

The reasons for our determinations on UK Power Network's 19 April 2013 application to charge an unregulated margin on certain contestable connections services

1 Summary

- 1.1 This document contains the reasons for the determinations made, under Part E of CRC 12¹, by the Gas and Electricity Markets Authority² on 15 August 2013, on whether UK Power Networks Ltd (UKPN), a Distribution Network Operator³ (DNO), should be allowed to earn an unregulated margin on certain connections work.
- 1.2 UKPN submitted to us a Competition Notice on 19 April 2013 on behalf of its three Distribution Service Areas (DSAs): Eastern Power Networks plc (EPN), London Power Networks plc (LPN) and South Eastern Power Networks plc (SPN). This application was made for six Relevant Market Segments (RMSs) in each of UKPN's three DSAs.⁴ The six segments are -
- Metered demand connections – high voltage work
 - Metered demand connections – high voltage and extra high voltage work
 - Metered demand connections – extra high voltage and above work
 - Metered distributed generation – low voltage work
 - Unmetered connections – Local Authority work, and
 - Unmetered connections – other work.
- 1.3 We issued a consultation on the UKPN Competition Notice on 20 May 2013.⁵ Having considered the UKPN Competition Notice and responses to our consultation, we have allowed an unregulated margin, in the following RMSs, because we consider there is sufficient evidence that customers' interests would be protected if we removed price regulation -
- Metered demand connections – high voltage and extra high voltage work in all three DSAs
 - Metered demand connections – extra high voltage and above work in all three DSAs, and
 - Unmetered connections – Local Authority work in the EPN and SPN DSAs only.
- 1.4 We have not allowed an unregulated margin in the remaining RMSs because we have not seen sufficient evidence at this stage that customers' interests would be protected if we removed price regulation.
- 1.5 Our determinations can be found on our website. This document provides reasons for our determinations. Appendix 1 of this document summarises the responses received to our consultation.

¹ CRC 12 Licensee's Connection Activities: Margins and the development of competition

² The terms 'the Authority', Ofgem and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

³ As defined in condition 1 of Standard conditions of the Electricity Distribution Licence

⁴ As defined in Part K of CRC 12

⁵ Available from

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=453&refer=NETWORKS/CONNECTNS/COMPINCONN>

2 Background

- 2.1 We have been working to facilitate competition in electricity connections since 2000. New entrants can compete with DNOs to give customers a choice over their connections provider and an opportunity to shop around to get good service and value for money. We consider that competition can deliver customer benefits that are difficult to achieve through regulation, such as innovation in the type of services on offer and a focus from providers on meeting customer needs.
- 2.2 In 2009-10 we explained that we had been disappointed with the pace at which competition had developed in the electricity connections market. This was against a backdrop of 87 per cent of metered electricity connections (across Great Britain) being completed by the incumbent DNO, compared to 41 per cent in the gas connections market.⁶
- 2.3 To encourage further competition to develop, we introduced an incentive on DNOs to do all that is within their control to facilitate competition in connection services. For the purpose of this incentive we defined nine RMSs in which we considered competition to be viable.⁷ DNOs are able to apply to have price regulation lifted in an RMS where they can demonstrate that competition is effective. We have made it clear to DNOs that where effective competition has not developed by 31 December 2013, we will review the market and consider taking action, including making a referral to the Competition Commission.
- 2.4 We have already considered six applications made by DNOs - Electricity North West Ltd (July 2011 and January 2013), Northern Powergrid (June 2012), UK Power Networks Ltd (July 2012) Western Power Distribution (October 2012) and Scottish and Southern Energy Power Distribution (January 2013). Our determinations on these applications can be found on our website. We are currently considering another application from ENWL which was submitted on 24 May 2013.
- 2.5 UKPN's first application, in July 2012, was for six relevant market segments in all three of its DSAs. We allowed an unregulated margin in two of those segments in each of its DSAs: Distributed Generation HV/EHV work; and Unmetered connections PFI work. We considered that we had not seen sufficient evidence then that customers' interests would be protected if we removed price regulation in the other four market segments.

3 Our assessment

- 3.1 Our determinations on whether to lift price regulation are based on a consideration of our statutory duties and our view on whether UKPN has met two tests: a Legal Requirements Test and a Competition Test.
- 3.2 Our assessment of the Competition Test is a regulatory decision. It does not amount to, or imply, any particular view as to the application or interpretation of the Competition Act 1998, and/or Articles 101 and 102 of the Treaty on the Functioning of the European Union, or any other law, either prior to this regulatory decision or once this regulatory decision is in place.

⁶ See "Gas and Electricity Connections Industry Review, 2009-10", available from

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=55&refer=Networks/Connectns/ConnIndRev>

⁷ A policy decision was made at DPCR5 to establish the RMSs after consideration was given to the different types of connection (ie by size, type and customer base) for the purposes of this test. While we consider that they are relevant in that context, any definition of the "relevant market" for the purposes of competition law would not necessarily segment the market in the same way.

- 3.3 We are required to make separate determinations for each RMS applied for in each of the three licensed distribution networks.

Legal Requirements Test

- 3.4 UKPN has satisfied the Legal Requirements Test in all six RMSs as it currently has no enforced breaches of the Competition Act 1998 or of the relevant connections related licence conditions in the 2013-2014 regulatory year.

Competition Test

- 3.5 We have assessed whether the Competition Test is met after considering a number of factors, including -
- actual and potential levels of competition
 - procedures and processes in place to facilitate competition
 - barriers to competition
 - customer awareness of competition, and
 - UKPN's efforts to open up non-contestable activities to competition.
- 3.6 In making our assessment we considered the nature of each RMS, the analysis provided by UKPN on the current level of competitive activity in its area, as well as information about the processes it has in place to support competition. We also considered responses to our consultation, which provided us with further insight into the competitive environment in UKPN's DSAs.⁸
- 3.7 Our assessment is set out in this document and is based on all of the factors listed above. The factors are categorised as follows -
- The actual level of competition in the RMSs is discussed under the heading 'existing competitive activity'.
 - Customer awareness of competition is discussed under the heading 'customer awareness of and ability to choose competitive alternatives'.
 - Potential levels of competition, procedures and processes in place to facilitate competition, barriers to competition and efforts to open up non-contestable activities to competition are discussed under the heading 'the potential for further competition'.

Existing competitive activity

- 3.8 In this section we examine current levels of activity by UKPN and alternative providers (Independent Connection Providers (ICPs), and Independent Distribution Network Operators, (IDNOs)) in each of the six RMSs in each of the three DSAs.
- 3.9 The data set out in this section is drawn from UKPN's 19 April 2013 Competition Notice and from subsequent clarifications received from UKPN.
- 3.10 The data presented in UKPN's Competition Notices mainly relates to the 12 month period from March 2012 to March 2013.

⁸ A summary of consultation responses can be found at Appendix 1 and the responses are available on our website.

3.11 UKPN has presented the following information on competitive activity within each RMS -

- The overall size of the market by value. For metered demand and DG LV market segments, UKPN has estimated the total value of projects won by competitors using their market share by connected load. For example, if the total value of work won by UKPN is £4 million and it has 80 per cent market share by connected load, the estimated overall size of the market is £5 million.
- The market shares of UKPN and its competitors by connected load (kVA). UKPN have used numbered codes to refer to competitors (eg ICP1, ICP2 etc) to protect their identities.
- The number of ICPs/IDNOs that submitted enquiries, and the number of ICPs/IDNOs that have won work.

3.12 We now look at each RMS in turn.

Demand HV

3.13 This section looks at activity by UKPN and competitors in the Metered Demand HV works market segment. Table 1 sets out the relevant information.

3.14 We present the average load of projects in the Metered Demand HV RMS carried out by UKPN and by competitors, calculated using information provided by UKPN in its Competition Notice.

