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The reasons for our determination on Scottish Power Energy Networks' 16 August 2013 application to charge an unregulated margin on certain contestable connections services

1 Summary

1.1 In this document we[1] explain our reasons for deciding to allow Scottish Power Energy Networks (SPEN), a Distribution Network Operator[2] (DNO), to earn an unregulated margin on certain connections work. In total SPEN applied to earn an unregulated margin in nine Relevant Market Segments (RMSs) across each of their two Distribution Service Areas (DSAs). Our decision will allow SPEN to charge an unregulated margin in four of these 18 RMSs.

1.2 We have only allowed SPEN to charge an unregulated margin where we are confident that it has demonstrated that there is sufficient competition, from alternative connection providers, to ensure that prices are constrained in the absence of regulation. While SPEN has taken, or plans to take, steps to remove barriers to competition in many areas – the effects of these changes are yet to be observed in some market segments.

1.3 Our determination on whether SPEN, should be allowed to earn an unregulated margin on certain connections work has been made on 12 December 2013, under Part E of Charge Restriction Condition (CRC) 12.[3]

1.4 On 16 August 2013 SPEN submitted Competition Notices in respect of its licensed distribution networks -

- SP Distribution Ltd (SPD), and
- SP Manweb plc (SPM).

1.5 The Notices relate to the following nine RMSs[4] -

Metered Demand Connections

- Low Voltage (LV) work
- High Voltage (HV) work
- HV and Extra High Voltage (EHV) work
- EHV work and above

Metered Distributed Generation (DG)

- LV work
- High Voltage and above (HV and EHV) work

[1] The terms 'the Authority', Ofgem and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets
[2] As defined in condition 1 of Standard conditions of the Electricity Distribution Licence
[3] CRC 12 Licensee's Connection Activities: Margins and the development of competition
[4] As defined in Part K of CRC 12

Unmetered Connections

- Unmetered Local Authority (LA) work
- Unmetered Private Finance Initiatives (PFI) work
- Unmetered other work.

1.6 We issued a consultation on the SPEN Competition Notices on 26 September 2013.[5] Having considered the SPEN Competition Notices and the 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 – Low voltage work in the SPD DSA only.
- Metered demand connections – High voltage work in the SPD DSA only.
- Unmetered connections – Local Authority work in the SPM DSA only.
- Unmetered connections – Private finance initiative work in the SPM DSA only.

1.7 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.

1.8 Our determination can be found on our website.[6] Appendix 1 of this document summarises the responses received to our consultation.

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.[7]

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.[8] For the purpose of this incentive we defined nine RMSs in which we considered competition to be viable.[9] DNOs are able to apply to have price regulation lifted in an

[5] Available from http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=453&refer=NETWORKS/CONNECTNS/COMPINCONN

[6] http://www.ofgem.gov.uk/Networks/Connectns/CompinConn/Pages/CompinCnnctns.aspx

[7] 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

[8] Introduced at Distribution Price Control Review 5 (DPCR5) - further information can be found in our document DPCR5 Final Proposals Incentives and Obligations (REF: 145/09) which is available on the Ofgem website at: http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=348&refer=NETWORKS/ELECDIST/PRICECNTRLS/DPCR5

[9] 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.

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 what further action to take. This could include a referral to the Competition Commission.

2.4 This is SPEN's first application. We have already issued our determinations on eight applications made by other DNOs - Electricity North West Limited (on 21 November 2011, 10 May 2013 and 23 August 2013), Northern Powergrid (on 26 October 2012), UK Power Networks (on 29 October 2012 and 15 August 2013), Western Power Distribution (on 25 February 2013) and Scottish and Southern Energy Power Distribution (on 29 April 2013). These can be found on our website. We are currently considering one application from Western Power Distribution which was submitted on 31 October 2013

2.5 Given the timing of its application, SPEN will be unable to resubmit further competition notices under the competition test arrangements. We will set out our approach to further considering the state of competition in connections to distribution networks in 2014.

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 SPEN 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.

3.3 We are required to make separate determinations for each of the nine RMSs applied for in each of SPEN's two licensed distribution networks.

Legal Requirements Test

3.4 SPEN has satisfied the Legal Requirements Test in all nine RMSs in both distribution service areas 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
- SPEN'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 SPEN on the current level of competitive activity in both its licensed distribution networks, 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 SPEN's Distribution Service Areas (DSAs).[10]

3.7 One of the responses that we received was provided to us in confidence and we have included this in our consideration of the views of respondents. We recognise however that because of its confidential nature, SPEN has not had the same opportunity to comment on the accuracy of the response, and to clarify any points arising from it, as it has with other attributed responses. We also recognise that SPEN reject the criticisms made by this respondent.

3.8 Our assessment is set out in this document and is based on all of the factors listed above. The actual level of competition in each RMS 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

3.9 We examine in this section current levels of activity by SPEN and alternative providers (Independent Connection Providers (ICPs), and Independent Distribution Network Operators, (IDNOs)) in each of the nine RMSs in each of the two DSAs.

3.10 The data set out in this section are drawn from SPEN's 16 August 2013 Competition Notice and from subsequent clarifications received from SPEN. The data cover the three years between April 2010 and March 2013.

3.11 In the metered segments, SPEN reported the number of parties that received, and the number that accepted, an SPD or SPM quote, an ICP quote or an IDNO quote in the relevant period. The SPEN Competition Notices define these terms as follows -

- An SPD or SPM quote is one "issued by SPD or SPM to carry out all the works, contestable and non-contestable, associated with a new connection". In this document, we also refer to this type of quote as a "full works" quote.
- An ICP quote is one "issued by SPD or SPM to carry out non-contestable work only where an ICP carries out the contestable work."
- An IDNO quote is as one "issued by SPD or SPM to carry out non-contestable work only where an IDNO will adopt the assets and where the contestable work is carried out by an ICP or IDNO."

3.12 In this document, we may refer to ICP quotes and IDNO quotes jointly as Point of Connection (POC) quotes.

3.13 SPEN has also presented the numbers and values of projects for which quotations were issued and accepted by parties, broken down into three categories: SPM/SPD (full works) quotes, ICP quotes and IDNO quotes. SPEN has estimated the value of projects carried out by competitors using average £/kVA values of projects carried out by SPEN.

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

3.14 The Competition Notices also provide data on competitive activity within the unmetered RMSs and the number of customers connected to IDNO networks within the SPEN DSAs.

3.15 We now look at each RMS in turn.

Demand LV

3.16 This section looks at activity by SPEN and competitors in the Metered Demand LV works market segment.

Table 1: Existing competitive activity – Metered Demand LV (SPEN – SPD)

SPEN – SPD	2010-11	2011-12	2012-13
Size of RMS			
Total size by value of accepted quotes	£7,113,707	£5,054,144	£5,069,580
Total size by numbers of accepted quotes	491	435	498
Share of the RMS by value of accepted quotes			
SPEN share by value of accepted quotes	60%	64%	68%
ICP share by value of accepted quotes	23%	16%	13%
IDNO share by value of accepted quotes	17%	20%	19%
Share of the RMS by number of accepted quotes			
SPEN share by number of accepted quotes	63%	67%	66%
ICP share by number of accepted quotes	20%	17%	19%
IDNO share by number of accepted quotes	17%	16%	15%
Analysis of project values			
Average value of SPEN quotes (£/accepted quote)	£13,878	£11,112	£10,436
Average value of ICP quotes (£/accepted quote)	£16,976	£10,919	£6,835
Average value of IDNO quotes (£/accepted quote)	£13,831	£14,415	£13,375
Activity by ICP/IDNOs			
Number of parties receiving ICP/IDNO quotes	15	11	19
Number of parties accepting ICP/IDNO quotes	13	8	8

Table 2: Existing competitive activity – Metered Demand LV (SPEN – SPM)

