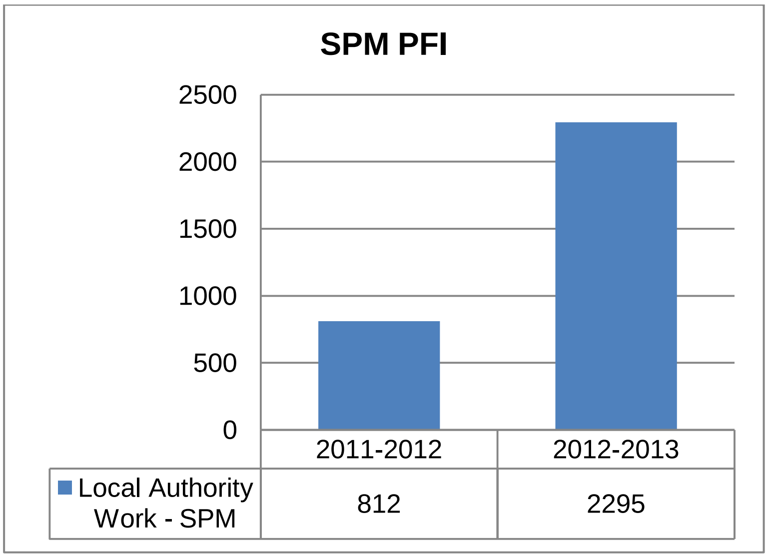
Competitor Activity

There is currently one significant PFI Initiative operating within the SPM DSA. This is in Knowsley Borough Council where the PFI initiative has been awarded to a nationally operating ICP. This competitor has responsibility for all unmetered connections activity within the Knowsley Borough council area, including new supplies, transfers and disconnections.

SPM has entered into a “Rent a Jointer” agreement to facilitate this PFI initiative under which approximately 3 jointing teams are provided per week.

The volume of work has steadily increased year on year from 812 jobs in 2011/12 to 2295 jobs in 2012/13. SPM works proactively and flexibly with the ICP to understand the works program and resource needs. SPM provides the necessary jointers to support this program.

SPM has worked with the ICP to set an agreed level of productivity for its jointing teams. Regular review meetings are held.



Conclusions:

- An independent provider is very active in this RMS.
- One PFI is established and volumes are expected to further increase as the program develops.
- Over two years the number of PFI connections has risen from 812 to 2295 jobs, an increase of 183%.
- Local authorities are aware of competitive alternatives.
- SPM is subject to real competition and the threat of competition in this RMS.

1.15 Other Work (UMC Other) – Overview

This market segment is for unmetered supplies to street lighting or other street furniture comprising of new supplies, transfers which involve the disconnection of the existing service and the transfer to the new supply and disconnections of redundant supplies.

This segment also includes street lighting requested for a new housing or commercial development. Quite often the street lighting is subsequently adopted by the Local Authority.

In this segment, we have included local authorities (non UMCLA) where we have issued quotations for unmetered works that have not been requested by the local authority street lighting department, for example bus shelters, pedestrian crossings, CCTV cameras.

If a separate licensed quotation has been requested for unmetered work as part of a larger development then it will be included within this market segment.

1.15.1 UMC Other – SPD

Competitor Activity

Competitor activity for unmetered works which have been awarded as part of new housing or other developments are wrapped up within the quotations provided to competitors for the relevant POC associated with that development. The following methodology has been used to estimate the volume of activity within this RMS.

In the UMS segments, there is not a close relation between the number of MPANs and the volume of connections as, by definition, the connections are unmetered and are not assigned individual MPANs. Nevertheless, as the consumption of the connected equipment is predictable and this is used for billing energy consumption, the total energy consumed as UMS MWh, which is distributed by IDNOs' networks, provides an alternative basis for assessing the trend growth (by disregarding the seasonal patterns in consumption) in IDNO UMS connections.

In SPD's DSA, the UMS units exiting from IDNO networks have grown by 4.5 times between April 2010 and March 2013. Given the predictable nature of consumption by unmetered supplies we believe this is a good indicator of the corresponding growth in UMS connections to IDNO networks. Full detailed analysis is provided in Appendix 15 (Confidential).

A tripartite agreement has recently been signed for the disconnection of unmetered supplies to redundant telephone boxes. A program of works commenced during July 2013.

Discussions have recently been held to connect a number of new unmetered connections as part a broadband connection program. This is expected to be completed as part of a tripartite agreement.

Conclusions:

- For competitor quotes, street lighting is incorporated within the original POC quotation for the housing or commercial development. Analysis of UMS consumption indicates that the volume of this activity has grown by 4.5 times between April 2010 and March 2013.
- Competitor take up of LV jointing to the main as part of the extensions of contestability will improve competiveness within this market segment.

- Competition has developed in this market segment with a tripartite agreement having recently been signed and a program of works commenced during July 2013. This contract is associated with the disconnection of unmetered supplies to redundant telephone boxes.
- Future competitor works are expected to connect a number of unmetered supplies as part of a broadband connection program.

1.15.2 UMC Other – SPM

Competitor Activity

Competitor activity for unmetered works which have been awarded as part of new housing or other developments are wrapped up within the quotations provided to competitors for the relevant POC associated with that development. The following methodology has been used to estimate the volume of activity within this RMS.

In the UMS segments, there is not a close relation between the number of MPANs and the volume of connections as, by definition, the connections are unmetered and are not assigned individual MPANs. Nevertheless, as the consumption of the connected equipment is predictable and this is used for billing energy consumption, the total energy consumed as UMS MWh, which is distributed by IDNOs' networks, provides an alternative basis for assessing the trend growth (by disregarding the seasonal patterns in consumption) in IDNO UMS connections.

