RWE npower renewables

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Submitted via email to:
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RWE npower renewables, Regulation & Policy

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Swindon, 7th November 2013

RE: Consultation on SPEN's Competition Notice

Dear James,

RWE n-power renewables appreciates the opportunity to respond to this consultation regarding SPEN's Competition Notice. RWE npower renewables is one of the UK's largest renewable energy developers and operators. As a customer within the SPD and SPManweb areas of operation we have an interest in the outcomes of this consultation. We have successfully built a number of wind farms and hydro schemes with SPEN's areas. We want to have access to high quality good value connection services for our Distributed Generation projects which connect to the High/ Extra High Voltage network.

We agree with Ofgem's view that open competition can deliver what customers need in terms of connections more effectively than regulation. We are pleased to see in Ofgem annual report on distribution that overall national market penetration by IDNOs and ICPs is on a gradual increase. How to time deregulation is a very critical, challenging question. The evidence presented by SPEN is more thorough and covers a longer time period than the analysis of most DNOs, yet the penetration of competitors in delivering HV-EHV connections appears far too low to convince us that price control regulation of the HV-EHV DG connections should be lifted at this time. The nature of large scale renewable business – high value, infrequent projects makes it difficult for us to observe trends. We have noted that SPEN appear to be doing the right things to facilitate competitive choices being available. Our response also sets out some generic factors that we think prevail in acting as a barrier to the expansion of competition across all DNO areas.

The completed response table is appended below.

Best Regards,

Fruzsina

Fruzsina Kemenes
Regulation & Policy Manager

Each of the questions asked by this consultation is set out in the template below. ***Note that an editable version of this response template is available on our website as an associated document to this consultation.*** *If you do not wish to use our response template, please ensure that you indicate the RMS and DSA to which your experiences relate.*

When considering your responses to these questions, please consider your experiences, the actions that SPEN has undertaken and the actions that you consider it could reasonably undertake.

Please check the RMS and DSAs that are relevant to you in the table below.

RMS	SP Distribution Ltd (SPD)	SP Manweb plc (SPM)
1. Metered low voltage work (LV)	☐	☐
2. Metered high voltage work (HV)	☐	☐
3. Metered HV and Extra High Voltage (EHV) work	☐	☐
4. Metered EHV and above work	☐	☐
5 Distributed Generation (DG) Low Voltage (LV) work	☐	☒
6Distributed Generation (DG) HV and EHV voltage work	☒	☒
7. Unmetered local authority (LA) work	☐	☐
8. Unmetered PFI work	☐	☐
9. Unmetered Other	☐	☐

When answering the questions below, please check the RMS(s) and DSA(s) that are relevant to your response.

Chapter Two

Question	RMS(s)	DSA(s)	Response
One: Are customers aware that competitive alternatives exist?	Metered LV ☐ Metered HV ☐ Metered HV/EHV ☐	SPD ☒ SPM ☒	Yes we are aware of available options via the Lloyds register.

Question	RMS(s)		DSA(s)		Response
	Metered EHV & above	☐			
	DG LV	☐			
	DG HV/EHV	☒			
	Unmetered (LA)	☐			
	Unmetered PFI	☐			
	Unmetered (Other)	☐			
Two: Do customers have effective choice (ie are customers easily able to seek alternative quotations)?	Metered LV	☐	SPD	☒	Customers can of course contact ICPs or IDNOs for alternative quotations for DG related connections. However, in all DNO areas there are still certain factors that mean that we don't feel we have an *effective* choice as a DG customer (particularly for larger more complex projects). The availability of competition is not the only factor that a developer will consider when deciding whether to use an ICP. Based on our broad experience across the UK there are a range of factors which may deter DG developers from choosing to use an ICP. I) DNOs have deemed planning permission for performing works/wayleaving rights which an ICP would not have. These rights significantly reduce risk to the developer. II) The hassle and expense of having to manage two parties rather than one. This is particularly important where we need to make technical or timing changes (e.g. as a result of planning constraints). III) The perceived competency of the potential ICPs in relation to the scale and type of connection for the project in question as well as their experience of working with the incumbent DNO would be equally important. ICPs are still an unknown quantity for many customers, DNOs have a natural advantage
	Metered HV	☐	SPM	☒	
	Metered HV/EHV	☐			
	Metered EHV & above	☐			
	DG LV	☐			
	DG HV/EHV	☒			
	Unmetered (LA)	☐			
	Unmetered PFI	☐			
	Unmetered (Other)	☐			