SPEN – SPM	2010-11	2011-12	2012-13
Size of RMS			
Total size by value of accepted quotes	£5,087,568	£4,163,957	£4,682,550
Total size by numbers of accepted quotes	420	377	401
Share of the RMS by value of accepted quotes			
SPEN share by value of accepted quotes	84%	87%	80%
ICP share by value of accepted quotes	8%	5%	7%
IDNO share by value of accepted quotes	8%	8%	14%
Share of the RMS by number of accepted quotes			
SPEN share by number of accepted quotes	84%	85%	83%
ICP share by number of accepted quotes	8%	7%	5%
IDNO share by number of accepted quotes	8%	8%	13%
Analysis of project values			
Average value of SPEN quotes (£/accepted quote)	£12,156	£11,329	£11,252
Average value of ICP quotes (£/accepted quote)	£12,338	£8,285	£16,414
Average value of IDNO quotes (£/accepted quote)	£11,446	£10,361	£12,672
Activity by ICP/IDNOs			
Number of parties receiving ICP/IDNO quotes	29	24	28
Number of parties accepting ICP/IDNO quotes	11	11	12

3.17 SPEN also provided data on the number of customers connected to IDNO networks in March 2013 with an LV point of connection to SPEN's network. In the SPD area, 16,000 customers were connected to IDNO networks out of a total of approximately 2.1 million Meter Point Administration Numbers (MPANs) connected to SPD at LV. In the SPM area 5,300 customers were connected to IDNO networks out of a total of approximately 1.5 million MPANs connected to SPM at LV.[11]

3.18 We make the following observations based on the data in the two tables above -

- In the SPD area, SPEN's share of new connections in this RMS has been around 65 per cent, whether expressed in terms of value or of number of accepted quotes.
- In the SPM area, SPEN's share has been higher (over 80 per cent) both by value of quotes and by number of accepted quotes.

[11] Data on customers connected to IDNO networks taken from SPEN's 16 August 2013 Competition Notices. Data on total number of MPANs connected to SPEN in the SPD and SPM areas are taken from Common Distribution Charging Methodology (CDCM) models for 2013-2014 downloaded from the SPEN website.

- ICPs' and IDNOs' share of accepted quotes has fallen over the period in the SPD area, whereas in the SPM area, IDNO shares have increased.
- A large number of parties have received and accepted ICP/IDNO quotes in both SPM and SPD areas.

3.19 More detailed data provided by SPEN in the appendix to its Competition Notices show that ICPs and IDNOs have been successful in large and small projects by value in both SPD and SPM DSAs.

- The parties with the lowest and highest average values of accepted POC quotes in the SPD area are ICP 142 (£814) and ICP 30 (£31,000) respectively. In the SPM area they are ICP 46 (£2,076) and ICP 41 (£33,000) respectively
- In the SPD area in 2012-13, two parties had average values of accepted POC quotes that were below the average value of all ICP and IDNO quotes accepted that year. The corresponding numbers for 2010-11 and 2011-12 are five and three respectively.
- In the SPM area in 2012-13, six parties had average values of accepted POC quotes that were below the average value of all ICP and IDNO quotes accepted that year. The corresponding numbers for 2010-11 and 2011-12 are six and four respectively.

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

- The number of parties receiving ICP/IDNO quotes tells us that customers are seeking alternative providers, and that a large number of alternative providers have attempted to compete with SPEN in both areas.
- The number of parties that have accepted ICP/IDNO quotes in both areas tell us that alternative providers have had some success in their attempts to compete with SPEN.
- Data on shares, by value and by number of quotes, show that alternative providers are more successful in the SPD area, winning about a third of projects by value and by number. Alternative providers are less successful in the SPM area, where SPEN continues to enjoy a share of over 80 per cent by value and by numbers of projects.
- Alternative providers have been successful in winning low and high value projects within this RMS in both DSAs. There does not appear to be a significant difference in the average values of projects completed by SPEN compared to those completed by other providers.
- There are a large number of customers connected to IDNO networks, particularly in the SPD area.

Demand HV

3.21 This section looks at activity by SPEN and competitors in the Metered Demand HV works market segment.

Table 3: Existing competitive activity – Metered Demand HV (SPEN – SPD)

SPEN – SPD	2010-11	2011-12	2012-13
Size of RMS			
Total size by value of accepted quotes	£16,042,351	£15,148,746	£13,632,108
Total size by numbers of accepted quotes	257	270	302
Share of the RMS by value of accepted quotes			
SPEN share by value of accepted quotes	45%	55%	64%
ICP share by value of accepted quotes	28%	17%	12%
IDNO share by value of accepted quotes	27%	28%	24%
Share of the RMS by number of accepted quotes			
SPEN share by number of accepted quotes	56%	66%	77%
ICP share by number of accepted quotes	20%	12%	8%
IDNO share by number of accepted quotes	24%	22%	15%
Analysis of project values			
Average value of SPEN quotes (£/accepted quote)	£50,043	£46,635	£37,190
Average value of ICP quotes (£/accepted quote)	£86,567	£82,053	£67,418
Average value of IDNO quotes (£/accepted quote)	£71,659	£70,367	£74,577
Activity by ICP/IDNOs			
Number of parties receiving ICP/IDNO quotes	16	21	20
Number of parties accepting ICP/IDNO quotes	9	9	9

Table 4: Existing competitive activity – Metered Demand HV (SPEN – SPM)

SPEN – SPM	2010-11	2011-12	2012-13
Size of RMS			
Total size by value of accepted quotes	£12,333,096	£9,850,128	£11,159,582
Total size by numbers of accepted quotes	219	188	245
Share of the RMS by value of accepted quotes			
SPEN share by value of accepted quotes	69%	72%	69%
ICP share by value of accepted quotes	22%	13%	10%
IDNO share by value of accepted quotes	9%	15%	21%
Share of the RMS by number of accepted quotes			
SPEN share by number of accepted quotes	86%	84%	83%
ICP share by number of accepted quotes	8%	9%	4%
IDNO share by number of accepted quotes	5%	7%	13%
Analysis of project values			
Average value of SPEN quotes (£/accepted quote)	£45,108	£45,049	£38,150
Average value of ICP quotes (£/accepted quote)	£150,242	£77,318	£109,094
Average value of IDNO quotes (£/accepted quote)	£91,944	£106,807	£72,631
Activity by ICP/IDNOs			
Number of parties receiving ICP/IDNO quotes	30	26	31
Number of parties accepting ICP/IDNO quotes	11	10	10

3.22 SPEN also provided data on the number of number of customers connected to IDNO networks with an HV point of connection to SPEN's network. In March 2013 there were 18,800 customers connected to IDNO networks in the SPD area and 5,000 customers connected to IDNO networks in the SPM area. The HV IDNO customer figures are not comparable to the number of MPANs connected directly to the SPEN networks at HV because the overwhelming majority of IDNO connected customers are domestic customers who would have an LV point of connection if they had been directly connected to SPEN. As stated in the previous section, approximately 2.1 million MPANs were connected to SPD at LV and approximately 1.5 million MPANs were connected to SPM at LV.[12]

3.23 We make the following observations based on the data in the two tables above -

[12] Data on customers connected to IDNO networks taken from SPEN's 16 August 2013 Competition Notices. Data on total number of MPANs connected to SPEN in the SPD and SPM areas taken from CDCM models for 2013-2014 downloaded from the SPEN website.

- A large number of parties have received and accepted ICP/IDNO quotes in both SPM and SPD areas.
- In the SPD area, SPEN's share of new connections by value has increased from 45 per cent to 64 per cent from 2010-11 to 2012-13. In terms of the number of quotations accepted, SPEN's market share increased from 56 per cent to 77 per cent over that same period.
- In the SPM area, SPEN's share of new connections by value has remained steady at around 70 per cent. In terms of the number of quotations accepted, however, SPEN's share is higher (around 85 per cent).
- Our analysis of average project values suggests that ICPs and IDNOs tend to, on average, be successful in higher value projects. In both areas, the average value of a project completed by SPEN is significantly lower than those completed by ICPs or IDNOs.