Table 1: Existing competitive activity – Metered Demand HV, 12 months to March 2013

Metered Demand HV RMS	EPN	LPN	SPN
Size of RMS			
Total size by value	£42 million	£52 million	£36 million
Total size by load (kVA)	194,695	260,970	98,446
Total size by jobs (numbers)	568	266	260
UKPN share of the RMS			
UKPN share by load and value	63%	68%	65%
UKPN share by jobs	85%	70%	85%
Analysis of project loads			
Average load of UKPN jobs (kVA per job)	255	966	287
Average load of ICP/IDNO jobs (kVA per job)	829	1,016	895
Activity by ICP/IDNOs			
Number of ICPs/IDNOs submitting enquiries	21	20	17
Number of ICPs/IDNOs successful in winning work	19	10	11
Number of new entrants winning work (those entering in or after January 2012)	4	1	3

3.15 We make the following observations based on the data provided -

- UKPN enjoys a relatively large share of the market expressed in terms of number of jobs in the Metered Demand HV RMS in each of the three areas. UKPN's share, when expressed in terms of load and value, is lower but is still around two-thirds of the overall market.
- A number of ICPs and IDNOs are submitting enquiries and winning work in each of the three areas.

- The average load (kVA) per job won by UKPN is much lower than the average load (kVA) per job won by ICPs and IDNOs in the EPN and SPN area. In the LPN area, the average load per job is similar for UKPN and IDNO/ICP jobs.
- The “Competitor analysis” data provided by UKPN show that alternative providers have been successful in a range of projects by load, including relatively small projects. For example, in the EPN area, ICP6 has won two projects with a combined load of 93 kVA.

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

- There are a number of alternative providers active in this RMS in each of the three areas. This is evident from the number of ICPs and IDNOs submitting enquiries and winning work.
- In the EPN and SPN areas, the average loads of projects won by ICP/IDNO are just over three times the average loads of projects carried out by UKPN. This is not to say that ICPs/IDNOs do not win smaller jobs at all in those areas, but the data suggests that on average ICPs/IDNOs are more likely to be successful when they compete for larger jobs. In the LPN area the average loads are similar.

Demand HV/EHV

Table 2: Existing competitive activity – Metered Demand HV/EHV, 12 months to March 2013

Metered Demand HV/EHV RMS	EPN	LPN	SPN
Size of RMS			
Total size by value	£6 million	£1 million	£0
Total size by load (kVA)	30,053	4,500	0
Total size by jobs (numbers)	5	2	0
UKPN share of the RMS			
UKPN share by load and value	85%	0%	N/A
UKPN share by jobs	60%	0%	N/A
Activity by ICP/IDNOs			
Number of ICPs/IDNOs submitting enquiries	8	7	10
Number of ICPs/IDNOs successful in winning work	2	2	0

3.17 We make the following observations based on the data provided -

- This is a relatively small market segment in terms of the number of jobs – 7 in total across EPN and LPN in the 12 months to March 2013. However the value of each job is likely to be high. There were no new connections in this RMS in the SPN area in this period.
- A number of ICPs and IDNOs are submitting enquiries – two have been successful in EPN and two in LPN.
- UKPN has won 3 out of 5 jobs in EPN, with an average load of 8,500 kVA per job. ICP33 won one job with a load of 4,000 kVA, and ICP18 won the other job with a load of 553 kVA.

- UKPN won none out of two jobs completed in the LPN area. One job with a load of 1,000 kVA was won by ICP31 and the other job with a load of 3,500 kVA was won by ICP37.
- There were no jobs completed in the SPN area in the relevant period.

3.18 Although the number of jobs in the RMS is small, we note that alternative providers have submitted enquiries and have won work in EPN and LPN areas. Competitors have been successful in projects with a range of loads (553 kVA to 4,000 kVA).

Demand EHV and above

Table 3: Existing competitive activity – Metered Demand EHV and above, 12 months to March 2013

Metered Demand EHV and above RMS	EPN	LPN	SPN
Size of RMS			
Total size by value	N/A	N/A	£0
Total size by load (kVA)	135,806	9,300	0
Total size by jobs (numbers)	4	1	0
UKPN share of the RMS			
UKPN share by load and value	0%	0%	N/A
UKPN share by jobs	0%	0%	N/A
Activity by ICP/IDNOs			
Number of ICPs/IDNOs submitting enquiries	8	4	3
Number of ICPs/IDNOs successful in winning work	3	1	0

3.19 We make the following observations based on the data provided -

- This is a small market segment in terms of the number of jobs – 5 in total across EPN and LPN in the 12 months to March 2013. There were no new connections in this RMS in the SPN area in this period.
- A large number of ICPs and IDNOs are submitting enquiries.
- UKPN did not win any jobs in this period – three ICPs/IDNOs in EPN and one ICP/IDNO in LPN won four of the five the jobs recorded in the table above. UKPN is not aware of the identity of the ICP/IDNO involved in the fifth project.
- In the EPN area, competitors won projects ranging from 7,606 kVA to 30,000 kVA.

Distributed Generation – Low voltage works

Table 4: Existing competitive activity – DG LV RMS, 12 months to March 2013

DG LV RMS	EPN	LPN	SPN
Size of RMS			
Total size by value	£50,000	£6,000	£30,000
Total size by load (kVA)	250	155	143
Total size by jobs (numbers)	5	4	3
UKPN share of the RMS			
UKPN share by load and value	20%	61%	65%
UKPN share by jobs	60%	50%	67%
Activity by ICP/IDNOs			
Number of ICPs/IDNOs submitting enquiries	8	9	2
Number of ICPs/IDNOs successful in winning work	2	2	1

3.20 We make the following observations based on the data provided -

- This is a small market segment both in terms of the number of jobs, average loads and value of the work involved. There were 5 jobs the EPN area, 4 in the LPN area and 3 in the SPN area in the 12 months to March 2013.
- A number of ICP/IDNOs submitted enquiries in the 12 months to March 2013. In both EPN and LPN areas, two were successful in winning work, and in SPN one was successful.
- In the EPN area, UKPN won three jobs with an aggregate capacity of 50 kVA. ICP47 won one job with a capacity of 170 kVA and ICP48 won the other with a capacity of 30 kVA.
- In the LPN area, UKPN won two jobs with an aggregate capacity of 95 kVA. ICP32 won one job with a capacity of 30 kVA and ICP37 won the other with a capacity of 30 kVA.
- In the SPN area, UKPN won two jobs with an aggregate capacity of 93 kVA. A customer accepted a non-contestable works only quote for a job with a capacity of 50 kVA. UKPN said that it did not know the identity of the ICP/IDNO that was commissioned to carry out the contestable work for this project.

Unmetered connections – Local Authority work

3.21 For this segment UKPN reports data on the split between UKPN and alternative providers of the value of work in each of the years since 2007-08. UKPN's share is shown in the table below.

Table 5: Unmetered Local Authority RMS: value and split of work, 2007-08 – 2012-13

	Value of all work in segment	UKPN's share of work (by value)
EPN		
2007-08	£3.4 million	100%
2008-09	£4.3 million	100%
2009-10	£3.6 million	100%
2010-11	£3.1 million	100%

2011-12	£3.9 million	77%
2012-13	£3.1 million	82%
LPN		
2007-08	£4.2 million	98%
2008-09	£5.1 million	97%
2009-10	£6.9 million	98%
2010-11	£5.9 million	89%
2011-12	£5.9 million	92%
2012-13	£5.1 million	79%
SPN		
2007-08	£2.6 million	100%
2008-09	£3.1 million	100%
2009-10	£3.4 million	99%
2010-11	£2.5 million	99%
2011-12	£4.9 million	60%
2012-13	£4.9 million	35%

3.22 We make the following observations based on the data provided -

- UKPN's share of the RMS (by value) has declined in recent years in all three DSAs. Its market share in the 12 months to March 2013 is 82 per cent in EPN, 79 per cent in LPN and 35 per cent in SPN.
- The total value of work in this segment has remained fairly steady in EPN and LPN, and has increased in SPN.

Unmetered connections – Other works

3.23 For this segment UKPN reports data on the split between UKPN and alternative providers of the value of work in each of the years since 2007-08. UKPN's share is shown in the tables below.