Question	RMS(s)		DSA(s)		Response
					of being familiar.
Three: Does SPEN take appropriate measures to ensure that customers are aware of the competitive alternatives available to them?	Metered LV Metered HV Metered HV/EHV Metered EHV & above DG LV DG HV/EHV Unmetered (LA) Unmetered PFI Unmetered (Other)	☐ ☐ ☐ ☐ ☐ ☒ ☐ ☐ ☐	SPD SPM	☒ ☒	Broadly speaking yes. The ‘Competition in Connections’ pages are easy to find from the general ‘Connecting to our network’ page. The pages are informative and provide a lot of detail and are presented in an accessible way (useful tabs). The link to the Lloyds Register is easily found and the process of application and what elements of work are contestable in the SPEN areas are available. ‘Competition in Connections’ may not be an intuitive page header for less experienced customers. SPEN could rename as “choosing an independent provider”. Another suggested improvement would be to have the option of “choosing an independent provider” flagged directly on the SPEN ‘Connecting Distributed Generation’ pages.
Four: Are quotations provided by SPEN clear and transparent? Do they enable customers to make informed decisions whether to accept or reject a quote?	Metered LV Metered HV Metered HV/EHV Metered EHV & above DG LV DG HV/EHV Unmetered (LA)	☐ ☐ ☐ ☐ ☐ ☒ ☐	SPD SPM	☒ ☒	Quotes provided are clear, transparent and SPEN automatically provide a breakdown of assets and costs which is essential for customers to make an informed decision. The breakdown is provided even where there is interactivity. SPEN provides a good level of breakdown in comparison to other DNOs. The main improvement we could ask for is that the Adoption fees that the customer has to pay for the DNO to witness the ICP/IDNO works are clearly stated as a line item in the offers. SPEN could also improve the general format of presenting both contestable and full-works quotes – they can be unclear to follow.

Question	RMS(s)		DSA(s)		Response
	Unmetered PFI Unmetered (Other)	☐ ☐			The SPEN connection application process is better than that of most DNOs in terms of facilitating the comparison of DNO and ICP quotes. It is helpful as on request the customer can obtain both the contestable and the full works quotes via a single application process. The customer has a reasonable amount of time (3 months) to then consider the offers and respond to SPEN. We cannot comment on the convertible quote process from experience (2.19 of the consultation). In principle it sounds very helpful.
Five: Have customers benefitted from competition? Have they seen improvements in SPEN's price or service quality or have they been able to source a superior service or better price from SPEN's competitors?	Metered LV Metered HV Metered HV/EHV Metered EHV & above DG LV DG HV/EHV Unmetered (LA) Unmetered PFI Unmetered (Other)	☐ ☐ ☐ ☐ ☐ ☒ ☐ ☐ ☐	SPD SPM	☒ ☒	RWE npower renewables have not contracted any ICPs or IDNOs in the SPEN area. Therefore we cannot report any direct benefit. As for indirect benefits, the nature of our business (large scale renewables) is such that new connection works are relatively rare (high value infrequent projects). I.e. in the last three years we have started one new project, and only have a couple on-going. Therefore it is difficult to notice 'trends'. This is true not just for SPEN but all DNO areas. It is impossible for us to attribute any changes in SPEN's behaviour to the existence of potential competitors.

Chapter Three

Question	RMS(S)		DSA(S)		Response
One: Does the level of competitive activity in the	Metered LV	☐	SPD	☐	No Comment.