3.24 More detailed data provided by SPEN in the appendix to its Competition Notices show that ICPs and IDNOs have been successful in large and small projects by value in both SPD and SPM DSAs. The ICPs with the lowest and highest average values of accepted POC quotes in the SPD area are ICP 53 (£7,800) and ICP 72 (£169,000) respectively. In the SPM area they are ICP 18 (£383) and ICP 49 (£218,000) respectively.

3.25 Although the average values of accepted ICP and IDNO quotes are higher than the average values of accepted SPEN quotes in both areas, we note that -

- two parties in SPD had average values of accepted POC quotes that were below the average value of SPEN quotes accepted in 2012-13. The corresponding numbers for 2010-11 and 2011-12 are two and three respectively.
- two parties in SPM had average values of accepted POC quotes that were below the average value of SPEN quotes accepted in 2012-13. The corresponding numbers for 2010-11 and 2011-12 are three and three respectively.

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

- The number of parties receiving ICP/IDNO quotes shows that customers are seeking alternative providers, and that a large number of alternative providers have attempted to compete with SPEN in both areas.
- The number of parties that have accepted ICP/IDNO quotes in both areas shows that alternative providers have been successful in their attempts to compete with SPEN.
- Data on shares, by value and by number of quotes, show that alternative providers are more successful in the SPD area, winning about a third of projects by value and by number. In the SPM area, SPEN continues to enjoy a high share of over 80 per cent by number of accepted quotes and around 70 per cent by value of accepted quotes.
- In both SPD and SPM area, the average values of work won by ICPs and IDNOs are higher than those won by SPEN. However, a small number of parties in both areas have won work with lower average values than the SPEN average.
- ICPs' share of work in the RMS has dropped in both areas during the period covered by SPEN's data, whereas IDNOs' share has increased over the same period in the SPM area and has remained relatively steady in the SPD area.
- Although SPEN's share of work has grown in the SPD area, we note that the number of parties receiving and accepting ICP/IDNO quotes has remained steady over the period.

Demand HV and EHV

3.27 This section looks at activity by SPEN and competitors in the Metered Demand HV and EHV works Relevant Market Segment.

Table 5: Existing competitive activity – Metered Demand HV and EHV (SPEN – SPD)

SPEN – SPD	**2010-11**	**2011-12**	**2012-13**
Size of RMS			
Total size by value of accepted quotes	£5,897,015	–	£1,301,258
Total size by numbers of accepted quotes	13	–	2
Share of the RMS by value of accepted quotes			
SPEN share by value of accepted quotes	63%	–	98%
ICP share by value of accepted quotes	2%	–	–
IDNO share by value of accepted quotes	35%	–	2%
Share of the RMS by number of accepted quotes			
SPEN share by number of accepted quotes	69%	–	50%
ICP share by number of accepted quotes	8%	–	–
IDNO share by number of accepted quotes	23%	–	50%
Analysis of project values			
Average value of SPEN quotes (£/accepted quote)	£410,398	–	£1,270,602
Average value of ICP quotes (£/accepted quote)	£114,962	–	–
Average value of IDNO quotes (£/accepted quote)	£696,156	–	£30,656
Activity by ICP/IDNOs			
Number of parties receiving ICP/IDNO quotes	4	5	4
Number of parties accepting ICP/IDNO quotes	4	–	1

Table 6: Existing competitive activity – Metered Demand HV and EHV (SPEN – SPM)

SPEN – SPM	2010-11	2011-12	2012-13
Size of RMS			
Total size by value of accepted quotes	£9,225,159	£3,496,617	£2,924,689
Total size by numbers of accepted quotes	8	5	7
Share of the RMS by value of accepted quotes			
SPEN share by value of accepted quotes	80%	84%	89%
ICP share by value of accepted quotes	20%	16%	–
IDNO share by value of accepted quotes	–	–	11%
Share of the RMS by number of accepted quotes			
SPEN share by number of accepted quotes	75%	60%	71%
ICP share by number of accepted quotes	25%	40%	–
IDNO share by number of accepted quotes	–	–	29%
Analysis of project values			
Average value of SPEN quotes (£/accepted quote)	£1,223,496	£978,713	£523,163
Average value of ICP quotes (£/accepted quote)	£942,091	£280,239	–
Average value of IDNO quotes (£/accepted quote)	–	–	£154,437
Activity by ICP/IDNOs			
Number of parties receiving ICP/IDNO quotes	6	7	11
Number of parties accepting ICP/IDNO quotes	2	2	2

3.28 We make the following observations based on the data provided by SPEN -

- This is a relatively small RMS in terms of number of accepted quotes. In the three years from 1 April 2010 to 31 March 2013, there were a total of 15 accepted quotes in the SPD area, and 20 accepted quotes in the SPM area.
- The total value of accepted quotes in both areas has dropped significantly during the same period (April 2010 to March 2013). The number of accepted quotations has dropped in the SPD area, but not in the SPM area.
- Several parties have received ICP/IDNO quotes in both SPM and SPD areas. Five parties in the SPD area, and six parties in the SPM area, have accepted ICP/IDNO quotes during the period.
- In the SPD area, no quotes were accepted in 2011-2012 and only two quotes were accepted in 2012-2013 - one was a SPEN full works quote and the other an IDNO quote. The SPEN quote was much larger in value (£1.2 million) than the IDNO quote (£30 thousand), giving SPEN a share of 98 per cent by value.

- In the SPM area, SPEN had a market share of over 60 per cent by number of accepted quotes and 80 per cent by value of accepted quotes in each of the three years covered by the data provided.
- Our analysis of average project values suggests that ICPs and IDNOs have been, on average, more successful in smaller value projects, particularly in the most recent two years covered by the data. However, more detailed data provided by SPEN show that ICPs and IDNOs have been successful in large and small projects by value in both SPD and SPM DSAs.

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

- The number of parties receiving ICP/IDNO quotes shows that customers are seeking alternative providers, and that a number of alternative providers have attempted to compete with SPEN in both areas.
- In SPD area, there has been little connection activity in recent years. One small value IDNO quote was accepted in 2012-2013 giving SPEN a 98 per cent share of the market by value.
- The level of activity is relatively higher in the SPM area, but SPEN still retains a high share of the market - over 60 per cent by number of accepted quotes and 80 per cent by value.

Demand EHV and above

3.30 This section looks at activity by SPEN and competitors in the Metered Demand EHV and above works RMS.

Table 7: Existing competitive activity – Metered Demand EHV and above (SPEN – SPD)

SPEN – SPD	2010-11	2011-12	2012-13
Size of RMS			
Total size by value of accepted quotes	£1,242,234	–	–
Total size by numbers of accepted quotes	2	–	–
Share of the RMS by value of accepted quotes			
SPEN share by value of accepted quotes	100%	–	–
ICP share by value of accepted quotes	–	–	–
IDNO share by value of accepted quotes	–	–	–
Share of the RMS by number of accepted quotes			
SPEN share by number of accepted quotes	100%	–	–
ICP share by number of accepted quotes	–	–	–
IDNO share by number of accepted quotes	–	–	–
Analysis of project values			
Average value of SPEN quotes (£/accepted quote)	£621,117	–	–
Average value of ICP quotes (£/accepted quote)	–	–	–
Average value of IDNO quotes (£/accepted quote)	–	–	–
Activity by ICP/IDNOs			
Number of parties receiving ICP/IDNO quotes	–	2	1
Number of parties accepting ICP/IDNO quotes	–	–	–

Table 8: Existing competitive activity – Metered Demand EHV and above (SPEN – SPM)

SPEN – SPM	2010-11	2011-12	2012-13
Size of RMS			
Total size by value of accepted quotes	–	£31,382	£18,535,168
Total size by numbers of accepted quotes	–	1	1
Share of the RMS by value of accepted quotes			
SPEN share by value of accepted quotes	–	100%	100%
ICP share by value of accepted quotes	–	–	–
IDNO share by value of accepted quotes	–	–	–
Share of the RMS by number of accepted quotes			
SPEN share by number of accepted quotes	–	100%	100%
ICP share by number of accepted quotes	–	–	–
IDNO share by number of accepted quotes	–	–	–
Analysis of project values			
Average value of SPEN quotes (£/accepted quote)	–	£31,382	£18,535,168
Average value of ICP quotes (£/accepted quote)	–	–	–
Average value of IDNO quotes (£/accepted quote)	–	–	–
Activity by ICP/IDNOs			
Number of parties receiving ICP/IDNO quotes	–	–	3
Number of parties accepting ICP/IDNO quotes	–	–	–

3.31 SPEN provided data on the number of number of customers connected to IDNO networks with an EHV point of connection to SPEN's network. In March 2013 there were 2,200 customers connected to IDNO networks in the SPD area and none in the SPM area.