In SPM's DSA, the UMS units exiting from IDNO networks have grown by 2.0 times between April 2010 and March 2013. Given the predictable nature of consumption by unmetered supplies we believe this is a good indicator of the corresponding growth in UMS connections to IDNO networks. Full detailed analysis is provided in Appendix 15 (Confidential).

A tripartite agreement has recently been signed for the disconnection of unmetered supplies to redundant telephone boxes. A program of works commenced during July 2013.

Conclusions

- For competitor quotes, street lighting is incorporated within the original POC quotation for the housing or commercial development. Analysis of UMS consumption indicates that the volume of this activity has grown by 2.0 times between April 2010 and March 2013
- Competitor take up of LV jointing to the main as part of the extensions of contestability will improve competiveness within this market segment.
- Competition has developed in this market segment with a tripartite agreement having recently been signed and a program of works commenced during July 2013. This contract is associated with the disconnection of unmetered supplies to redundant telephone boxes.
- Future competitor works are expected to connect a number of unmetered supplies as part of a broadband connection program.

E. REMOVING PERCEIVED BARRIERS TO COMPETITION

From January 2012, SPD and SPM have engaged on a regular basis with ICPs and IDNOs at both workshops and during regular liaison meetings. The Competitive Networks Association (CNA) and the Electricity Connections Steering Group (ECSG) have expressed concerns about a number of potential barriers to competition, which we have addressed and continually seek to address.

In response to feedback which we have received and where concerns have been expressed, our efforts to remove perceived or actual barriers to competition have focused on developing relationships and improving upon:

- the provision of information to ensure that it is:
  - readily available
  - comprehensive
  - easy to access
  - up to date
- our service timescales to avoid delays to third parties;
- commercial arrangements;
- legal land rights processes to avoid undue delays;
- construction and adoption agreements; and
- dispute resolution to ensure matters are sorted out in a timely and equitable manner.

Our updated response to the concerns raised by the ECSG and CNA on these points is provided in Appendices 4 and 5.

1.1 Provision of Information

1.1.1 Website

The CNA have requested that DNOs make available design policy documents, codes of practice, method statements and material specification to accredited IDNOs/ICPs to:

- enable the right design first time
- facilitate compliance with standards and COPs
- create transparency and remove ambiguity

The ECSG has expressed concerns about the availability of information as regards:

- ease of access
- speed of access
- ensuring information is up to date
- comprehensiveness of process and technical documentation

In response to these concerns we have:

- made more information available on our website
- provided access to our Geographical Information System
- published a guidance leaflet on competition in connections

- issued a regular newsletter
- published our long term development statements

We provide on our website a comprehensive range of process and technical specification documents. These include:

- application forms
- process documentation
- copies of national framework documents, together with our specific company appendices
- technical specifications
- construction and adoption agreements

The documents listed above are detailed in Appendix 3, available at:

http://www.sppowersystems.co.uk/connecting_to_our_network/specifications

1.1.2 Geographical Information System

Free access is granted to our asset data records through a web portal. This enables ICPs to view underground and overhead line assets and interrogate the data to establish type, size, location and ratings of the relevant equipment/assets. The level of this access is aligned to that which can be viewed by SPM's and SPD's own staff ensuring that as far as is practicably possible a fair and level playing field is provided.

GIS access has now been provided in this way for in excess of 10 years. Currently 19 ICPs in SPD and 23 ICPs in SPM enjoy such access.

Several ICPs have commented on the quality and usefulness of having direct access to our GIS records. Aptus Utilities, who are active in the LV, HV and HVEHV market segments, in both SPM and SPD have commented that;

"the SP Energy Networks website gives comprehensive details of the specifications and procedures required for ICPs. The GIS system they use is probably the best of all DNOs".

For details of Aptus Utilities' full testimonial refer to Appendix 7.

1.1.3 Leaflets

We publish a leaflet which offers guidance to customers to help them make their choice about who will provide their connection. This leaflet is available on the website and also in response to a connection enquiry. The leaflet explains the Competition in Connections process, provides guidance on contestable and non-contestable works, details of agreement types and points of contact within the business to discuss connection applications.

1.1.4 Newsletter

We issue a regular newsletter to ICPs and IDNOs updating them on topics such as our standards of performance, any current initiatives and document and procedure updates.

1.1.5 Long Term Development Statement

Copies of our Long Term Development Statements (LTDS) are available free of charge on our website[3].

http://www.spenergynetworks.co.uk/LT_statements/default.asp

The LTDS provides information which is of use to parties wishing to connect to, or make use of, the distribution networks. The data provided enables customers to identify opportunities and carry out high level assessment of the capability of the network to support their development. Future network development plans are included to advise of significant changes to the system which may have an impact on future development plans.

1.2 Service Timescales

We recognise that timely provision of our services to all parties and avoiding undue delay is essential to facilitating competition in connections.

1.2.1 SLC15 Performance

Distribution Standard Licence Condition (SLC)15 sets out the standards for the provision of non-contestable connection services. Included within this condition are services to provide:

- Point of Connection (POC) quotations; and to
- respond to design submissions in relation to a connection

We treat these standards as the maximum acceptable period within which to provide each service.

We always strive to exceed the SLC15 timescales. On the rare occasion we do have a failure we make a voluntary payment to the ICP/IDNO. In addition, we have applied voluntary standards to works not covered by SLC15 for works on the Extension of Contestability (EoC) LV and HV jointing to our distribution network and offer to make a payment in line with the guaranteed standards.

Where appropriate, timescales for associated works e.g. systems reinforcement will be indicated at the time of the POC quotation. In some cases, these may be contingent on planning consents. However, we will try to accommodate the ICP's timescales where possible.

There is a licence requirement to identify any "missing" minimum information within 5 days. Our minimum information requirements for POC, design approval and final connection are set out in our published process document (ASSET-04-030) for adoption connections.