Table 6: Unmetered Other RMS: value and split of work, 2007-08 – 2012-13

	Value of all work in segment	UKPN's share of work (by value)
EPN		
2007-08	£3.0 million	92%
2008-09	£8.6 million	96%
2009-10	£5.0 million	92%
2010-11	£3.7 million	88%
2011-12	£1.1 million	75%
2012-13	£1.8 million	49%
LPN		
2007-08	£2.6 million	100%
2008-09	£2.9 million	100%
2009-10	£3.3 million	100%
2010-11	£3.4 million	100%
2011-12	£1.1 million	78%
2012-13	£1.0 million	63%
SPN		
2007-08	£1.1 million	100%
2008-09	£1.9 million	92%
2009-10	£5.0 million	73%
2010-11	£3.2 million	90%
2011-12	£0.5 million	98%
2012-13	£0.7 million	91%

3.24 We make the following observations based on the data provided -

- UKPN's share of the RMS (by value) has declined in recent years in all three DSAs, although the decline is less marked in the SPN area. Its market share in the 12 months to March 2013 is 49 per cent in EPN, 63 per cent in LPN and 91 per cent in SPN.
- The total value of work in this segment has reduced considerably in all three DSAs over the period covered
- In the EPN area, UKPN has agreements in place with five customers who are now able to engage any of the four ICPs that hold Contractor agreements with UKPN. In the LPN area UKPN has agreements with two customers who are now able to engage any of the two ICPs that hold Contractor agreements with UKPN. In the SPN area, there are agreements with four customers who are now able to engage any of the three ICPs that hold Contractor agreements with UKPN. Agreements are in progress with more customers in all three areas.

Customer awareness of and ability to choose competitive alternatives

3.25 We consider that customers being aware of a choice of competing providers and being able to make informed decisions on which provider to use, are important factors for effective competition.

Promoting awareness of competitive alternatives

3.26 UKPN has outlined a number of actions it has taken to make potential customers aware that alternative providers may carry out the contestable elements of a project. These include -

- A dedicated area on UKPN's website to provide information on competition in connections. Following testing with competitors, UKPN reviewed the layout of that area in March 2011 with a view to making navigation easier.
- Preparing a factsheet, entitled "Did you know you have a choice?", which explains to customers that they can seek quotes for the contestable elements of work from alternative providers. This factsheet is available from UKPN's website and is sent to those customers that request for an application form to be posted or emailed to them. The factsheet is enclosed with every "all works" quote that UKPN sends out.
- Undertaking staff awareness programmes on the nature of competition in connections and on the behaviour required of them.

3.27 UKPN has reported the results of several surveys it has carried out with customers since 2011. Of the findings from these surveys that are reported in the Competition Notice, some relate directly to the degree to which customers are aware of competitive alternatives. These include -

- In a February 2013 survey of 53 local authorities, 83 per cent of the 17 respondents agreed "to a great extent or completely" that competitive alternatives are available to them when appointing a connection provider. 94 per cent of these respondents were "completely, to a moderate or great extent confident that, if Ofgem were to give UKPN approval to set prices as if UKPN were in a freely competitive market, they could seek alternative competitive offerings from other providers".
- UKPN has reported the results of surveys with one-off customers carried out in March 2012 and with repeat customers carried out in November 2011 and June 2012. Four out of seven one-off customers that responded had received a copy of the factsheet "Did you know you have a choice?". Eight out of the 10 repeat customers that responded were aware that competitive alternatives were available at the time of applying for a new connection. We do not know which RMSs these responses relate to.

3.28 Respondents to our consultation agreed with UKPN's view that customers were generally aware of competitive alternatives. This awareness is greater amongst repeat customers.

Transparency of pricing and giving customers the ability to choose

3.29 To be able to make an effective choice, we consider that customers should be able to compare the prices that will be charged by the incumbent DNO with those that may be charged by an alternative provider.

3.30 UKPN has stated that, in response to customer feedback, it has implemented system changes to provide a more detailed breakdown of the non-contestable charges in its quotes in June 2012. In its Competition Notice, UKPN said that it plans to extend that level of detail to the contestable and dual funded elements of charges in its

quotes.⁹ UKPN has since informed us that they have been “providing a full breakdown of contestable and non-contestable charges for all connection quotations since 1 June 2013.”

- 3.31 UKPN has reported that its March 2012 survey of one-off customers found that 72 per cent (five out of seven respondents) understood what was included in the price quoted either to a great extent or completely. We do not know which RMSs these responses relate to.
- 3.32 UKPN said that it is consistent in its pricing, not applying any difference between the pricing of elements of work for an all-works quotes and the pricing for a Point of Connection quote.
- 3.33 UKPN’s quotes, whether for all works or a Point of Connection, are valid for 90 days, subject to the provisions of interactive quotes that apply to quotes with a requested capacity above 1MVA. The validity period of an outstanding quotation may be shorter if a new quote subsequently issued by UKPN interacts with the outstanding quotation. Where such interactivity is identified, UKPN will notify the parties with relevant outstanding quotes. The validity period of outstanding quotes will be reduced to 30 days from the date of UKPN’s notification, where more than 30 days is still outstanding.
- 3.34 UKPN has stated that since October 2012 it began to develop “convertible quotes”, whereby the customer is able to either accept only the non-contestable elements of an all works quote, or facilitates the transfer of that element for acceptance by an alternative provider. UKPN states that this makes it easier for customers and competitors where a customer, who has been quoted an all works quote, subsequently decides to appoint an alternative provider to carry out the contestable elements of work. UKPN started a pilot for convertible quotes for Demand HV in the SPN area in November 2012. UKPN told us in its Competition Notice that it aims to complete the roll out in SPN by 31 May 2013, in EPN by 30 June 2013 and in LPN by 31 July 2013, though the precise timing would depend on the amount of IT work and training of staff that will be needed. UKPN has since informed us that the roll out of convertible quotes for Demand HV has been delayed, and that it now plans to do so in “part of the EPN area by 31 July and part of the LPN area by 31 August 2013”. UKPN did not provide an update on the plans for roll out in the SPN area.
- 3.35 UKPN is also due to roll out its convertible quote arrangements for Distributed Generation customers. According to the Competition Notice its plans are to complete that roll out in EPN by 30 June 2013, in SPN by 31 July 2013 and in LPN by 31 August 2013. UKPN has since told us that, as a result of customer feedback, a “radical restructure” of the quotation format is needed, and the roll out for DG customers would only be completed by “mid-2014”.
- 3.36 UKPN also states that, where a customer is not fully aware of the process, it provides advice on where to find a competitor. UKPN states that it is quite usual for a customer to engage an ICP and discuss their requirements before asking for a non-contestable quotation.
- 3.37 Respondents to our consultation raised a number of points on the transparency of UKPN quotes and role this plays in giving customers the ability to choose -
- GTC, MCCG, Power On Connections and Harlaxton Engineering Services highlighted a concern that the breakdown of charges in some UKPN quotes were

⁹ Dual funded works are those contestable works that are part funded by the DNO through its allowed revenue. According to the UKPN notice, a pilot project involving dual funding has been completed and a report submitted to Ofgem.

not detailed enough. According to their responses, in some cases, over 50 per cent of the total charge was labelled as “miscellaneous”.

- MCCG, Power On Connections and Harlaxton Engineering Services pointed out three issues with UKPN’s pilot for convertible quotes. The first is that UKPN only issues convertible quotes when the customer specifically asks for it, and not by default. The second is that a UKPN convertible quote cannot be “converted” to allow an IDNO to provide the final connection (GTC makes this point too). The third is that UKPN follows Section 16 timelines while issuing a convertible quote, instead of the SLC 15 timeline.¹⁰
- London Square said that UKPN quotes were not transparent, and that it is difficult to seek alternative quotes. Thames Water said that UKPN quotes are not detailed enough to be reviewed by an electrical engineer. Premier Energy said that UKPN quotes could be more transparent and that it needs to ask additional questions to be able to compare UKPN quotes with others.
- Berkeley Homes, Standard Life, Luton, Suffolk and BYES said that UKPN quotes were transparent, and enable to customers to seek quotes from alternative providers.
- Amongst UCCG members, half said that UKPN quotes were clear and transparent, whereas the other half said the opposite.