3.32 We make the following observations based on the data in the two tables above -

- This is a small RMS in terms of number of accepted quotes. In the three years from 1 April 2010 to 31 March 2013, there were a total of two accepted quotes each in the SPD and SPM areas.
- Although ICP/IDNO quotes were issued to three parties each in the SPM and SPD areas, none were accepted. That is, SPEN holds a 100 per cent market share in both areas.

3.33 More detailed data provided by SPEN in the appendix to its Competition Notices show that ICPs and IDNOs have requested POC quotes in relation to both small and large projects in both SPD and SPM DSAs.

Distributed Generation LV

3.34 This section looks at activity by SPEN and competitors in the Distributed Generation LV works RMS.

Table 9: Existing competitive activity – Distributed Generation LV (SPEN – SPD)

SPEN – SPD	2010-11	2011-12	2012-13
Size of RMS			
Total size by value of accepted quotes	£665,246	£314,789	£308,529
Total size by numbers of accepted quotes	34	39	40
Share of the RMS by value of accepted quotes			
SPEN share by value of accepted quotes	48%	100%	78%
ICP share by value of accepted quotes	52%	–	–
IDNO share by value of accepted quotes	–	–	22%
Share of the RMS by number of accepted quotes			
SPEN share by number of accepted quotes	97%	100%	98%
ICP share by number of accepted quotes	3%	–	–
IDNO share by number of accepted quotes	–	–	3%
Analysis of project values			
Average value of SPEN quotes (£/accepted quote)	£9,658	£8,072	£6,203
Average value of ICP quotes (£/accepted quote)	£346,534	–	–
Average value of IDNO quotes (£/accepted quote)	–	–	£66,600
Activity by ICP/IDNOs			
Number of parties receiving ICP/IDNO quotes	2	1	3
Number of parties accepting ICP/IDNO quotes	1	–	1

Table 10: Existing competitive activity – Distributed Generation LV (SPEN – SPM)

SPEN – SPM	2010-11	2011-12	2012-13
Size of RMS			
Total size by value of accepted quotes	£2,859	£19,809	£134,670
Total size by numbers of accepted quotes	2	5	16
Share of the RMS by value of accepted quotes			
SPEN share by value of accepted quotes	100%	100%	100%
ICP share by value of accepted quotes	–	–	–
IDNO share by value of accepted quotes	–	–	–
Share of the RMS by number of accepted quotes			
SPEN share by number of accepted quotes	100%	100%	100%
ICP share by number of accepted quotes	–	–	–
IDNO share by number of accepted quotes	–	–	–
Analysis of project values			
Average value of SPEN quotes (£/accepted quote)	£1,430	£3,962	£8,417
Average value of ICP quotes (£/accepted quote)	–	–	–
Average value of IDNO quotes (£/accepted quote)	–	–	–
Activity by ICP/IDNOs			
Number of parties receiving ICP/IDNO quotes	–	1	5
Number of parties accepting ICP/IDNO quotes	–	–	–

3.35 We make the following observations based on the data in the two tables above -

- This is a relatively small RMS in terms of total number and average values of accepted quotes.
- Six parties each in the SPD and SPM areas received ICP/IDNO quotes over the three year period covered by SPEN's data. One ICP quote and one IDNO quote was accepted in the SPD area. None were accepted in the SPM area.
- SPEN has a 100 per cent share by number of accepted quotes in the SPM area. In the SPD area, SPEN has close to a 100 per cent market share. Two relatively high value projects (out of a total of 113) were won by competitors – one project with a value of £346,000 (IDNO) and the other with a value of £66,000 (ICP).

3.36 Data provided by SPEN also show that, in the SPD area - in each of the three years covered by the data - the number of ICP/IDNO quotes issued were 2, 1 and 5 respectively. We note these are few relative to the number of full works quotes issued by SPEN in the same period (107,167 and 100 respectively).

3.37 ICPs and IDNOs have requested POC quotes in relation to both small and large projects in both SPD and SPM DSAs

Distributed Generation HV and EHV

3.38 This section looks at activity by SPEN and competitors in the Distributed Generation HV and EHV works RMS.

Table 11: Existing competitive activity – Distributed Generation HV/EHV (SPEN -SPD)

SPEN – SPD	**2010-11**	**2011-12**	**2012-13**
Size of RMS			
Total size by value of accepted quotes	£30,328,025	£48,963,421	£95,665,954
Total size by numbers of accepted quotes	33	78	156
Share of the RMS by value of accepted quotes			
SPEN share by value of accepted quotes	92%	79%	96%
ICP share by value of accepted quotes	8%	21%	4%
IDNO share by value of accepted quotes	–	1%	–
Share of the RMS by number of accepted quotes			
SPEN share by number of accepted quotes	85%	89%	93%
ICP share by number of accepted quotes	15%	10%	7%
IDNO share by number of accepted quotes	–	1%	–
Analysis of project values			
Average value of SPEN quotes (£/accepted quote)	£998,317	£557,552	£631,754
Average value of ICP quotes (£/accepted quote)	£475,031	£1,256,281	£369,245
Average value of IDNO quotes (£/accepted quote)	–	£442,103	–
Activity by ICP/IDNOs			
Number of parties receiving ICP/IDNO quotes	14	30	36
Number of parties accepting ICP/IDNO quotes	5	8	5

Table 12: Existing competitive activity – Distributed Generation HV/EHV (SPEN – SPM)

SPEN – SPM	2010-11	2011-12	2012-13
Size of RMS			
Total size by value of accepted quotes	£27,675,175	£19,555,076	£11,496,731
Total size by numbers of accepted quotes	6	21	46
Share of the RMS by value of accepted quotes			
SPEN share by value of accepted quotes	100%	45%	63%
ICP share by value of accepted quotes	–	55%	37%
IDNO share by value of accepted quotes	–	–	–
Share of the RMS by number of accepted quotes			
SPEN share by number of accepted quotes	100%	71%	85%
ICP share by number of accepted quotes	–	29%	15%
IDNO share by number of accepted quotes	–	–	–
Analysis of project values			
Average value of SPEN quotes (£/accepted quote)	£4,612,529	£582,063	£184,495
Average value of ICP quotes (£/accepted quote)	–	£1,804,023	£614,487
Average value of IDNO quotes (£/accepted quote)	–	–	–
Activity by ICP/IDNOs			
Number of parties receiving ICP/IDNO quotes	4	12	22
Number of parties accepting ICP/IDNO quotes	–	6	6

3.39 We make the following observations based on the data in the two tables above -

- This RMS is characterised by its relatively large value quotations. The size of the segment, expressed in terms of the number of quotations, is larger in the SPD area (267 accepted quotes) compared to the SPM area (73 accepted quotes). The size of the market is growing – the number of accepted quotes has more than doubled in each area.
- Several parties have received and accepted ICP/IDNO quotes in both SPM and SPD areas.
- SPEN enjoys a high market share – in terms of the number of accepted quotes – in both areas (93 per cent in SPD and 85 per cent in SPM in 2012-2013). When expressed in terms of values of accepted quotes, SPEN's market share in the SPM area is lower (63 per cent in 2012-2013).
- In the SPD area, although SPEN has a large share, there does not appear to be a systematic difference in the values of accepted SPEN quotes compared to

accepted ICP/IDNO quotes. In the SPM area, however, the average accepted ICP quote is more than three times the value of the average accepted SPEN quotes.