[3] The weblinks included in this document are correct as at 16th August 2013, if you have any problems accessing these links please contact us on 0845 270 0785

Average Timescales to Issue POC Quotations and Design Approvals (2010/11 to 2012/13)

		2010/11		2011/12		2012/13	
		SPD					
	SLC15 timescale	number of applications	average days	number of applications	average days	number of applications	average days
LV POC Quotations	15	769	9.8	665	7.3	811	8.7
HV POC Quotations	20	755	12.6	629	9.7	578	10.8
EHV POC Quotations	50	31	41.6	23	19.7	23	17.3
LV Generation POC Quotations	30	3	6.0	2	8.5	8	15.0
HV Generation POC Quotations	50	27	21.1	61	24.5	187	31.5
EHV/Other Generation POC Quotations	65	3	35.5	0	0.0	12	56.6
LV/HV Design Approvals	10	620	5.0	507	5.2	584	5.5
EHV Design Approvals	20	22	7.5	3	8.0	3	10.5
		SPM					
LV POC Quotations	15	422	11.4	451	11.5	537	10.8
HV POC Quotations	20	297	16.3	401	15.1	547	13.5
EHV POC Quotations	50	28	43.4	29	35.6	46	26.1
LV Generation POC Quotations	30	0	0.0	1	11.0	11	19.9
HV Generation POC Quotations	50	7	43.0	17	37.3	69	34.5
EHV/Other Generation POC Quotations	65	2	0.0	1	0.0	4	44.5
LV/HV Design Approvals	10	271	6.7	221	5.6	248	6.1
EHV Design Approvals	20	11	15.4	6	16.4	5	6.7

The table above shows the average timescales for issuing POC quotations and providing design approvals across the SPD and SPM DSAs. Overall, the average time taken to provide each service is significantly less than the relevant SLC15 standard.

1.2.2 Design approvals

The table above also shows the average timescales for providing design approvals. Again the average time taken to provide this service is significantly better than SLC15 standard.

1.3 Responsive Customer Service

Since 2003, we have had separate teams to administer Competition in Connections activities located within our SPD and SPM distribution service areas. The purpose of these teams is to manage the Competition in Connections application process, meeting the needs of ICPs and IDNOs through quality customer service.

Once a project enters the construction phase, the work is passed to our Delivery teams who manage the physical construction work within timescales.

Our Delivery teams work closely with our competitors ensuring that their connections are made within SLC15 timescales. Our project managers will meet or liaise with their ICP/IDNO customers and will have, where required by the project, detailed planning/interface discussions.

The level of service provided shall at all times be the equivalent of that which is provided to other customers.

1.4 Commercial Arrangements

1.4.1 Quotation Validity period

SPD and SPM have maintained quotation validity periods of 3 months. Extensions to these timescales will generally be granted in circumstances where a customer is not ready to accept a quotation within its initial validity period and a request is submitted prior to the quotation's expiry. In such circumstances, we will extend the period of validity for a maximum additional period of 3 months, matching the longest validity periods in the industry and surpassing others.

1.4.2 Adoption Agreements

Since October 2006, SPD and SPM have been offering customers the choice of entering into bilateral or trilateral adoption agreements. Whilst this choice was initially made available to customers seeking EHV connections, it was extended in April 2008 to all metered connections.

It is our customers' requirements that dictate the type of agreement offered. We recognise that our customers' need for flexibility during construction may be better facilitated by a bilateral agreement, allowing them to take responsibility for the assets they construct prior to adoption by the enduring network owner.

1.4.3 Security Arrangements

Whilst it is common practice in most commercial arenas to request a guarantee or other form of financial security, and whilst our agreements include this clause, we have chosen as a matter of policy not to apply this requirement to reduce the burden on market entrants which might otherwise be deterred from entering or remaining in the market. This in turn means we are accepting higher commercial risk.

1.4.4 Letters of Appointment

We require proof of appointment upon an ICP's (or consultant's) acceptance of a POC quotation. We make this requirement to ensure that only the successfully appointed parties are contracted to the network capacity offered by the POC quotation. Whilst this proof is usually provided in the form of a letter of authority from a developer, we will (where confidentiality concerns are expressed) accept a redacted letter from the developer, accompanied by correspondence from the ICP confirming their appointment.

1.4.5 Letters of Authority

We offer a flexible approach, seldom asking for a letter of authority from the end customer when a third party (often consultant) is acting on their behalf. Our right to request a letter of authority is reserved, however, to deter applications which might be made without the consent of the owner/occupier.

We accept requests for POC quotations from any party, whether it is the developer, consultant, or connections provider. We will also accept applications from differing parties that are competing for the same work and we do not insist on a single developer, or their agents, making the application. We believe this approach has had a positive impact, assisting new entrants to operate unhindered to proactively win contracts.

1.4.6 Offers of Connection (Full works plus POC)

Our customers are able to request a quotation for either the full connections works, the non-contestable works only (referred to as an ICP or POC quotation), or simultaneously request both offers for a single development. The latter option provides our customers with the ability to fully explore their competitive connection options. This can be progressed through either the ENA or our own (recently updated) connection application form (discussed in more detail in Section F paragraph 1.2).

In addition, we have recently commenced a trial for new connections to the EHV network. This trial sees the introduction of a single connection quotation offering our customers the ability to either accept the full connection works or simply the POC (non-contestable) works (Appendix 9). Depending upon the success of this trial, consideration will be given to extending it into other RMS.

1.5 Legal Land Rights Processes

The ECSG has expressed concerns about the slowness of the DNOs' legal processes. We recognise the need to complete legal processes in a timely manner and have streamlined our processes.

We consider a network with secure land rights to be an important feature of a co-ordinated and efficient network, and for that reason we will always seek sufficient land rights for projects. These would include leases, land transfers or dispositions for substations and wayleaves, easements and servitudes for lines and cables. This is vital for current and future customers of whom we also need to be mindful.