Question	RMS(S)		DSA(S)		Response
RMSs show that there is the potential for further competition to develop?	Metered HV Metered HV/EHV Metered EHV & above DG LV DG HV/EHV Unmetered (LA) Unmetered PFI Unmetered (Other)	☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐	SPM	☐	
Two: Consider the organisational structure of SPEN's business and its procedures and processes – **(a)** how do they compare to those you encounter elsewhere in the gas and electricity markets or other industries? Do they reflect best practice? **(b)** do they enable competitors to compete with the timescales for connection (from quote to energisation) offered by SPEN? Or do they offer SPEN any inherent advantage over its	Metered LV Metered HV Metered HV/EHV Metered EHV & above DG LV DG HV/EHV Unmetered (LA) Unmetered PFI Unmetered (Other)	☐ ☐ ☐ ☐ ☐ ☒ ☐ ☐ ☐	SPD SPM	☒ ☒	Comments on Processes listed at the end of Ch 2 Q Four.

Question	RMS(S)	DSA(S)	Response
competitors or prevent existing competitors from competing with them effectively? **(c)** do they assist, obstruct or delay connections providers entering the RMSs?			
Three: Are the non-contestable charges levied by SPEN for statutory connections in the RMSs consistent with those levied for competitive quotations? Are they easily comparable with competitive quotations?	Metered LV ☐ Metered HV ☐ Metered HV/EHV ☐ Metered EHV & above ☐ DG LV ☐ DG HV/EHV ☒ Unmetered (LA) ☐ Unmetered PFI ☐ Unmetered (Other) ☐	SPD ☒ SPM ☒	The charges are generally consistent. However, there are a couple of barriers to a DG customer opting for the ICP quote (which are typical across DNOs not just SPEN). High cost, non-transparent Adoption fees that the customer has to pay for the DNO to witness the ICP/IDNO works. The non-contestable and the full works quotes are sometimes developed independently (two separate authors) – this means that not all the details are the same across the quotes (whereas they clearly should be for the same job).

Question	RMS(S)		DSA(S)		Response
Four: What factors are key influences on development of competition in the RMSs? In particular, if you are an existing/potential competitor **(a)** what is the potential for you to enter new RMSs, or grow your share of an RMS you already operate in? **(b)** are there are any types of connection in any of the RMSs, or geographic locations in SPEN's DSAs, that by their nature, are not attractive to competition? Please explain your response.	Metered LV Metered HV Metered HV/EHV Metered EHV & above DG LV DG HV/EHV Unmetered (LA) Unmetered PFI Unmetered (Other)	☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐	SPD SPM	☐ ☐	No Comment.

Chapter Four

Question	RMS(S)		DSA(S)		Response
One: Do you agree with the methods used by SPEN to analyse the level of competition in each of the RMSs covered by its application? In particular, do you consider that SPEN gives a clear indication of the current level of competitive activity?	Metered LV Metered HV Metered HV/EHV Metered EHV & above DG LV DG HV/EHV Unmetered (LA) Unmetered PFI Unmetered (Other)	☐ ☐ ☐ ☐ ☐ ☒ ☐ ☐ ☐	SPD SPM	☒ ☒	SPEN's approach of presenting quantitative data on competition and the results of a customer survey presents quite a clear picture on the levels of competition in their area. SPEN's evidence gathering covers a much longer time period than other DNOs – 3 years in comparison to some that only provided a snapshot of one year. The longer the period of the study, the better indication we can obtain for assessing changes in their patch. SPEN provide a useful breakdown by market segment, so it was easy to understand the stats relevant to DG HV/EHV. Indicators covered are quite comprehensive – it would be interesting to understand how many active competitors are providing and winning quotes for each market segment.
Two: Do you consider that competitive activity is at a level that in itself indicates that effective competition exists?	Metered LV Metered HV Metered HV/EHV Metered EHV & above DG LV DG HV/EHV Unmetered (LA) Unmetered PFI	☐ ☐ ☐ ☐ ☐ ☒ ☐ ☐	SPD SPM	☒ ☒	No. The statistics show that there is no significant competitor activity either in the offer of quotes or the acceptance. It is lower than what we have seen in the evidence base provided by other DNOs. It seems clear that SPEN holds a dominant position e.g. for 2012/13 SPD operates as an incumbent with a market share by value of 96% for HV and EHV DG connections and SPManweb capture 63%. There is no clear evidence on the trends as to whether the penetration of competitors in increasing or decreasing over the 3 years of study (it just fluctuates).