3.40 We also note from the data in Appendix 1 of SPEN's Competition Notices that ICPs have been successful in large value projects as well as small ones in both SPM and SPD areas.

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

- The number of parties receiving ICP/IDNO quotes shows that customers are seeking alternative providers, and that a large number of alternative providers have attempted to compete with SPEN in both areas.
- Although alternative providers have been successful in winning projects, SPEN enjoys a relatively high share of the market in both areas.

Unmetered connections – Local Authority works

3.42 This section looks at activity by SPEN and competitors in the Unmetered connections – Local Authority works RMS.

Table 13: Existing competitive activity – Unmetered Local Authority work (SPEN – SPD)

SPEN - SPD	**2010-11**	**2011-12**	**2012-13**
Size of the RMS			
Number of connections completed - SPEN	2,498	3,020	4,147
Number of connections completed - ICPs	–	–	77
Total connections completed	2,498	3.020	4,224
SPEN share of the RMS			
SPEN share of connections completed	100%	100%	98%
Activity in the RMS			
Number of ICPs completing connections	–	–	1
Number of Local Authorities using ICPs	–	–	3

Table 14: Existing competitive activity – Unmetered Local Authority work (SPEN – SPM)

SPEN - SPM	2010-11	2011-12	2012-13
Size of the RMS			
Number of connections completed - SPEN	5,370	4,973	3,631
Number of connections completed - ICPs	668	1,269	2,273
Total connections completed	6,038	6,242	5,904
SPEN share of the RMS			
SPEN share of connections completed	89%	80%	62%
Activity in the RMS			
Number of ICPs completing connections	2	3	4
Number of Local Authorities using ICPs	7	8	11

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

- In the SPD area, SPEN had a 100 per cent share in 2010-2011 and 2011-2012. In 2012-2013, one ICP completed 77 connections causing SPEN's market share to fall slightly to 98 per cent. SPEN stated that three Local Authorities in the SPD area have recently signed tripartite agreements with a single ICP to progress new unmetered connections.
- In the SPM area, SPEN's share has been dropping steadily from 89 per cent in 2010-2011 to 62 per cent in 2012-2013. Eleven Local Authorities use ICPs under a tripartite agreement, and four ICPs have carried out connections works under these agreements.

Unmetered connections – Private Finance Initiative works

3.44 This section looks at activity by SPEN and competitors in the Unmetered connections – Private Finance Initiative (PFI) works market segment

3.45 No PFI contracts were in place in the SPD area in the relevant period. The table below presents the data for the SPM area.

Table 15: Existing competitive activity – Unmetered PFI work (SPEN – SPM)

SPEN – SPM	2010-11	2011-12	2012-13
Size of the RMS			
Number of PFI contracts in place	–	1	1
Number of connections completed	–	812	2,295

3.46 Unmetered connections through a PFI scheme are currently provided in one Local Authority in the SPM area – Knowsley Borough Council. SPEN supports the PFI

contractor appointed by Knowsley Borough Council by providing jointing teams under a "Rent a Jointer" agreement.

Unmetered connections – Other works

3.47 In relation to the Unmetered Other RMS, the Competition Notices said that the following types of work were included in the segment -

- Street lighting connections within a new housing estate or commercial development.
- Connections for local authorities excluding those requested by the local authority street lighting departments, for example, bus shelters, pedestrian crossings and CCTV cameras.

3.48 Appendix 2 of SPEN's Competition Notices provided information on the number of quotes issued and accepted in this RMS. In both DSAs, SPEN has not issued any ICP or IDNO quotes in the Unmetered Other RMS during the period April 2010 to March 2013. The notice stated that "competitor activity for unmetered works awarded as part of new housing or other developments are wrapped up within the quotations provided to competitors for the relevant POC associated with that development."

3.49 In addition, SPEN stated that a tripartite agreement has recently been signed for the disconnection of unmetered supplies to redundant telephone boxes in both SPD and SPM DSAs. The work started in July 2013. The notices also said that a "number of unmetered supplies as part of a broadband connection programme" involving a competitor is also expected to commence in both DSAs in the future.

3.50 The SPEN Competition Notices provided information on the consumption volumes of unmetered supplies (in MWh) that relates to IDNO supplied sites within the relevant SPEN DSA.

- In the SPD DSA, the notices stated that the volume (in MWh) of unmetered supplies exiting from IDNO networks has grown by 4.5 times between April 2010 and March 2013.
- In the SPM DSA, the notices stated that the volume (in MWh) of unmetered supplies exiting from IDNO networks has doubled between April 2010 and March 2013

Customer awareness of and ability to choose competitive alternatives

3.51 We consider that customers being aware of their choice between 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

3.52 SPEN 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 -

- Its website includes an area dedicated to providing information on competition in connections. A link to this page is prominently provided on the "Network Connections" section of the website. The website alerts potential connectees to

the fact that they have a choice of providers for "some elements" of the connections process.

- Its new connection application form allows customers to request a non-contestable works only quote. It also includes guidance for customers on opting for a competitive alternative to SPEN.
- It has produced a guidance leaflet entitled "Providing you with a choice" which explains to customers that they can seek quotes for the contestable elements of work from alternative providers. This leaflet is available from SPEN's website and is sent to those customers that submit an initial enquiry or request for quotation.
- Since April 2010, all SPEN full works connections quotations have included a paragraph that alerts the customer to the fact that they are able to choose competitive alternatives for some services.
- Customers are made aware of competition in connections when they make contact with SPEN. For example, in response to emailed enquiries, SPEN sends an automatic response that includes a sentence that says that some elements of the connection works may be carried out by an independent provider. The interactive voice response (IVR) system also includes this message, and allows callers to be directly connected to the appropriate team within SPEN.
- It has provided guidance to its customer contact team on competition in connections so that they can answer related questions from customers.

3.53 Respondents to our consultation generally agreed with SPEN's view that customers are aware of competitive alternatives.

Transparency of pricing and giving customers the ability to choose

3.54 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.

3.55 SPEN stated that its quotations provide the information necessary for customers to be able to make informed decisions on how to progress with their connection. SPEN's application form presents customers with the option of requesting one or both of the following types of quotes -

- A quote covering the full connection works (non-contestable and contestable)
- A quote covering only the non-contestable works (a POC quote).

3.56 SPEN's Competition Notices included an extract from their full connection works quotation. This extract shows that SPEN's charges are broken down in two ways –

- The first table shows a breakdown of the full connection charge by asset type (Substation, LV underground mains, HV underground mains) and by type of work (Connection, Diversion, Reinforcement). It does not provide a split between contestable and non-contestable works.
- The second table shows a breakdown of the non-contestable works only by type of work (connection to the network, reinforcement, diversions).

3.57 The full works connection quote does not provide a breakdown of the charge for contestable works. However, it may be possible to derive this breakdown by comparing the charges in the two tables.

3.58 The SPEN notices also included an extract from a quote for non-contestable works only, known as a Point of Connection (POC) quote. This extract shows a breakdown of the non-contestable works to a similar level of detail as the full works quote.

3.59 Customers requiring a new connection can request a full works quote or a POC quote, or both.

3.60 According to the SPEN notice, it has "recently commenced a trial for new connections to the EHV network" for convertible quotes.[13] An example of such a quotation is provided in Appendix 9 of SPEN's notice. In response to a clarification question regarding this trial, SPEN stated that the convertible quote trial was commenced on 1 August 2013, and is operational in the SPM and SPD areas.[14] As part of the trial, a convertible quote will automatically be issued to any customer requesting a "full works" quote for the following types of connections -

- new or modified demand connections within the EHV work and above (Demand) RMS
- new or modified generation connections at EHV and above, and
- new HV connections (demand or generation) of capacity 5 MW or above.

3.61 SPEN also clarified that it is seeking feedback from stakeholders during the course of this trial. It plans to review the feedback in "early 2014", and if the feedback is positive, it will continue to issue convertible quotes for the above-mentioned connection types. It will also use the feedback received to "feed into a wider review of the form of quotation offered within other RMSs".