We use standard documents for all of these land rights to speed the process and minimise cost to the customers. We believe these standard documents are fair and reasonable, and assist us in complying with our statutory, regulatory and licence obligations.

In the SPM area GTC, acting on behalf of the other IDNOs, requested that SPEN consider the use of an alternative land rights process known as the Incorporated Process for dealing with applications for close coupled substations. We entered into a detailed dialogue with GTC on the topic and this included three meetings with GTC, one at our offices in Glasgow on 3 December 2012 and the other two at their offices in Suffolk on 6 February and 26 July 2013. This dialogue enabled us to explain to GTC some of the concerns we had in relation to the Incorporated Process and as a result the legal documentation for the Incorporated Process was advanced to a stage where we were able to agree in principle to using this. The Incorporated Process removes the requirement for SPEN to take a separate lease of premises within a close-coupled substation site, as SPM is able to rely on rights granted to the IDNO in their Land Transfer. In addition, the requirement for SPM's solicitors to review the title to the substation site is removed through the provision by the IDNO's solicitors of a Certificate of Title. Removing the lease to SPM and the need for independent title examination from the land rights process is hoped to provide improvement in timescales and expenses on both sides as there is no longer any need for our or the IDNO's solicitors to adjust and agree the lease terms, or review the title, thus reducing the overall legal expense. Previously it was a pre-condition that the connection would only have been energised once the lease was in agreed form, signed by the IDNO and delivered to us. Removing the requirement for the lease from the process speeds up the release of the connection. Previously, we required the IDNOs to provide evidence of title to the substation site before our solicitors would be instructed. At the request of GTC we have removed this requirement. This means we may be liable for our solicitor's abortive fees if the IDNO does not complete its title, but this was an insufficiently regular occurrence to justify requiring the IDNOs to provide evidence of title at an early stage. SPEN and the IDNOs are currently in the process of adjusting the supporting legal documentation through external solicitors to allow Incorporated Process to commence.

In addition, we have agreed further process changes with the IDNOs. Previously, the Connections process has mandated that completion of the legal Land Rights Process was an essential pre-condition to the connection works taking place. Following review and discussion with the IDNOs we have agreed that the connection works can take place notwithstanding that the Land Rights Process may be incomplete at that time. Completion of the Land Rights Process is still an essential pre-condition of the actual energisation of the connection. We have agreed a Service Level Agreement incorporating responsibilities and timescales for the whole process of delivering land rights. We have agreed style Heads of Terms letters which are hoped to speed the process and minimise cost to customers. We have agreed Instruction Letters which provide a clear record of the details of the connection request. We have also agreed changes to our plans requirement. Previously we requested 12 hard copies of all plans. There were cost implications for the IDNOs in providing this many hard copies. Through discussion with the IDNOs we have streamlined our use of the plans and now only require 3 hard copies and one electronic copy. We have also carried out work with the IDNOs to agree a standard format for the plans.

In the SPD area IDNOs and SPD have agreed that due to differences in Scots law the Incorporated Process would not be suitable. Instead SPEN and the IDNOs entered into a detailed dialogue considering numerous areas for improving the land rights process and have now agreed the framework for a Streamlined Process. The Steamlined Process is designed to speed up connections. It includes target timescales for title due diligence. Furthermore, previously completion of our lease would take place after the IDNO's title was completed, but we have agreed that both can complete effectively simultaneously. We continue to work with IDNOs on a co-operative basis to further improve our legal processes and welcome feedback received.

We would be happy to contribute to any further discussion of the legal process where further improvements could help competition.

1.6 Dispute Resolution

We provide a clear and consistent escalation process for all our customers. This process is available on our website[4]:

http://www.spenergynetworks.co.uk/serving_our_customers/complaints_procedure.asp

We have included a screen shot of the information page and a process map in Appendix 6.

Our senior managers are accessible to our customers to discuss any issues that have not been resolved by our staff on-site. We meet monthly with ICPs/IDNOs to discuss issues and agree resolution. Our onsite staff and senior managers are open to communication and we are keen that customers contact us and our contact details are available on our website:

http://www.sppowersystems.co.uk/connecting_to_our_network/connections_contact.asp?NavID=11

[4] The weblinks included in this document are correct as at 16th August 2013, if you have any problems accessing these links please contact us on 0845 270 0785

1.7 Developing Relationships

We recognise the importance of effective communications and the part they play in securing quality customer service and removing barriers to competition.

1.8 Workshops

We work hard to develop co-operative relationships with our ICP and IDNO customers.

During the spring of 2012 we hosted 3 workshops. These workshops were attended by 57 representatives from a range of 32 ICP and IDNO companies. The output of these workshops helped us to identify specific areas in which increased focus was required to help develop more effective working relationships with our customers. These areas included: IT systems (CRAM), legal/land rights, unmetered supplies, the extension of contestable works and training and authorisations.

Two examples of initiatives directly resulting from these workshops are:

1) revisions to our metered process documentation (e.g. to reflect live jointing to existing DNO assets) and the formal documentation of unmetered processes, during October 2012; and
2) the ability for ICPs (through the CRAM replacement system) to secure a connection upon acceptance of the point of connection. This change to our processes is planned for implementation during October 2013.

Further detail on the topics discussed and the actions resulting can be found in Appendix 13.

1.9 Monthly Liaison Meetings

We have, since 2011, been holding regular monthly meetings with ICPs and IDNOs. The format of these meetings is structured so as to allow free discussion of, for example, process issues and work priorities. These meetings also provide a forum at which ICPs can discuss, with our designers, technical aspects of projects allowing them to design cost efficient solutions and help facilitate a smooth and efficient POC and design approval process.

In addition to our regular monthly meetings with ICPs we have regular meetings and workshops with developers and consultants to assist them in progressing the proposed developments.

1.10 Other Matters

Scope of Contestable Works.