3.38 We gave UKPN the opportunity to respond to these comments so that it could dispute any facts contained within them. UKPN disputes the comment by the MCCG and other respondents that UKPN only issues convertible quotes when the customer specifically asks for it. According to UKPN, within the “pilot parameters”, a convertible quote is issued by default instead of the standard Section 16 quote without the need for customer intervention.

The potential for further competition

3.39 In this section we consider the potential for further competition to develop, the procedures and processes in place to facilitate competition, whether there are barriers to competition and UKPN’s efforts to open up non-contestable activities to competition.

3.40 We recognise that where there appears to be a significant level of competition in a RMS, it has the potential to develop similarly across the RMSs, where levels of competition are currently lower but UKPN’s processes and procedures are similar and the nature of work is broadly equivalent.

3.41 In the discussion below we refer at times to potential barriers to competition — generic to GB electricity distribution networks and not specific to UKPN — that have previously been identified by the Electricity Connections Steering Group (ECSG) and by the Competitive Networks Association (CNA).

Availability of guidance and information for ICPs/IDNOs

3.42 As identified by the CNA, an alternative provider may be impeded from competing with a DNO if the DNO makes it difficult for the provider to access information that it requires to develop and deliver its own offer. This information can refer for example

¹⁰ The Electricity (Connection Standards of Performance) Regulations 2010 sets standards for DNOs to meet when issuing quotations for new connections under Section 16 of the Electricity Act 1989. These are to issue a quote within 35 working days for a new HV connection and 65 working days for a new EHV connection where these are required to be provided under Section 16 of the Act. The corresponding standards for a SLC15 (point of connection) quote are 20 working days (for HV) and 50 working days (for EHV).

to the DNO's design policy documents, to its codes of practices, method statements or to material specifications.

- 3.43 UKPN describes in its Competition Notices the actions it has taken to address this potential concern.
- 3.44 One area where UKPN states it has made progress relates to the granting of access to network records, an issue UKPN reports as being a concern to some competitors. UKPN states that, following negotiations with Ordnance Survey, competitors can now have online access to UKPN's plans and diagrams for the purpose of identifying points of connection to UKPN's network. UKPN states that competitors using this service had access to network record plans from January 2012; and that low voltage operational diagrams, showing the operational configuration of UKPN's low voltage network, were available from November 2012 for EPN and SPN and from February 2013 for LPN.
- 3.45 UKPN describes in its Competition Notices the progress it has made to improve the access to, and availability of, G81 documentation. It has created a new online G81 library containing "clean" versions of relevant documents, including material specification, design and planning, installation and records, and legal documents.
- 3.46 UKPN stated in its Competition Notice that it plans to publish a full set of EHV standards in May 2013 and standards and drawings for distributed generation by July 2013. UKPN has since informed us that both sets of documents have now been published on its website.
- 3.47 In general, respondents to our consultation were appreciative of the steps taken by UKPN to make information available to ICPs and IDNOs. Responses from the MCCG, Power On Connections and Harlaxton Engineering Services said that, in the provision of technical information and guidance, UKPN's website is "best in class".

Service and response times

- 3.48 Both the ECSG and the CNA have identified the time taken by DNOs in general as a potential barrier to competition. More specifically, they raised the concern that DNOs may not take the same level of care in dealing with activities that lie outside the scope of their licence obligations on guaranteed service standards (SLC15).
- 3.49 We recognise that unduly long timeframes to handle requests by alternative providers might hamper the ability of alternative providers to compete with a DNO. Uncertainty about these timeframes might also increase the risk — in the eyes of the final customer — of using an alternative provider.
- 3.50 UKPN has stated that they have treated competitors in the same manner as all other customers of non-contestable services. UKPN stated that they have sought, and continue to maintain, engagement and regular two-way feedback with these customers through a variety of mechanisms, including workshops, sub-groups, newsletters, emails and a competition question and answer service.
- 3.51 UKPN said that it has carried out several initiatives to improve the efficiency of its non-contestable activities. These include implementing in April 2011 a process of "visible workflow tracking" whereby the competition in connections team "hold a weekly review of all work, aided by a visual tool that tracks the status of their projects and enables them to prioritise workload." Other examples referred to by UKPN include -

- Its design acceptance process allows for acceptance to be granted subject to the correction of minor errors or omissions, minimising delay to the customers.
- Its agreement with an IDNO competitor for a generic IDNO substation design arrangement that can be used in a range of network connections situations; the IDNO will be able to identify the generic design in its design submission so that UKPN designers will know that the arrangement and associated materials have already been approved.
- A recent review of processes associated with live jointing to unmetered LV mains that UKPN states has simplified and automated the request and authorisation process.
- The implementation of a new process in December 2011 for ICPs to obtain consents and easements.
- The implementation of a new approach to IDNO consents. This improves the process of obtaining the necessary land rights when an IDNO is involved in the project. The new approach was piloted with one IDNO in 2011 and UKPN states it is waiting for IDNOs' sign-off of the most recent version of the approach before full implementation.

3.52 Respondents to our consultation had mixed views about UKPN's service and response times -

- According to the UCCG, while 50 per cent of respondents to its online survey said that UKPN's processes have assisted rather than obstructed or delayed competition, most respondents to its survey believed that UKPN's processes are bureaucratic and do not represent "best practice in the market". UCCG also said "Less than 50% of respondents believe that UKPN enable competitors to compete with the timescales."
- GTC's response says that "UKPN has come a long way over the last two years" and they are "more likely to assist us in achieving connection dates". However, they point out that there are some issues remaining "mainly around resourcing of projects, as they do not appear to have enough staff".
- The response from Premier Energy says that UKPN is "heavily processed" and it is "hard to work in the UKPN area for all ICPs and IDNOs".
- The MCCG responses highlighted concerns raised by its members that UKPN sometimes delays design acceptances for "minor" defects, and that ICPs are reluctant to quote for connections in the LPN area due to "perceived barriers being set in place by UKPN staff". On the other hand some MCCG members are satisfied with the service received from UKPN in the EPN and SPN areas.

Contractual arrangements for the adoption of assets built by ICPs

3.53 The ECSG identified that the arrangements put in place by DNOs in relation to the adoption of assets built by ICPs are a potential barrier to competition. In particular, the ECSG raise the issue of security arrangements (bonds) to protect the DNO against any liability in case there is a fault in the adopted network. This is not specific to UKPN.

3.54 UKPN states that it undertook a major review of its non-contestable construction and adoption agreements.

3.55 With respect to metered work, UKPN states that it has produced standardised terms and conditions that are in line with its Section 16 agreements.

- 3.56 In relation to unmetered work, UKPN describes an approach it implemented in April 2012, which is designed to make it easier for local authorities and ICPs to operate. The approach involves the creation of a pair of agreements, one between the asset owner and UKPN, and the other between the ICP and UKPN. Templates of these agreements are available online. A local authority that has signed an Asset Owner Agreement with UKPN can procure connection services from any of the ICPs that have a Contractor Agreement with UKPN, with no need for further negotiations of tripartite or bilateral agreements. Testimonials included within UKPN's application are positive about this approach. UKPN states that as of March 2013 there were 40 Asset Owner Agreements in place or in the process of being finalised
- 3.57 Respondents to our consultation raised the following issues relating to the adoption of assets by UKPN -
- According to the UCCG, the UKPN practice of insisting on a particular type of Asset Owner Agreement is not desirable.
 - The MCCG response states that UKPN's introduction of "ICP dependent Adoption Agreements" should be completed as soon as possible, and that this should become "business as usual".