	Unmetered (Other) ☐		The number of POC quotes requested appears to change in line with the overall number of quotes per year – while the number of accepted POC quotes appears to stay fairly low in both areas. It cannot of course be determined from the numbers what the cause for these observations is. Compared to other sectors though, such figures would indicate that there is not sufficient competition.

Chapter Six

Question	RMS(S)	DSA(S)	Response
One: Do you consider customers have an effective choice of connections provider? In particular, do you feel that levels of choice, value and service will be protected and will improve if the restriction on SPEN's ability to earn a margin is removed?	Metered LV ☐ Metered HV ☐ Metered HV/EHV ☐ Metered EHV & above ☐ DG LV ☐ DG HV/EHV ☒ Unmetered (LA) ☐ Unmetered PFI ☐ Unmetered (Other) ☐	SPD ☒ SPM ☒	See our response to Chapter 2 Question 2. Over the period that the price control measure (4% margin) was introduced, competition does appear to have developed successfully. As an incumbent, SPEN would have an advantage over other market players and this advantage does not seem to be addressed by accepting the removal of price regulation of connection activities. In other sectors, e.g. telecommunications, British Telecom has on-going obligations to offer local loop unbundling in its telephone exchanges under a regulated framework. It then competes for services such as ADSL in the same way as other service providers to end consumers. It would seem appropriate that similar arrangements should apply to DNOs if price regulation of connection activities were removed.
Two: Do you consider that there is scope for competitors to grow their	Metered LV ☐ Metered HV ☐	SPD ☐ SPM ☐	No Comment.

Question	RMS(S)		DSA(S)		Response
market share (for example, if SPEN put up its prices or if its quality dropped), or are there factors constraining this?	Metered HV/EHV Metered EHV & above DG LV DG HV/EHV Unmetered (LA) Unmetered PFI Unmetered (Other)	☐ ☐ ☐ ☐ ☐ ☐ ☐			
Three: Do you consider that there is scope/appetite for new participants to enter the market? Do you consider that new entrants would be able to provide similar or better services than existing participants or are there factors constraining this?	Metered LV Metered HV Metered HV/EHV Metered EHV & above DG LV DG HV/EHV Unmetered (LA) Unmetered PFI Unmetered (Other)	☐ ☐ ☐ ☐ ☐ ☒ ☐ ☐ ☐	SPD SPM	☒ ☒	Competitors can enter the market but they often seem to lack the required level of expertise. As a developer this means that the project will be exposed to more risk during this period and we would occur additional costs in managing additional interfaces.
Four: Given your overall view of SPEN, do you consider that we can have	Metered LV Metered HV	☐ ☐	SPD SPM	☐ ☐	No comment

Question	RMS(S)	DSA(S)	Response
confidence in them to operate appropriately in the event that price regulation is lifted?	Metered HV/EHV ☐ Metered EHV & above ☐ DG LV ☐ DG HV/EHV ☐ Unmetered (LA) ☐ Unmetered PFI ☐ Unmetered (Other) ☐		
Five: Do you consider that there are factors not addressed in this consultation that should be taken into consideration in determining whether price regulation should be lifted?	Metered LV ☐ Metered HV ☐ Metered HV/EHV ☐ Metered EHV & above ☐ DG LV ☐ DG HV/EHV ☒ Unmetered (LA) ☐ Unmetered PFI ☐ Unmetered (Other) ☐	SPD ☒ SPM ☒	Ofgem's ongoing role in monitoring whether competition is effective in both market segments that have passed the CT and those that have not should be considered somewhere.