In SPD and SPM all underground unmetered work is contestable. For metered connections we have:

- made live jointing to the LV works on the ICP development site contestable since 2005;
- extended contestability through enabling ICPs to carry out closing joint works on the existing High Voltage (HV) and Low Voltage (LV) underground distribution cable networks;
- initiated trials with ICPs to undertake self determination of point of connection and to carryout related closing joint works to existing assets in the delivery of multiple

metered connections to small demand installations and the associated disconnection of existing unmetered supply; and
- developed a framework for self-determination of point of connection at LV for metered connections;

We developed the associated processes and procedures for the above with our ICP customers, to ensure that processes work effectively for both parties.

1.11 Areas for Improvement

1.11.1 Quotation letters

We are continuing to review our quotation letters. The review will seek feedback from customers on the style and content of the letters to ascertain how easy customers understand the content of the letter. There has to be a balance between:

- providing technical information about the load and design;
- legal information on the terms of the offer;
- formatting in a style that is easily understood by all types of customer.

1.11.2 Inspection and Monitoring

We comply with the principles set out in the Ofgem "Competition in Connections to Electricity Distribution Systems Decision Document – Part B February 2005 60/05". In line with this document we include a hierarchy of inspection levels. The inspection levels are tailored to the individual ICP's experience, skills and quality of work delivered.

We are proactively enhancing our own processes. Under development is an interactive audit system which will allow ICPs to view online the results of audits. This initiative will help provide ICPs with a greater understanding of existing processes, hierarchy and inspection levels, greater visibility of how to progress between audit levels and more efficient closure of audit non conformities.

A working group has been established by the ECSG to identify best inspection and monitoring practices across the DNOs. We will work with the ECSG to adopt any best practices identified.

1.11.3 Operational access associated with closing joints

We have proactively prepared documentation detailing our approach should any ICP express a willingness to carry out operational activities associated with LV and HV network connections. This documentation is published on our website[5] at:

http://www.spenergynetworks.com/connecting_to_our_network/specifications.asp?NavID=19

We are positive about meeting with any party interested in engaging with us to further develop this activity. In addition we would welcome feedback on our proposals, based on the experience of ICPs undertaking this work.

[5] The weblinks included in this document are correct as at 16th August 2013, if you have any problems accessing these links please contact us on 0845 270 0785

F INCREASING CUSTOMER AWARENESS OF COMPETITIVE ALTERNATIVES

We recognise that for effective competition to exist customers need to be aware that alternative providers are available and are able to make informed decisions on whether or not to use those providers.

Competition levels within the SPD and SPM distribution service areas are amongst the highest in the United Kingdom. Indeed the latest Common Distribution Charging Methodology (CDCM) forecast analysis (coupled with SPD/SPM actual volumes) of IDNO MPANs indicates that close to 30% of all IDNO customer connections are within the SPD (22.6%) and SPM (6.6%) distribution service areas.

Indeed when considered on an individual DNO by DNO basis, the percentage comparison of IDNO MPANs versus DNO MPANs shows SPD to have the highest percentage of IDNO connections, with SPM in third place. These facts evidence the significant competition within the SPD and SPM distribution service areas.

We have not, however, been complacent. We continually seek to improve upon the quality of service we offer to all of our customers and the means by which we can ensure that our customers are aware of competitive alternatives to our own connections business. This section sets out some of the key measures that we have put in place, each of which is designed to promote awareness of competitive alternatives amongst connections customers, so that they can make informed decisions as to which provider to use.

These initiatives have helped to increase the awareness of competitive alternatives among customers.

1.1 Awareness via the website

Within the introductory message on the Network Connections website we prominently state:

> *"But did you know you have a choice and may obtain a competitive quotation for some elements of the connection works from an Independent Connection Provider (ICP). For further information please view our Competition in Connections area."*

Since the introduction of competition in connections we have provided information about competition in connections on our website. Our website[6] has a comprehensive section dedicated to network connections. Since its creation we have provided information about Competition in Connections, ensuring our customers are kept aware of their options. This is reviewed and updated on a regular basis.

http://www.spenergynetworks.com/connecting_to_our_network/

This highlights to customers the existence of competitive alternatives and directs them to further information about competition in connections.

Beneath this message are 5 'click through' buttons which direct our customers to key sections of the site based upon their requirements. These are:

[6] The weblinks included in this document are correct as at 16th August 2013, if you have any problems accessing these links please contact us on 0845 270 0785

- Single House;
- Business Premises;
- Industrial/Commercial;
- House Builders; and
- Competition in Connections.

Further details on the Network Connections website, specific to Competition in Connections, are discussed in Appendix 3.

1.2 Application Form

Our connections application form (see Appendix 10) is available on our website and is issued following enquiries received. Through this application form our customers are able to request a quotation for either the full connections works, the non-contestable works only (referred to as an ICP or POC quotation), or simultaneously request both offers.

The form is designed to present the options on an equal basis, so that the customer is free to choose which they prefer.

Our application form contains a guidance section with frequently asked questions. Here we explain what an ICP quotation is and provide a link to our website where further information on Competition in Connections can be obtained.

This guidance encourages customers to make a more informed decision.

1.3 Guidance Leaflet

Guidance leaflets are provided on our website. They are also issued to customers, either following initial enquiry, or upon issue of a quotation. Included in these is a leaflet providing information on Competition in Connections. The Competition in Connections leaflet, "*Providing you with a choice*", discusses the options available and provides an overview of the Competition in Connections process and an explanation of the differences between contestable and non-contestable works. A copy of the leaflet is attached as Appendix 8 and can be found on the web page[7] "guidance leaflets".

http://www.spenergynetworks.co.uk/connecting_to_our_network/guidance_leaflets.asp

Again, provision of this guidance enables customers to make a more informed decision.