Inspection and monitoring of assets built by ICPs

- 3.58 The ECSG has raised the issue of inspections and monitoring of assets built by ICPs as a potential barrier to competition. In particular, it questioned the proportionality of the cost and time taken by DNOs to inspect these assets.
- 3.59 This is not specific to UKPN. In fact, the issue does not seem to arise in the feedback from customers and competitors that UKPN reports in its Competition Notice. UKPN states that it has reviewed its audit and inspection regime but gives no details of that review; it does not describe what elements were reviewed and what changes, if any, were made to the audit and inspection regime.
- 3.60 Respondents to our consultation raised the following issues relating to the inspection of monitoring of assets built by ICPs -
- Responses from the MCCG, Harlaxton Engineering and Power On Connections say that some experienced ICPs should be subject to a "light touch" inspection regime.
 - The responses from MCCG and Harlaxton Engineering claim that UKPN "have on occasions delayed inspections such that final connection dates cannot be achieved".

Arrangements for obtaining land rights

- 3.61 The CNA has identified the process of obtaining land rights when an ICP or IDNO carries out the contestable work as a potential barrier to competition. According to the CNA, DNOs can be slow to initiate the process for securing leases, easements etc and slow to progress them once begun. This can frustrate competitors as DNOs require all the legal agreements to be in place before they will energise the new connection.
- 3.62 Earlier in this section, we gave examples of actions that UKPN has taken to improve the efficiency of dealing with alternative providers, including the new approach it has implemented for ICPs to obtain consents and easements and the new approach it proposes to implement for IDNO consents. UKPN reports that the latter of these approaches was presented by a representative of the CNA as "an example of best

practice". Both of these new approaches apply to all metered demand and generation RMSs in all three DSAs.

- 3.63 Respondents to our consultation seem broadly satisfied with the steps taken by UKPN in this area.

Consistency of charges

- 3.64 A potential barrier to competition will arise if there are differences between point of connection quotes and all works quotes in the charges set by the DNO for the same non-contestable work. This may place an alternative provider at an undue disadvantage when competing with the DNO for work.
- 3.65 UKPN states that all "source price units are identical for all non-contestable and contestable work" regardless of whether the quote is for a point of connection or for an all works project. UKPN explains that both types of quotes are created from the same source of cost components.
- 3.66 Responses to our consultation from the MCCG, Harlaxton Engineering and Power On Connections raise the concern that ICPs and IDNOs have to go through "extra hoops" to complete a connection. We asked these respondents to clarify this point. Power On Connections provided one example. It said that when an ICP is completing a HV connection, UKPN processes meant that two "SAPs" (Senior Authorised Person) needed to be present, one from UKPN and one from the ICP. This added a layer of costs to the connection that would not be incurred if the ICP were not involved.
- 3.67 In response to the comment from Power On Connections, UKPN told us that it had submitted a proposed revision to its connections charging methodology statement. This revision meant that the ICP would only need one SAP (UKPN's) on site, and UKPN would charge for the provision of the SAP as it would for a Section 16 connection.

Scope of contestable work

- 3.68 Connections works are split between works that are contestable (competitive) and those that are non-contestable (can only be completed by the DNO).
- 3.69 In our December 2011 consultation on expanding the scope of contestable activities we stated our belief that opening up non-contestable activities to competitors may provide further opportunities and incentives for competition to develop in the connections market. This is because it reduces competitors' reliance on DNOs to provide essential services and it increases the scope of works for which competitors can compete.
- 3.70 We consider that DNOs should engage with the industry to consider where it is possible to further extend contestability.
- 3.71 UKPN has reported on its efforts to expand the scope of contestable work.
- 3.72 Live jointing to LV underground radial mains was formally transferred to a contestable activity on 26 October 2012. UKPN states that this has "facilitated significant volumes of live jointing work to now be completed by ICPs particularly in respect of Highway Services connections."
- 3.73 UKPN states that it did not extend contestability relating to LV live jointing to its LPN "normally interconnected networks". UKPN says this refers to a small proportion of

the LPN network in central London where additional operational work is required prior to carrying out any live jointing. UKPN recognises that ICPs wish to compete in that area and states that it is exploring “options to provide a ‘fusing and linking’ (ie ‘operational activities’) service that would allow live jointing to become contestable in this area.”

- 3.74 UKPN reports on various pilot projects to extend contestability to other areas. These include pilot projects on -
- Part funded reinforcement. UKPN has agreed with an ICP to carry out a pilot to include part funded reinforcement work.
 - LV point of connection design. This has been set up with a specific ICP and others have been invited to take part. Under the pilot, competitors will propose the point of connection and the design of the extension asset.
 - Standard designs. A pilot with a specific ICP whereby if the ICP submits a standard design for approval, the approval process will be simplified as a significant part of the design will have previously been approved.
- 3.75 UKPN has stated that it has also developed pilots for HV final connections, concerning jointing of new high voltage cables to the existing UKPN high voltage network. Pilots have been available to ICPs since September 2012. UKPN has reported that, so far, only one ICP has joined this pilot. UKPN stated in its Competition Notices that it aims to submit an application to Ofgem in May 2013 to allow ICPs to carry out HV jointing to existing mains. UKPN has since told us that this application was submitted on 2 July 2013, for implementation “later in July”.
- 3.76 UKPN said that it has received interest from some competitors in making new connections to LV overground mains contestable, and that it will consider whether, in principle, it is appropriate to organise a pilot covering this activity.
- 3.77 UKPN has stated that it has informed stakeholders that it is prepared to consider offering those elements of contestable work that alternative providers do not wish to provide. UKPN has started with the design of non-standard substations following feedback from competitors. UKPN also allows for split contestability in relation to network extension design and specialist minor works (eg the installation of metering current transformers and remote control/automation equipment).
- 3.78 The response of UCCG to our consultation highlighted UKPN’s policy of not allowing ICPs to carry out live jointing to its LV network in parts of the LPN area. According to UCCG members, this means that competitive alternatives to UKPN “do not exist in these areas”. In response to this comment, UKPN told us that “we have recently revised our policy to enable us to develop a ‘linking and fusing’ service to enable ICPs to carry out live jointing to the LPN interconnected network at a future date.”

Our conclusions

- 3.79 In making our determination we have taken account of all the evidence that has been provided by UKPN and the views expressed in response to our consultation.
- 3.80 We note that UKPN has taken steps to facilitate the development of competition across all RMSs in its area. We also note that a significant number of alternative providers (ICPs and IDNOs) are active in each of the RMSs and DSAs.
- 3.81 Respondents to our consultation highlighted a number of areas in which UKPN’s efforts have succeeded in removing potential barriers to competition -

- Most respondents (12 out of 16) stated that customers were aware that competitive alternatives exist.
- Three respondents appreciated the quality of technical information provided by UKPN for ICPs and IDNOs on its website.
- Four respondents were satisfied with UKPN's steps in facilitating the process of obtaining land rights.

3.82 Although some respondents to our consultation were positive and supported UKPN's approach, others considered that a number of problems still remain -

- Some raised concerns about the level of detail provided by UKPN in its quotes for non-contestable services. UKPN told us that it is taking steps to ensure that these concerns are resolved.
- UKPN is currently operating a pilot scheme for convertible quotes in the Metered HV Demand RMS. UKPN told us that, following the pilot scheme, it is planning to implement convertible quotes in the Metered Demand HV RMS in parts of the EPN area by 31 July 2013 and in the LPN area by 31 August 2013. Some respondents raised concerns about the extent to which the convertible quote pilot scheme made it easier for customers to choose alternative providers.
- Some respondents felt that UKPN's processes do not deal with ICP's and IDNO's requests promptly (eg in approving designs), leading to delays which affect the ability of these providers to compete with UKPN.
- Some respondents claimed that UKPN's policies led to the duplication of some costs to ICPs working in the UKPN area. One provided an example of the need for two Senior Authorised Persons (SAPs) to be present at a site of a new connection. UKPN since told us that it will change its policy so that only one SAP needed to be present, and the cost of providing that SAP would be included in the charge for non-contestable works.
- Respondents felt that UKPN's refusal to allow alternative providers to complete live jointing to its LV network in parts of the LPN area meant that there is no competition in these areas. This affects the UMC LA and UMC Other segments directly.