3.62 According to the Competition Notices, all SPEN quotes are valid for a period of 3 months. SPEN also stated that extensions of up to 3 further months "will generally be granted in circumstances where a customer is not ready to accept a quotation within its initial validity period and a request is submitted prior to the quotation's expiry".

3.63 We received a mixed response to the subject of the transparency of SPEN quotes. Three respondents said that SPEN quotes were clear and transparent. One respondent said that the POC quotes provided by SPEN were not as transparent as those from other DNOs. One response added that SPEN could improve the format of its quotes because these can be "difficult to follow".

The potential for further competition

3.64 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 SPEN's efforts to open up non-contestable activities to competition.

3.65 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 SPEN's processes and procedures are similar and the nature of work is broadly equivalent.

3.66 In the discussion below we refer at times to potential barriers to competition — generic to GB electricity distribution networks and not specific to SPEN — that have

[13] Convertible quotes are full works quotes that can be subsequently converted into a POC quote In other words, a convertible quote is one that allows the customer to accept either the full works offer or just the non-contestable works only offer.
[14] According to SPEN, 13 convertible quotes have been issued under this trial as of 13 September 2013.

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

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

3.68 SPEN describes in its Competition Notices the actions it has taken to address this potential concern.

3.69 SPEN's website provides a number of process and technical specification documents including application forms, process documentations, copies of national framework documents and SPEN-specific appendices, technical specifications and construction and adoption agreements.

3.70 SPEN launched a web-based IT system (CRAM) in 2003 to support competition in its areas. This system allows SPEN to share information and guidance with customers and potential competitors. The system allows project-related documentation such as application forms and design drawings to be uploaded and shared instantly.

3.71 SPEN's Competition Notices also said that following feedback from its customers, SPEN is "currently in the final stages of introducing a new web based IT system which will upgrade and replace CRAM". According to the notice, the new system, called Register of Adopted Asset Requests (RAdAR), would "further improve communications and the ease of sharing of information".

3.72 SPEN provides free access to its asset data records through a web portal, allowing ICPs to view details of SPEN network assets through its Geographical Information System (GIS). The GIS information available to ICPs is aligned to that available to internal SPEN staff.

3.73 SPEN issues a regular newsletter for ICPs and IDNOs that provides updates on SPEN's standards of performance, current initiatives and document and procedure updates.

3.74 According to the SPEN notices, free access to SPEN's Long Term Development Statements (LTDS) is provided to any party wishing to connect to or make use of its networks. The LTDS statement allows parties to carry out assessments of the capability of the SPEN networks and get advance notice of "significant changes" to networks.

3.75 Respondents to our consultation did not express a view about the availability of guidance and information.

Service and response times

3.76 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). This is not specific to SPEN.

3.77 We recognise that unduly long timeframes to handle requests by alternative providers might hamper the ability of alternative providers to compete with SPEN. And uncertainty about these timeframes might increase the risk — in the eyes of the final customer — of using an alternative provider.

3.78 SPEN stated that it "strive[s] to exceed" the timescales set out in the Standard Licence Condition 15 (SLC 15) of their Distribution Licence.[15] The SPEN notice provides data on average times taken by SPEN to issue POC quotations and approve designs submitted by ICPs or IDNOs.

3.79 In response to a clarification question, SPEN provided further details about its performance against SLC 15 standards in the year 2012-2013. In particular, it provided data on the percentage of requests for POC quotes and design approvals to which it responded within the specified times for various categories. These are presented in the table below.

Table 16: Performance against SLC 15 standards for POC quotations and design approvals, 2012-2013[16]

POC Quotations	**SPM**	**SPD**
Low Voltage Demand	99.32%	99.90%
High Voltage Demand	99.59%	99.80%
EHV Demand	100%	100%
LV Generation	100%	100%
HV Generation	98.28%	98.65%
EHV Generation/ Other POC quotations	100%	90%
Design approvals	**SPM**	**SPD**
LV/HV Design approvals	99.60%	99.49%
EHV Design approvals	100%	100%

Source: SPEN response to an Ofgem clarification question

3.80 The Competition Notices stated that SPEN offers to make a voluntary payment in cases where these standards are not met.

3.81 We note that, in the SPD area, SPEN has only met the minimum standards in 90 per cent of cases for "EHV Generation/ Other POC quotations". Although this is still just within the prescribed limit of 90 per cent, this level of performance represents the absolute minimum level of service that we expect DNOs to provide. We expect

[15] Standard Condition 15 of the Electricity Distribution Licence obliges DNOs to respond to requests for quotations non-contestable works and design submissions from ICPs/IDNOs, and to do so within specified times in at least 90 per cent of cases.
[16] The SLC 15 classification of connection types do not match the Relevant Market Segments covered by the SPEN notice.

DNOs to deliver services as soon as reasonably practical and normally exceed the minimum standards.

3.82 The data provided by SPEN on SLC 15 standards do not include unmetered connections. In a response to a clarification question from Ofgem, SPEN stated that ICPs typically carry out unmetered connections activity under a tripartite agreement between the ICP, SPEN and the customer. According to SPEN, these tripartite agreements "cover new supplies, disconnections and transfers and will provide details of the assets to be installed, the design and the costs associated with our inspection and monitoring activity." SPEN also stated that once these agreements are signed, ICPs would submit a programme of works, and that SPEN approves these programmes within SLC 15 timescales.

3.83 For works relating to LV and HV jointing to SPEN network that are not covered by SLC 15, SPEN applies "voluntary standards" and offer to make a payment in cases where these standards are not met.

3.84 Most respondents to our consultation did not make a specific comment about SPEN's response times. One respondent raised concerns about SPEN's systems and processes, stating that it has to "expend more time and effort dealing with a project" in SPEN's areas compared to other DNO areas. Another respondent pointed to delays caused by incorrect quotations or incomplete designs produced by SPEN.

Contractual arrangements for the adoption of assets built by ICPs

3.85 The ESCG has identified that the arrangements put in place by DNOs in relation to the adoption of assets built by ICPs is a potential barrier to competition. In particular, the ESCG raised 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 SPEN.

3.86 SPEN stated that it does not require ICPs to provide a financial guarantee or security.

3.87 SPEN also stated that, since October 2006, it has offered customers seeking EHV connections the option of using a bilateral adoption agreement rather than a trilateral one.[17] This was extended to all metered connections in April 2008. According to SPEN, bilateral agreements offer the customer greater flexibility by allowing them to retain ownership of and responsibility for new assets until they are ready to be adopted by SPEN.

Inspection and monitoring of assets built by ICPs

3.88 The ECSG has raised the issue of inspection 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. This is not specific to SPEN.

3.89 SPEN stated that it complies with the principles set out in "Competition in Connections to Electricity Distribution Systems Decision Document – Part B February 2005 60/05" published by Ofgem. SPEN operates with a hierarchy of inspection levels, and ICPs are assigned to different inspection regimes based on their experience, skill and quality of work.

[17] Bilateral adoption agreements only involve the DNO and the connectee, whereas a trilateral agreement involves the ICP as well.

3.90 SPEN also said that it is developing an online interactive audit system that will allow ICPs to view the results of audit, giving them "greater understanding of existing processes, hierarchy and inspection levels, greater visibility of how to progress between audit levels and more efficient closure of audit non-conformities".

3.91 SPEN stated that they will work with the ECSG to identify and adopt best practice in this area.

3.92 One respondent to our consultation stated that SPEN's asset inspection and monitoring charges for assets built by ICPs and adopted by SPEN are "high cost" and "non-transparent".

Arrangements for obtaining land rights

3.93 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 and easements etc, slow in progressing them once begun and the DNOs require all the legal agreements to be in place before they will energise the new connection.

3.94 Responses to our consultation were critical about SPEN's current processes in relation to land rights -

- One respondent said that SPEN adopted a "zero risk" approach to land rights, and that its processes for land rights caused the respondent "considerable delays and excessive costs across all RMSs".
- Another respondent said that SPEN's charges for securing land rights were higher than other DNOs' charges and that these higher charges made it difficult for it to compete with SPEN.