1.4 Letters

Since April 2010 our 'full works' licensed quotation letters have prominently included the following paragraph:

> ***"Competition in Connections***
> *You have the right to seek a competitive quotation for certain elements of the work required to make your Connection to the Distribution System (the "Contestable Works"). Only suitably accredited connection companies may carry out these Contestable Works.*

[7] The weblinks included in this document are correct as at 16th August 2013, if you have any problems accessing these links please contact us on 0845 270 0785

> *Information on accredited connection companies currently operating within the Distributor`s area can be found at: www.lloydsregister.co.uk/schemes/NERS/providers-list.aspx . Other activities must remain under the Distributor`s responsibility (the "Non-Contestable Works").*

Further information relating to the process by which a quotation can be found a[8]t:

www.sppowersystems.co.uk/connecting_to_our_network/competition.asp

This highlights to each customer the existence of competitive alternatives and directs them to further information about the competitive process.

1.5 Customer contact team actions

Our customer contact teams are the first point of call for all telephone enquiries and e-mail / letter enquiries from customers wanting a new or modified connection. In order to raise customer awareness of their options for competition, we have:

- **E-mail enquiries** – when an email is received from a customer our system sends an auto-response which confirms receipt of the e-mail. Within this response there is a section which advises the customer of the option: "*Did you know you have a choice and may obtain a quotation for some elements of the connection works from an Independent Connection Provider. For further information please view our Competition in Connections area on our website:*

  www.spenergynetworks.co.uk/connecting_to_our_network/competition.asp"

- **General Enquiries** – in response to general enquiries, requesting information prior to making a decision, we are now responding providing notification of the choices available, enclosing the leaflet "*Providing you with a choice*".
- **Interactive voice response (IVR)** - the IVR has been updated to include a message that makes the customer aware that there is a choice available, referring to the Competition in Connections website for information. It will then direct the call through to the contact team.
- **Contact Team Guidance** - our contact team have been provided with guidance to help them answer questions on Competition in Connections. Should the contact team be unable to respond to a customer's specific question they have the option of transferring the call to our Competition in Connections administration team.

This makes customers aware of their options for competition in provision of connections, at an early stage in their thinking. This increases the likelihood that a customer will explore the choices available and decide to choose an alternative provider.

[8] The weblinks included in this document are correct as at 16th August 2013, if you have any problems accessing these links please contact us on 0845 270 0785

1.6 Ask Andrea

Within our connection website the "S*erving our Customers*" pages has an option to "*Ask Andrea*". Here customers can either ask questions or search under specific categories. Andrea's responses link to the appropriate information within the website[9].

http://www.spenergynetworks.co.uk/ask_andrea/default.asp

Questions that relate to Competition and Connections have been included in the category Connections and Disconnections.

Again, this increases the likelihood that a customer will explore the choices available.

[9] The weblinks included in this document are correct as at 16th August 2013, if you have any problems accessing these links please contact us on 0845 270 0785

G. FACILITATING COMPETITION THROUGH IMPROVED PROCEDURES AND PROCESSES

Since 2003, we have had separate teams to administer Competition in Connections activities located within our SPD and SPM distribution service areas. The backbones of these teams are the dedicated designers who manage the process from initial contact, through the connection application stage until design approval is granted. At this stage management of the connection project is passed to our delivery team who will engage with the ICP through the completion of the non contestable works. We will manage the full process to ensure timeous delivery, excellent service and full compliance with SLC 15 obligations as a minimum.

Within the connections business there is also a dedicated Process and Compliance team which is responsible for all connections regulatory reporting (including SLC12, 15 and 15A) and for ensuring internal licence compliance generally. A key focus of the Process and Compliance team is the discharge of our SLC19 obligations, prohibition of discrimination in the provision of non-contestable services.

We recognise that the ease with which a party is able to make an application is an essential aspect of any connection request. We have put considerable effort into the development of robust systems and processes to support the management of Competition in Connections, ensuring compliance with regulatory obligations whilst also ensuring optimum delivery of service to our customers.

1.1 Connection Registration and Management (CRAM)

We were amongst the first DNOs to positively respond to Competition in Connections, SPD and SPM launched a dedicated web based IT system for managing and facilitating Competition in Connections (CRAM) during 2003. At the time of its launch, the CRAM system was ground breaking and an upgraded version of that original system remains in use today. Over the years the following key features of the CRAM system have helped improve efficiencies and standards of service to our customers:

- the ability to upload and share (almost instantaneously) relevant documentation and information (application forms, drawings etc) relating to a connection project
- online visibility of the full connection lifecycle
- more efficient processing of applications and designer assessments
- the provision of a reference point to both SPM/SPD and our customer of communications, in addition to an audit trail of the process and communications
- automation of regulatory reporting requirements

We publish a range of guidance documentation and specifications on our website to help facilitate competition of connections within our distribution service areas. The ASSET-04-029/030 document describes in detail how the CRAM process works. We provide explanations of the following key points:

- the standards under SLC15 which we are required to work to
- the management of the CRAM binder structure relating to each part of the application and design approval process
- respective responsibilities, including what the ICP has to do (in terms of providing documentation within the CRAM structure) and how SPD/SPM will respond
- the minimum information required for a POC application, design approval and final connection

- conditions precedent required prior to final connection
- how each of these steps are managed through the binder structure of the CRAM IT system

We ensure consistency of application of processes and policies across our distribution service areas through daily adherence with the ASSET-04-029/030 documents.

A utility services provider, which is based in the North of England and is seeking to expand its business in Scotland, has told us that CRAM *"is a clear, straightforward and quickly understood system".*

1.2 New CRAM Applicants

Upon request, we will process through CRAM applications on behalf of new entrants and one off first users of the system. Regular users are, however, encouraged to make full use of CRAM as this offers greater efficiency in managing the Competition in Connections process and improved flexibility and communication with our customers. CRAM is made available to all parties, whether they are an ICP, an IDNO, a developer, a consultant, etc.