3.83 In the Metered Demand HV RMS, we see that competitors have won around a fifth by volume and a third by value of the projects in the 12 months to March 2013. Although data provided by UKPN shows that competitors are successful in both small and large projects by load, a comparison of the average loads of projects won by ICPs/IDNOs and by UKPN suggests that alternative providers have tended, on average, to win bigger projects, while UKPN has tended to carry out smaller projects. We believe that competitors have been successful in this RMS, and the steps already taken by UKPN are likely to ensure that they will continue to be successful, particularly for larger projects. However, we think there is room for improvement. For example, respondents to our consultation said that customers are likely to benefit if they are able to convert every Section 16 quote issued by UKPN into a "non-contestable works only" quote without the risk of delaying their connections.

3.84 Although UKPN has introduced a pilot scheme for convertible quotes, we note that UKPN's current plans do not include a full rollout of convertible quotes across all DSAs. We note that respondents to our consultation have raised concerns about UKPN's business processes. In particular, several respondents pointed to a perception amongst customers that opting for a competitive alternative to UKPN could cause their connection to be delayed. As long as these issues remain, we do not think that customers, particularly those requiring lower value connections, would

see the full benefits of competition. On balance, we think price regulation should not be lifted in this RMS in any DSA.

- 3.85 The Metered Demand HV and EHV RMS and Demand EHV and above RMS are both characterised by relatively low numbers of high value/load projects. We have seen evidence that UKPN faces competition from ICPs/IDNOs for work in these segments. We also consider that customers in these segments are likely to be aware of competitive options and are willing to seek and accept quotes from alternative providers. The steps already taken by UKPN are likely to be sufficient to allow competition to grow in these RMSs. We think that the higher values of projects in these RMSs means that the problems identified by respondents to our consultation are less likely to act as barriers to competition. As a result, we are satisfied that customers' interests will be protected by competition in the absence of price regulation in both RMSs in all three DSAs.
- 3.86 The Distributed Generation Low Voltage RMS is characterised by a small number of low value projects. We note that competitors have requested quotes for, and won, work across a range of capacities (30 kVA to 170 kVA). However, the low volume of work in this RMS limits our ability to draw firm conclusions from the market share information provided on the extent to which there is effective competition. Four respondents to our consultation are relevant to this RMS. Three out of these did not believe that customers would be protected if price regulation is lifted, although their comments were not specific to the DG LV RMS alone.
- 3.87 We have considered the extent to which customers in this segment have choice and whether there are any barriers to competition. Whilst we are satisfied that UKPN has taken steps to promote competition across all RMSs, including this segment, we also note that they have not yet made convertible quotes available to customers in this RMS. As we state above, we are concerned that any perception that there may be additional delays associated with using competitive alternative, may deter certain customers – particularly those requiring lower value connections.
- 3.88 We also remain concerned that the small volumes and low values of projects in this RMS may not be attractive to competitors and we note that one of the four respondents raised this concern. As such, and on the balance of available evidence, we are not convinced that competition has developed to the extent that customers' interests would be protected in the absence of price regulation.
- 3.89 In the Unmetered Local Authority RMS, UKPN's share of the market is around 80 per cent in EPN and LPN, and 35 per cent in SPN. We note the steps that UKPN has taken to promote competition in this RMS. We also note that, by and large, respondents to our consultation have been positive about UKPN's efforts in this RMS in the EPN and SPN areas. However, we remain concerned that UKPN's policy of not allowing live jointing by ICPs in some small parts of the LPN area acts as a barrier to competition in that area, even if this is justified on technical grounds. We note that UKPN plans to introduce a "linking and fusing" service instead, but we would need to see the impact of this before coming to a view on whether this is sufficient. We are not convinced as things stand that competition will protect the interests of all customers in the LPN area in the absence of price regulation. The issue does not arise in the EPN and SPN areas. We are satisfied that customers' interests will be protected by competition in this RMS in the EPN and SPN DSAs only.
- 3.90 In the Unmetered Other RMS, UKPN's share of the market is 49 per cent in EPN, 63 per cent in LPN and 90 per cent in SPN. We note that UKPN has signed agreements with a number of customers in this RMS, enabling them to use the services of several ICPs. We consider that the steps taken by UKPN would benefit repeat customers with multiple requirements, but they would not necessarily help those

that require one-off services such as a single connection or disconnection. As a result, we are not satisfied that customers requiring these types of ad hoc services enjoy the same level of choice as repeat customers. As with the Unmetered LA RMS, we are also concerned that UKPN's policy of not allowing live jointing by ICPs in a small part of the LPN area acts as a barrier to competition in that area, even if this is justified on technical grounds. We are, therefore, not satisfied that competition will protect the interests of all customers who require services that fall within this RMS in the absence of price regulation.

4 Next steps

For RMSs where the Competition Test has been satisfied

- 4.1 From the date of our determination 15 August 2013, we will no longer regulate the prices UKPN may charge in respect of any contestable connection services (fully funded by the customer)¹¹ in the following RMSs -
- Metered demand connections – high voltage and extra high voltage work in all three DSAs
 - Metered demand connections – extra high voltage and above work in all three DSAs
 - Unmetered connections – Local Authority work in the EPN and SPN DSAs only
- 4.2 In respect of these RMSs, UKPN will submit to us annually a report explaining any changes that have occurred in the RMSs since the date of the determination.
- 4.3 We reiterate that, as part of our ongoing work, we have a general duty to keep the electricity market under review and we will take seriously any breach of competition law and/or licence obligations.

For RMSs where the Competition Test has not been satisfied

- 4.4 We will continue to regulate the price UKPN charges in respect of all of the connections services it provides in these RMSs. In respect of contestable connections services (fully funded by the customer), this means that UKPN may continue to charge the regulated margin (fixed at four per cent) allowed by Charge Restriction Condition (CRC) 12.
- 4.5 UKPN may reapply to have price regulation lifted by providing us with further Competition Notices. It can do this at any time from four months after the date of our determination and up to 31 December 2013. We would encourage UKPN, and any other DNOs considering making an application, to consider carefully the reasons for our decisions provided in this document.

¹¹ Under the DNOs connection charging methodologies, connections work that is defined as 'reinforcement' or is over and above the minimum scheme may be part funded by the customer and the company.

Appendix 1 – Responses to our consultation on UKPN’s 19 April 2013 Competition Notice

- 1.1 On 20 May 2013 we issued a consultation seeking views from interested parties on UKPN’s Competition Notice. This consultation and the 13 non-confidential responses we received have been published on our website. We also received three confidential responses.
- 1.2 Table 4 lists the 16 respondents together with the relevant market segments to which their response relates.

Table 7 Respondents to consultation

Respondent	Distribution Service Areas	Relevant market segments
Berkeley Homes	SPN	DG LV
Bouygues E&S Infrastructure UK	EPN, LPN, SPN	UMC LA UMC Other
GTC	EPN, LPN, SPN	Metered Demand HV Metered Demand HV/EHV Metered Demand EHV and above
Harlaxton Engineering Services	EPN, LPN, SPN	Metered Demand HV Metered Demand HV/EHV Metered Demand EHV and above
London Square	LPN	Metered Demand HV
Luton Borough Council	EPN	UMC LA
Metered Connections Customer Group (MCCG)	EPN, LPN, SPN	Metered Demand HV Metered Demand HV/EHV Metered Demand EHV and above
Power On Connections	EPN, LPN, SPN	Metered Demand HV Metered Demand HV/EHV Metered Demand EHV and above
Premier Energy Services	EPN, LPN, SPN	Metered Demand HV Metered Demand

		HV/EHV DG LV UMC Other
Standard Life Investments	EPN, LPN, SPN	Metered Demand HV (LPN only) DG LV UMC Other
Suffolk County Council	EPN	UMC LA
Thames Water	EPN, LPN, SPN	Metered Demand HV Metered Demand HV/EHV DG LV UMC Other
Unmetered Connections Customer Group (UCCG)	EPN, LPN, SPN	UMC LA UMC Other
Confidential 1		
Confidential 2		
Confidential 3		

1.3 In reaching our decision, we considered all of the stakeholder responses and we have set out our views in the main body of this document. This appendix is our summary of the main issues raised by stakeholders. We consider each stakeholder's response in turn.