3.95 In the SPD area, SPEN has agreed a new "streamlined" process with IDNOs for securing land rights to speed up the connections process. SPEN informed us in response to a clarification question that this new process was implemented in the SPD area "a few months ago". SPEN stated that it will continue to work with IDNOs to identify potential improvements to the process.

3.96 In the SPM area, SPEN said that it has worked with an IDNO to reach agreement "in principle" to improve the process of obtaining land rights. According to the notices, the initiative will result in the following improvements in SPEN's processes in the SPM area when working with any IDNO -

- SPEN will not insist on taking a separate lease of premises within a "close-coupled substation site", as it will rely on rights owned by the IDNO
- SPEN will no longer insist on a review by its solicitors of the IDNO's title to the substation site before energising the new connection, and
- SPEN will no longer insist on completion of the land rights process before commencing work on the new connection. However, a new connection will only be energised after the necessary land rights are in place.

3.97 In response to a clarification question, SPEN told us in September 2013 that it had set a target date of 31 October 2013 for implementation of the new process in the SPM area. In response to a subsequent clarification question, SPEN told us that there had been a delay in implementing this due to disagreements between SPEN and IDNOs on certain aspects of the new process. However, SPEN added that it was "confident that agreement [between itself and IDNOs] can be reached" and that the new process would be implemented by 31 December 2013.

Consistency of charges

3.98 A potential barrier to competition will arise if there are differences between point of connection quotes and full 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.

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

3.100 SPEN also noted that its POC quotes include transactional charges (design approval, inspection and monitoring etc) that would not be included in a full works quote.

3.101 Respondents to our consultation made some critical comments on this issue -

- One respondent said, in relation to the metered demand LV and metered demand HV RMSs, that SPEN had produced inconsistent quotations for POC and full works connection requests. In particular, the respondent claimed that for the same connection project, charges for non-contestable work were higher in POC quotes when compared to full works quotes.
- Another respondent said that "not all the details are the same across the [POC and all works] quotes […] for the same job".
- One respondent claimed that non-contestable charges in POC quotes were lower than those in full works quotes.

3.102 SPEN refuted these comments and said that its quotations "are based on standard units in designs implemented to ensure consistency in charges quoted."

Scope of contestable work

3.103 Connections works are split between works that are contestable (competitive) and those that are non-contestable (can only be completed by the DNO).

3.104 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.

3.105 We consider that DNOs should engage with the industry to consider where it is possible to further extend contestability.

3.106 In its Competition Notices, SPEN reported on its efforts to expand the scope of contestable work -

- Closing joint works on existing SPEN LV and HV underground cables is a contestable activity.
- The notice stated that live jointing to LV assets "on development sites" is currently a contestable activity.
- In response to a clarification question, SPEN confirmed that, for unmetered connections work, live jointing to the SPEN LV underground distribution network is a contestable activity.

3.107 The SPEN notice stated that several ICPs are completing new connections under these arrangements. In the SPM area, three ICPs in the metered segments and two in the unmetered segments are working on closing LV joints. In the SPD area, one ICP is undertaking closing joint works in the LV metered RMS, and three other ICPs have expressed an interest in doing so.

3.108 SPEN is currently developing a process to enable ICPs to identify the point of connection to the SPEN LV network (up to 200 kVA) for metered connections in both SPD and SPM DSAs. SPEN stated that ICPs have expressed "mixed views" on this subject. It reports that, in the SPD area, one party has "commenced trials to deliver small demand high volume connections involving the self determination of the point of connection for metered connections". In the unmetered segments, SPEN stated that ICPs already identify the relevant point of connection in cases where they carry out closing joint activities.

3.109 SPEN has produced a guidance document to "facilitate enquiries for operational access to the distribution network". However, no ICP has yet declared formal interest in pursuing this activity

3.110 One respondent claimed that the extension of contestability to activities that were previously non-contestable has not improved its ability to compete. It stated that additional requirements placed by "the DNOs, SPEN included", such as "training, authorisation, trade tests, confirmation of correct circuit etc" act as "second tier barriers to competition". In response, SPEN said that its "primary consideration is safety", and that "requirements for ICPs, therefore, are the same as those applied by SPEN to SPEN staff and directly employed external contractors."

Our conclusions

3.111 In making our determinations we have taken account of the evidence provided by SPEN and the views expressed in responses to our consultation. Where possible we have provided SPEN with the opportunity to respond to comments made by stakeholders.

3.112 We note the steps that SPEN has taken to promote awareness of competition amongst prospective customers. We also note that SPEN's website provides a useful range of information for customers and competitors. Respondents to our consultation were positive about SPEN's efforts in these areas.

3.113 However, respondents to our consultation raised a number of concerns about possible barriers to competition in both SPEN DSAs.

3.114 In relation to SPEN's processes for securing land rights, two IDNOs said that -

- SPEN's current processes for securing land rights introduced considerable delays by adopting a "zero risk approach", unlike other DNOs.
- SPEN's charges in relation to this process were "excessive", and higher than comparable charges applied by other DNOs.

3.115 We note that SPEN, working with an IDNO, has recently introduced a new process for land rights in the SPD area. A more efficient and streamlined process for land rights will make it easier for competitors to compete with SPEN and therefore benefit customers by giving them greater choice.

3.116 We also note that SPEN is currently working with IDNOs to agree terms for a similar new process to be introduced in the SPM area. In response to our clarification question, SPEN told us that there has been a delay in implementation, mainly due to

disagreements between SPEN and IDNOs over aspects of the process specific to SPM. The IDNO responses also pointed to these disagreements. SPEN told us that it expects these disagreements to be resolved and the new process implemented before 31 December 2013. However, we note that the issues involved are contentious, and we cannot be confident that this new timetable will be met.

3.117 Respondents to our consultation also raised the following concerns in relation to both SPEN DSAs -

- Several responses claimed that there were inconsistencies in SPEN's charges for non-contestable works between POC and full works quotes. One response alleged that non-contestable charges in full works quotes were lower than the corresponding charges in POC quotes. Another response alleged the opposite, that the charges in POC quotes were lower than those in full works quotes. SPEN denied these allegations, stating that it used a consistent set of charges to produce POC quotes and full works quotes. These comments related to the metered demand RMSs and the DG HV/EHV market segment.
- One response said that, in relation to the DG HV/EHV RMS, asset inspection and monitoring charges for assets built by ICPs and adopted by SPEN are "high cost" and "non-transparent".

3.118 Responses from IDNOs, in particular, were critical of the attitude of SPEN's senior management to the development of competition in connection. They believed that, unlike other DNOs, SPEN's senior managers do not take an active role in promoting competition. SPEN denied these claims and said that its senior management team is committed to and actively engaged in supporting Competition in Connections.

3.119 We note that SPEN has no plans to introduce "convertible quotations" in the LV RMSs (both demand and generation) and all connections in the other metered demand and generation RMSs other than HV with a capacity greater than 5 MW and EHV connections. We consider that convertible quotes are beneficial to the development of competition. Such quotes would make it easier for customers to choose alternative providers after an initial request for a full works quote. Convertible quotes could also remove the scope for any inconsistencies in charges for non-contestable works between different types of quotations for the same connection.

3.120 In their notice SPEN have made several references to initiatives and proposed changes that they are either trialling or planning to introduce in the future (ie the roll-out of convertible quotes, the RAdAR system to improve communication and the sharing of information, an online interactive audit system and a streamlined land rights process in the SPM area). We recognise that these initiatives are likely to facilitate competition however we cannot properly assess their impact until they have been fully implemented. A number of respondents – not all – raised concerns at the extent to which SPEN facilitates competition. We have not formed a view on whether these concerns are legitimate. We do believe however that while there are initiatives that may make it easier for others to compete against SPEN that have not yet been implemented, we cannot disregard the fact that there may still be barriers that restrict competition.

3.121 Although there may still be factors that constrain the ability of competitors to win work, the level of existing competition in a market segment remains a useful gauge of whether or not there is effective competition.