Our support team is on hand to assist users with any difficulties with the CRAM system. Our CRAM support team will assist with a range of issues, including technical access problems and the addition of new users to the system.

Further details and assistance on CRAM processes can be obtained from our website[10]:

http://www.spenergynetworks.co.uk/connecting_to_our_network/

1.3 Register of Adopted Asset Requests (RAdAR)

Following feedback from our customers, we are currently in the final stages of introducing a new web based IT system which will upgrade and replace CRAM. This new IT system has been designed to further improve communications and the ease of sharing of information.

RAdAR will be a secure, document/file sharing collaborative communications management system. A comprehensive reporting module is included to ensure we continue to achieve our regulatory obligations.

The benefits of the new system are:

- the application form is online and forms part of the system
- a traffic light tracking system shall be introduced which is visible to our customers, providing clarity of where individual projects are (including SLC15 timescales)
- in addition to supported training, a training disc will be made available to our customers for both future reference and assistance with problems
- the user controls its own administration – users will no longer require assistance from SPD/SPM in completing this
- ICPs can directly input weekly whereabouts loaded into the system

[10] The weblinks included in this document are correct as at 16th August 2013, if you have any problems accessing these links please contact us on 0845 270 0785

- audits results are uploaded by SPD/SPM and customers will be able to close out audit non-conformances online
- greater visibility of audit hierarchy for the customer

1.4 Availability of Processes and Technical Specifications on the website

We provide a comprehensive selection of freely available process and technical specification documents on our website. We provide copies of the national framework documents (known as G81), together with our company specific appendices. In addition, we provide a number of supporting application forms and technical specifications to assist the ICP through the process and in carrying out their design. We provide a comprehensive range of documents that are freely available to download. These include:

- application forms
- process documentation
- copies of national framework documents, together with our specific company appendices
- technical specifications

We also display on our own web-site a link to the Lloyds' web-site which identifies all currently accredited ICPs. This allows customers to easily access contact details for these companies and choose how they wish to proceed with their connection.

Our website also includes information on customers' options to choose an IDNO to adopt their networks.

1.5 Understanding our Processes

During 2012 we conducted a substantial redesign of our connections website. In response to feedback from stakeholders we have:

- increased information relating to Competition in Connections generally
- increased information detailing who can carry out third party works
- explanation of non contestable works completed by SP Energy Networks and contestable works that can be undertaken by ICPs
- revised steps for getting connected and links to the process maps for both metered and unmetered connections
- a separate dedicated section within our website where customers are better able to access links to our processes, standard forms for making applications and technical specifications
- Jargon busters to help customers understand in plain English
- Direct contact arrangements for the key Design and Delivery management

H PRICING AND TRANSPARENCY OF PRICING TO CUSTOMERS

Our connection pricing and quotation policies as well as associated processes are consistent across our distribution service areas. A single IT system is also used to ensure consistency of costs and application of the principles of the connection charging methodology.

1.1 Common Connection Charging Methodology and Connection Charging Statement

Our Connection Charging Methodology sets out how connection charges are calculated and includes examples of how the methodology is applied in particular circumstances[11].

www.spenergynetworks.com/methodology

Minimum and maximum values are published in tables within our Connection Charging Statement. These tables are designed to provide our customers with an indication of the range of charges that would normally apply, enabling reasonable estimates of connection charges to be made.

1.2 Presentation of our charges

Our quotations provide the information necessary for our customers to make informed decisions as to how they might progress their electrical connection. To enable our customers to explore competitive connection alternatives further, we provide separate quotations (upon request) for a single development covering:

- the full connection works
- the non-contestable works only

1.3 Charge Breakdown

Below is an extract from our licensed connection quotation in which a breakdown of the connection charges associated with the works is provided.

[11] The weblinks included in this document are correct as at 16th August 2013, if you have any problems accessing these links please contact us on 0845 270 0785

Connection Charge: The cost for this work will be £xxx (exclusive of VAT) VAT will be charged at £xxx This equates to a total cost of £xxx (inclusive of VAT) Charge breakdown (exclusive of VAT):			
Charge Description	**Connection**	**Diversion**	**Reinforcement**
Electrical Substation Works			
Low Voltage Underground Main Works			
High Voltage Underground Main Works			

Additionally a breakdown of the non-contestable charges is provided, enabling our customers to make a proper comparison with quotes they might receive from ICPs for the contestable work only.

NON-CONTESTABLE WORKS AND ASSOCIATED COSTS

Charge Description	**Total Cost**
Charge for the non contestable connection to the network	Xxx
Reinforcement costs	Xxx
Diversionary works costs	Xxx
Total Non-Contestable Cost Exclusive of VAT	**Xxx**

Below is an extract from our POC quotation letter which shows the breakdown of non-contestable charges.

Charge Description	Total Cost
Assessment & Design of the Non-Contestable Work	Xxx
Design Approval of the Contestable Work	Xxx
Inspection and Monitoring of Contestable Works	Xxx
Witness of Testing	Xxx
Charge for connection to the network (Work as defined in quotation letter)	Xxx
Reinforcement	Xxx
Diversion	Xxx
Off site wayleaves and easements	Xxx
Total Costs Exclusive of VAT	**Xxx**

Some transactional charges (Assessment & Design of the Non-Contestable Work; Design Approval of the Contestable Work; Inspection and Monitoring of Contestable Works; and Witness of Testing) exist which are associated directly with the Competition in Connections activity.

1.4 Description of works

Within our licensed connection quotations a comprehensive description of the scope of our works is provided. Instruction on any requirements for preparatory works to be carried out by the customer, including details of excavation works and accommodation required for metering and substation assets, etc. will be provided. Additionally, we will provide details of any assumptions that it has been necessary for us to make in preparing our quotation. We will also highlight areas where potential increases in costs might be necessary.

This level of detail is vital to our customers in ensuring that they are, as accurately as possible, able to conduct a comprehensive comparison of quotes provided by alternative connection providers, i.e. to ascertain what costs are included and what are not.