Berkeley Homes

1.4 Berkeley Homes is a connections customer, and its response relates to the SPN area and the Distributed Generation Low Voltage RMS (DGLV).

1.5 Berkeley Homes makes the following points in its response:

- Customers are aware of competitive alternatives to UKPN, and have effective choice particularly for larger sites.
- Competition has benefitted customers on multi-utility sites, and has led to improvements in UKPN's service, which is very good.
- UKPN makes it clear to customers that competitive alternatives are available to them.
- UKPN quotations are clear and transparent.
- UKPN's processes are good, and they have not encountered any problems. It is easier to go with UKPN than a competitor.
- UKPN's charges for non-contestable work are consistent with those in competitive quotations, but they are "at the higher end of the scale".

- Price regulation does provide protection to customers, but its removal “will make the host [UKPN] more competitive”.

Bouygues Energie & Services (BYES)

- 1.6 The BYES response relates to the unmetered local authority (UMC LA) and the unmetered other (UMC Other) RMSs in all three UKPN DSAs.
- 1.7 The respondent is generally positive about UKPN’s efforts to support competition, and believes that customers do have effective choice. Overall, BYES considers that Ofgem can have confidence in UKPN to behave appropriately if price regulation is lifted.

GTC

- 1.8 The response received from GTC is also made on behalf of The Electricity Network Company Limited (ENC) and Independent Power Networks Limited (IPNL). For simplicity, in this section, we refer to GTC alone as the relevant respondent.
- 1.9 The response relates to all three metered demand RMSs in all three UKPN DSAs.
- 1.10 The response makes the following points:
- Customers are aware of competitive alternatives to UKPN. However, customers have a perception that using an alternative to UKPN would entail a “long winded process to achieve design approval and non-contestable work carried out by the DNO.”
 - UKPN does inform customers about the availability of competitive alternatives, but customers’ effective choice is “diminished due to [UKPN’s] behaviour”. An issue is the fact that convertible quotes cannot be used for an IDNO solution.
 - Although UKPN has improved the clarity of its quotations, a large proportion of the connection charge is labelled as “miscellaneous”.
 - UKPN has made good progress on the issue of legal processes for land rights and bilateral connection agreements (BCAs). However, there is still “some work to do” on the issues of self service design and final connections.
 - The response states that “[b] ecause UKPN still control the timescale for quotation, design approval and final connection it is difficult for competitors to improve on what UKPN can offer to the customers.” This is seen as a barrier to the growth of competition in the UKPN areas. The issue of self connect is seen as key to removing this barrier.
 - GTC believes that the lifting of price regulation would not benefit customers until “competitors can offer the same service in a timescale that they are truly in control of”.
- 1.11 Overall, GTC does not support the lifting of price regulation until competitors are able to offer better service and price to the customer.

Metered Connections Customer Group (MCCG)

- 1.12 The response from the MCCG relates to all three metered demand RMSs in all three UKPN DSAs. Much of the text in MCCG’s response is also contained within the responses submitted by the Power On Connections and Harlaxton Engineering Services.

- 1.13 The MCCG does not support UKPN's application to have price regulation removed in any of the metered demand RMSs in any DSA. The response states that although UKPN's "senior management team are leading the organisation in the right direction we believe at this time that it is too early to lift price regulation".
- 1.14 The response makes the following specific points:
- Repeat business customers are aware of competitive alternatives to UKPN, although there is reluctance amongst some customers to "take a chance with an ICP/IDNO particularly if they value certainty on delivery".
 - The response notes that UKPN has started a pilot scheme to introduce "convertible" quotes. However, there are three "major problems" in relation to this initiative, which could hamper the ability of customers to choose alternative providers:
 - The customer has to ask for a convertible quote "from the outset". The response states that "in order to give the customer real choice it would appear more sensible to offer the convertible quotation by default when asked for a S16 connection offer".
 - Convertible quotes cannot be converted to allow the network to be adopted by an IDNO.
 - UKPN responds to the requests for convertible quotes under the timescale of S16 quotes, which according to the response, hampers the ability of customers to then consider alternative providers to deliver the contestable parts of the work. The response suggests it would be preferable if UKPN were to provide quotes in two stages: first, for the non-contestable elements within the section 15 timescale, and second to provide combined quote for all elements at a later stage, within the section 16 timescale. The response notes that this may be burdensome for UKPN, but adds that this may bring an end to the practice of "well informed customers" of applying for an SLC15 and S16 quote at the same time.
 - The response highlights the issue caused by the "2nd comer" rule under the Electricity Connection Charging Regulations (ECCR). Under this rule, some connectees may be eligible for a partial refund of connections charges paid by it if subsequent connectees benefit from assets paid for through those charges. According to the response, these refunds are not available where the initial connection works were carried out by an ICP. This makes an ICP less attractive to customers. This issue is not specific to UKPN, but the respondent believes that UKPN could have done more to mitigate the negative effects of the 2nd comer rule on competition.
 - UKPN has made good progress in the quality of information provided on its website. The availability of information on technical standards is "best in class" and has made it "easier for new entrants to join the market". However, the respondent believes that UKPN could do more to alleviate the concerns of customers about using competitive alternatives where certainty of delivery is an issue.
 - Although UKPN has improved in the clarity and transparency of its quotes, a large proportion of the connection charge "in excess of 50% in some instances is lumped in as 'miscellaneous'". The response encloses examples of such quotes; we note that the examples provided are of breakdowns of non-contestable charges.
 - The response highlights the experience of one unnamed MCCG member in relation to the location of the point of connection (POC). According to the

response, POCs provided by UKPN under SLC15 "have subsequently changed or the position moved (at the expense of the ICP)".

- The response states that "UKPN are continuing to provide quotations that are denoted as Provisional Prices, even though they are full Section 16 quotes". This makes it difficult for customers to "make informed decisions".
- The response points out that ICPs and IDNOs incur higher levels of costs if they complete the final connection instead of UKPN because of "extra hoops that need to be jumped through to enable the ICP/IDNO to do the connection". MCCG members believe that allowing ICPs/IDNO to carry out "Connections and Operations Activity to complete Self Connect using a process that does not add superfluous levels of auditing and costs (to the ICP/IDNO) will help improve their ability to increase their market share".
- The response states that MCCG members believe that both customers and competitors would be adversely affected if price regulation were lifted. One MCCG member operating in the DG HV segment considered that UKPN's service prior to the lifting of price regulation in that RMS (in October 2012) "was better than it is now".

1.15 The response states that UKPN "are going in the right direction" but that there remain a number of issues. MCCG members therefore believe that price regulation should be lifted "if and only if it means that they are able to compete on a like for like basis with UKPN." The MCCG members do not believe that this is the case.

1.16 The MCCG response also makes several additional points that were not covered in the consultation response format. Amongst other things, MCCG highlighted the difficulties faced by ICPs in the LPN area which are mainly due to "barriers being set in place by UKPN staff". The response also notes that some ICPs have "expressed quiet satisfaction in working with" UKPN in the SPN and EPN areas.

Power On Connections

1.17 Power On Connections (POC) is an ICP. Its response relates to all three metered demand RMSs in all three UKPN DSAs.

1.18 Much of the text in POC's response is also contained within the responses submitted by the MCCG and Harlaxton Engineering Services. The issues raised in POC's response have been covered in the summary of MCCG's response, and are not repeated here.

1.19 POC does not support UKPN's application to have price regulation removed in any of the metered demand RMSs in any DSA.

Harlaxton Engineering Services Ltd

1.20 Harlaxton Engineering Services Ltd (HES) is an ICP, and its response relates to all three metered demand RMSs in each of the DSAs. The text in HES's response is almost identical to that submitted by MCCG. The issues raised in HES's response have been covered in the summary of MCCG's response, and are not repeated here.

1.21 HES does not support UKPN's application in any of the metered demand RMSs.

Unmetered Connections Customer Group (UCCG)

1.22 The UCCG response reports a summary of the views of its members, and includes information collected through an online survey. The response covers the unmetered local authority (UMC LA) and unmetered other (UMC Other) RMSs in all three DSAs.

- 1.23 UCCG members do not have confidence that UKPN would operate appropriately if price controls are lifted. They make the following points:
- Most customers are aware of competitive alternatives to UKPN. However, the restrictions placed by UKPN on ICP activity in the LPN area are seen as a problem.
 - Whereas half the respondents to UCCG's survey believe that they have benefitted from competition in the UKPN areas, the other half stated that they have not benefitted. Half the respondents also consider that UKPN do not meet the connections guaranteed standards of performance (GSoP).
 - Most respondents believed that UKPN processes are "top heavy, bureaucratic and legally biased in favour of UKPN", and support this view with a few examples. These include the insistence of UKPN on a "particular type of Asset Owner Agreement for ICP activity", "flat audit regimes of 20% or 25%" on ICP activity, and aspects of UKPN's technical policy particularly in respect of the imposition of a 2kW limit on the NMO Guidance on unmetered connections.

Luton Borough Council

- 1.24 Luton Council's response relates to the unmetered local authority (UMC LA) RMS in the EPN DSA.
- 1.25 The response is positive about UKPN's application, and considers that UKPN will act appropriately if price regulation is lifted. The response notes that although UKPN enjoys a large market share currently (82 per cent), this is not due to barriers caused by UKPN, rather it may be due to the lack of trained personnel available to competitors.

Suffolk County Council

- 1.26 Suffolk Council's response relates to the unmetered local authority (UMC LA) RMS in the EPN DSA.
- 1.27 The response supports UKPN's application, and considers that UKPN will behave appropriately if price regulation is lifted.

Thames Water

- 1.28 Thames Water's response relates to all three metered demand RMSs and the DG LV RMS in all three DSAs.
- 1.29 Thames Water believes that "levels of value to customers" would not be sufficiently protected if price regulation is lifted. This is not because UKPN would act inappropriately, but because customers do not have sufficient faith in the level of service provided by competitive alternatives. The response highlights a perception that going with a competitive alternative to UKPN would lead to delays in the connection process.

Standard Life Investments

- 1.30 Standard Life's response relates to the Metered Demand HV RMS in the LPN DSA and to the DG LV and unmetered other (UMC Other) RMSs in all three DSAs.
- 1.31 According to the response, Standard Life is aware of competitive alternatives to UKPN and has used such alternatives in two occasions in the recent past. Each time they have chosen to look for alternatives to UKPN, they have been able to obtain at least two competing quotes.

- 1.32 The response is appreciative of UKPN's website and leaflets on competition in connections, and considers that their quotations are clear and unambiguous.
- 1.33 Overall the respondent believes that removing price regulation would improve the service for customers. However, the response states that "price regulation must stay for other reasons".

London Square

- 1.34 London Square is a connections customer (developer), and its response relates to the LPN area and the Metered Demand HV RMS.
- 1.35 London Square makes the following points in its response:
- The margin being charged by UKPN currently is too high in their view.
 - Competition in the RMS could grow if UKPN became "quicker and more transparent". UKPN is "not very prompt".
 - It is not always easy to find alternative quotes to UKPN, due to "regulations". Customers do not have an effective choice of connections provider.
 - Customers have benefitted from competition, and the level of service available to customers has increased. They agree with the statement that the current levels of competition show that there is potential for further competition to develop.

Premier Energy Services

- 1.36 Premier Energy is a company that provides advice and assistance to customers requiring new connections to the distribution network. Its response relates to the Metered Demand HV, Metered Demand HV and EHV, Distributed Generation LV (DGLV) and Unmetered Other (UMC Other) RMSs.
- 1.37 The response makes the following points:
- Premier Energy is fully aware of alternatives to UKPN, although for certain projects UKPN may be the only provider willing to quote.
 - UKPN quotations could be "more transparent" and Premier Energy has "to ask questions to be able to make comparisons" with other providers.
 - UKPN quotations are sometimes "Provisional" and subject to change.
 - Alternatives to UKPN are not necessarily better.
 - UKPN is process-driven and "they forget about customer service". This makes it difficult for ICPs and IDNOs to work in their areas.
 - Some types of connections are not attractive to competition. These include "small services, temporary builder supplies, small sites".
 - The LPN area is more expensive to work in due to lane rental charges and other local authority charges. This makes the LPN area unattractive for competitors, particularly for single connections.
 - Customers' interests would not be protected if Ofgem lifted price regulation, and that prices would rise as a result.

A consultant (confidential response)

- 1.38 This response is marked as "confidential".
- 1.39 The respondent is in "full agreement" with the response submitted by the MCCG.

- 1.40 The respondent draws particular attention to the 2nd comer rule, and how this affects the ability of an ICP to compete. This point is covered in more detail in other responses (particularly the MCCG response).

A consultant (confidential response)

- 1.41 The respondent has requested that the response be kept confidential. The response relates to all three metered demand RMSs in all three DSAs.
- 1.42 The response states that customers are generally aware that competitive alternatives exist, but that the level of awareness varies.
- 1.43 Customers are able to choose alternatives, but this ability is restricted by UKPN's record of providing applicants with information that is "unreliable at best and completely incorrect at worst".
- 1.44 In relation to the transparency of quotations, the response states that the "non-contestable breakdown in a full S16 [that is, an all works quote] differs to the breakdown in a SLC15 offer [that is, a non-contestable works only offer]". Also, the response states that the "SLC15 [quote] has too many 'lumpy' numbers with little or no transparency".
- 1.45 UKPN's processes are seen as a barrier to entry by ICPs, particularly in terms of customer service and timelines for issuing quotations and energising final connections.
- 1.46 The response states that, although customers do have a choice of alternative providers, they are reluctant to go for them particularly if they need "certainty of delivery".
- 1.47 According to the response, customers in the "DG EHV market segment" that was deregulated by Ofgem in October 2012 now receive a "poorer service" compared to what they received prior to October 2012.
- 1.48 The technical standards information that UKPN provides is good, according to the response.
- 1.49 Overall, the response does not support UKPN's application.

An ICP (confidential response)

- 1.50 The response relates to all three DSAs but does not state which RMSs it covers.
- 1.51 The respondent states that "from their experience UKPN appear to be implementing more procedures than other DNOs to make it easier for ICPs to compete in their areas, however, their performance in the execution of these procedures leaves them, [...] the most difficult DNO to compete with".
- 1.52 With regard to the approval of the design for connections, the response states that:
- 1.53 "G81 information is available to help complete design but full details of specific design issues and constraints are not provided". On this point, the response states "there is always a level of interpretation by UKPN which can never be second guessed leading to the design approval process being protracted". A specific reference is made to impossibility of getting all relevant information for EHV designs and of the "woeful" response times in dealing with questions.

- 1.54 UKPN is not proactive in dealing with issues that arise before design approval, and that "designs are failed at the last minute for reasons that could easily be resolved by contact from UKPN to discuss, these are mostly minor issues but are used to stop the clock making even the most basic design almost impossible to get approved within 10 days".
- 1.55 There are inconsistencies between UKPN designers in the information required which makes it difficult to have confidence that a "design will be accepted without including more information [than] is actually required".
- 1.56 In relation to site inspections, the response states that the site audits carried out by UKPN take place one or two days prior to connection giving little time for identified defects to be rectified, which results in the "connection getting postponed in a large number of cases".
- 1.57 With regard to final connections, the response states that UKPN consistently meets SLC 15 timescales; it adds the comment that there is a "feeling that the date we get are as close to SLC 15 timescales as possible".
- 1.58 With regard to legal processes, the survey finds that UKPN does not have good procedures for dealing with legal issues in an efficient manner.
- 1.59 Overall, the response does not support UKPN's application.