1.5 DG website

DG customers can access our DG website[12] on the following link:

http://www.spenergynetworks.co.uk/dgis/

The website has maps of the SPD and SPM distribution service areas, highlighting network areas with potential availability of capacity as well as “hotspots” where generation capacity may be more limited. The website also contains a budget cost calculator, helping DG customers to make more informed choices before proceeding with a formal application.

[12] The weblinks included in this document are correct as at 16th August 2013, if you have any problems accessing these links please contact us on 0845 270 0785

The National Distribution Forum held by Ofgem in November 2012 highlighted some improvement areas for all DNO's to consider and address through the implementation of a DNO specific DG Workplan. The SP Energy Networks DG Work Plan shows the actions we have already taken, or are currently undertaking, to improve the connections process for our DG Customers. We have taken a leading role in the development of additional heat maps for the 33kV and 11kV network, which show the amount of generation capacity available for every 33kV substation and each individual 11kV circuit across both the SPD and SPM networks. These new, improved heat maps will show more accurately the connection opportunities that are available for our DG Customers across both areas. We aim to have these heat maps uploaded onto our DG website by November 2013 for SPD and by December 2013 for SPM.

We also plan to offer an enhanced Feasibility Study product by September 2013, which will enable our DG Customers to receive a fast tracked estimate of the options available to them, so our Customers can fully understand the capacity available and the associated cost implications in a shorter timescale of 20 days. This will enable our Customers to make an informed decision on each particular project before proceeding with a formal application. This service has been well received by major DG customers and stakeholders as a positive move for the industry.

I. EFFORTS TO OPEN UP NON-CONTESTABLE ACTIVITIES TO COMPETITION

Customers are able to obtain greater benefits from using an alternative service provider where we have opened up previously non-contestable activities to competition.

SPD and SPM have a proven track record of working with the industry to extend the boundaries of contestability. In 2002, we were amongst the first to put in place the processes and documentation necessary to offer live jointing trials. We are continuing to develop our processes and to work proactively with ICPs and IDNOs to extend competition.

Our objectives have been to:

- make live jointing of LV works on development sites a business as normal activity (achieved);
- enable ICPs to carry out closing joint works on both the existing SPM and SPD High Voltage (HV) and Low Voltage (LV) underground distribution cable networks (achieved);
- provide direct access to our Geographical Information System detailing full mains-records to facilitate contestable and non-contestable activities (access granted);
- initiate trials to undertake self determination of point of connection (trial offered, awaiting uptake); and
- be prepared to offer trials in operational access to distribution network (guidance document drafted).

1.1 Live Jointing Trials

We were amongst the first to offer live jointing trials in 2002, along with Electricity North West. The ability to live joint newly adopted assets provided ICPs with considerably increased autonomy in the scheduling of phased works associated with a development site. This has been business as usual for a number of years and is included in our Common Connection Charging Methodology as contestable work.

1.2 Live Jointing of Existing Assets

We fully supported Ofgem's "in principle" decision (May 2012) that contestability should be extended to jointing to existing DNO mains at both LV (metered and unmetered) and HV.

We currently offer the final closing joints to existing LV and HV assets as a contestable activity. This work has been referred to as "Extension of Contestability Work" and forms part of SPM's and SPD's participation in the Extension of Contestability sub-group of the Electricity Connections Steering group. We have worked with other DNOs through industry working groups to share best practice.

The extension of contestability trials helped to facilitate further development of our practises and procedures and enabled us to actively encourage the wider ICP community to undertake this work across both our distribution services areas. This activity is no longer a trial. It is a business normal activity. The relevant changes to our connections charging methodology for LV and HV connections were submitted to Ofgem for approval in June 2012.

We are active members of a number of national working groups to work with customers to extend competition in connection activities. The key groups currently working to extend competition are:

- OFGEM Electricity Connections Steering Group (ECSG)
- Estates and Wayleaves

Within SPM's distribution services area, there are currently three ICPs actively progressing metered connections under these arrangements and 2 ICPs within the unmetered connections market working on LV closing joints. In 2012, 104 closing joints were undertaken by ICPs, (12HV closing joints and 92 LV closing joints). This work has continued in 2013 with a further 47 closing joints being undertaken by ICPs (all at LV) to date. Customer feedback has been very positive for this work, as it allows the ICP to take control of the delivery of their project to their customer. A further four ICPs have also initiated discussions with a proposal of moving forward in this area. Within SPD's distribution services area, there is currently one ICP actively undertaking closing joint works in the LV metered market segment and a further three ICPs who have expressed an interest.

1.3 Self-determination of point of connection

SPD and SPM have been developing a process to enable ICPs to carry out self-determination of point of connection associated with the LV network (up to 200 kVA). We have had discussions with a number of ICPs to facilitate the development of a procedural document to enable metered LV works in this area to be trialled. To date, we have received mixed views from a number of ICPs in this area and although some interest has been shown, with the exception of the unmetered market and multiple LV metered Small demand connections areas, trials have yet to progress to date.

Within the SPD LV metered market, one interested party has commenced trials to deliver small demand high volume connections involving the self determination of the point of connection for metered connections.

Within the unmetered market, as part of the process for progressing extension of contestable LV closing joints, it is inherent that the ICPs carry out self-determination of the relevant point of connection.

1.4 Operational access to network

We have produced a guidance document to facilitate enquiries for operational access to the distribution network. Whilst we have still to receive formal interest from ICPs wishing to progress this activity, we will be prepared to proactively engage with trials in this activity when they occur.

1.5 Part funded connections

We have actively participated in the Ofgem working groups looking at extending contestability to part funded reinforcement. We will support future work in this area, including engagement in any future Ofgem consultation.

Competition Test Notice August 2013

SP Manweb plc
SP Distribution Limited

16th August 2013