3.122 We draw the following conclusions in relation to the four metered demand RMSs -

- In the Metered Demand LV RMS, alternative providers have competed successfully with SPEN in low and high value projects in both areas. However,

alternative providers have been more successful in the SPD area, winning about a third of projects by value and by number. SPEN continues to enjoy a high share in the SPM area - over 80 per cent by value and by numbers of projects. We are satisfied that customers' interests would be protected by competition in the SPD area, but not in the SPM area.

- In the Metered Demand HV RMS, a number of providers have competed successfully with SPEN in both areas. Alternative providers are more successful in the SPD area, winning about a third of projects by value. In the SPM area, SPEN has retained a high share of over 80 per cent by number of accepted quotes and around 70 per cent by value of accepted quotes. In both areas, ICPs and IDNOs have won projects with average values that are much higher than SPEN. However we note that a small number of parties in both areas have had average values of accepted POC quotes that were below the average value of accepted SPEN quotes. We also note the level of competitive activity in the Demand LV RMS in the SPD area, and consider that customers requiring low value connections in the Metered Demand HV RMS in SPD could benefit from this activity. We are satisfied that customers' interests would be protected by competition in the SPD area, but not in the SPM area.
- The Metered Demand HV and EHV RMS is relatively small in terms of number of accepted quotes. Just one IDNO quote was accepted in 2012-2013, giving SPEN a 98 per cent share of the market by value. The level of activity is higher in the SPM area, but SPEN has retained over 80 per cent of the market by value and 60 per cent of the market by number of accepted quotes. We are not convinced that competition has developed to the extent that customers' interests would be protected in the absence of price regulation in either area.
- In the Metered Demand EHV and above RMS, although POC quotes were issued to three parties in each of the SPM and SPD areas, none were accepted - giving SPEN a share of 100 per cent across both areas. We are not convinced that competition has developed to the extent that customers' interests would be protected in the absence of price regulation in either area.

3.123 In relation to the two distributed generation RMSs, we note the following -

- The Distributed Generation Low Voltage RMS is a small RMS in terms of total number and average values of accepted quotes. Only two POC quotes were accepted in the SPD area, and none in the SPM area. SPEN's share of accepted quotes is close to 100 per cent in the SPD area, and exactly 100 per cent in the SPM area. We note the small number ICP/IDNO quotes issued in this segment, relative to the number of full works quotes issued. We are not convinced that competition has developed to the extent that customers' interests would be protected in the absence of price regulation in either area.
- The Distributed Generation HV and EHV RMS is characterised by high value projects. Several parties have received and accepted ICP/IDNO quotes in both SPM and SPD areas. SPEN enjoys a high share of accepted quotes in both areas – over 80 per cent in SPD and over 70 per cent in SPM. We note SPEN's performance in the SPD area against SLC 15 standards for POC quotations and design approvals for "EHV Generation /Other POC quotations". In 10 per cent of cases, SPEN did not meet the specified time limits for such connections. We are not convinced that that competition has developed to the extent that customers' interests would be protected in the absence of price regulation in either area.

3.124 In relation to the unmetered connections RMSs, we note the following -

- We did not receive any comments - positive or negative - from respondents specifically relating to the unmetered RMSs.

- In the Unmetered Connections – Local Authority work RMS, SPEN has retained a high share of new connections in the SPD DSA. Its share fell from 100 per cent in 2011-2012 to 98 per cent in 2012-2013, when one ICP completed 77 connections. SPEN stated that it expects its share in the SPD area to drop in the future as three Local Authorities in the SPD area have recently signed tripartite agreements with a single ICP to progress new unmetered connections. In the SPM area, SPEN's share has been dropping steadily from 89 per cent in 2010-2011 to 62 per cent in 2012-2013, with 11 Local Authorities using ICPs. We are satisfied that customers' interests would be protected by competition in the SPM area, but not in the SPD area.
- In the Unmetered Connections – PFI RMS, no PFI contracts were in place in the SPD area in the relevant period, and therefore there was no activity in this RMS. In the SPM area, one PFI scheme is currently operational with Knowsley Borough Council, with the contractor carrying out new connections work supported by SPEN (which provided the "Rent a Jointer" service). We think the scope for the growth of competition in this RMS is influenced by the extent to which local authorities adopt PFI structures. However, taking account of the extent of observed ICP activity in the Unmetered Local Authority RMS, we are satisfied that customers' interests in this RMS would be protected by competition in the absence of price regulation in the SPM area, but not in the SPD area.
- In the Unmetered Connections – Other RMS, SPEN has not issued any ICP or IDNO quotes in either SPM or SPD during the period from April 2010 to March 2013. According to data provided by SPEN, the volume of unmetered supplies exiting IDNO networks in both SPD and SPM has grown between April 2010 and March 2013. We are not convinced that that competition has developed to the extent that customers' interests would be protected in the absence of price regulation in either area.

3.125 SPEN has pointed to the large number of IDNO connected customers in the SPD and SPM areas, and the number of unmetered units exiting IDNO networks, as evidence of competition. We accept that the total number of IDNO customers (and units exiting IDNO networks) in a DNO area and its growth can be an indicator of past competition. However, we do not believe that this is a good indicator of current levels of competition in making new connections to the SPEN network. For example, a new development that is already served by an IDNO may grow in phases, leading to an increase in the number of IDNO-connected customers in the SPEN area.

3.126 To assess the extent of competition in connections to the SPEN network, we have looked at competitive connections activity, as evidenced by data on the number of parties actively seeking and accepting competitive quotes for connections to the SPEN network, and the numbers and value of such quotations. To the extent that recent growth in the number of IDNO connected customers and volumes exiting IDNO networks is relevant, we believe this would be captured in the data on IDNO quotes issued by SPEN and accepted by third parties.

4 Next steps

For RMSs where the Competition Test has been satisfied

4.1 From the date of our determination, 12 December 2013, we will no longer regulate the prices SPEN may charge in respect of any contestable connection services (fully funded by the customer)[18] in the following RMSs -

[18] 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.

- Metered demand connections – Low voltage work in the SPD DSA only.
- Metered demand connections – High voltage work in the SPD DSA only.
- Unmetered connections – Local Authority work in the SPM DSA only.
- Unmetered connections – Private finance initiative work in the SPM DSA only.

4.2 In respect of these RMSs, SPEN 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 SPEN 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 SPEN may continue to charge the regulated margin (fixed at four per cent) allowed by Charge Restriction Condition (CRC) 12.

4.5 Given the timing of its application, SPEN will be unable to resubmit further competition notices under the competition test arrangements. We will set out our approach to further considering the state of competition in connections to distribution networks in 2014.

4.6 Given the timing of its application, SPEN will be unable to resubmit further competition notices under the competition test arrangements. We will set out our approach to further considering the state of competition in connections to distribution networks in 2014.

Appendix 1 – Responses to our consultation on SPEN's 16 August 2013 Competition Notice

1.1 On 26 September 2013 we issued a consultation seeking views from interested parties on SPEN's Competition Notice. This consultation and the responses we received have been published on our website.

1.2 We received seven responses in total, including one confidential response. Table 17 lists the names of the six non-confidential respondents together with the Relevant Market Segments to which their response relates.

Table 17 Respondents to our consultation

Respondent	Distribution Service Areas	Relevant Market Segments
Brookfield Utilities	SPD SPM	Metered Demand LV Metered Demand HV Metered Demand HV/EHV Metered Demand EHV and above
CALA Homes (East)	Not specified	Not specified
Data facilities	SPD SPM	Metered Demand LV Metered Demand HV Metered Demand HV/EHV Metered Demand EHV and above DG LV DG HV/EHV
Energetics	SPD SPM	Metered Demand LV Metered Demand HV Metered Demand HV/EHV Metered Demand EHV and above
RWE npower renewables	SPD SPM	DG LV (SPM only) DG HV/EHV
Utility connections	SPD SPM	Metered Demand LV Metered Demand HV Metered Demand HV/EHV
Confidential		

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

Brookfield Utilities UK

1.4 Brookfield Utilities UK is the owner of two licensed independent distribution network operators (IDNOs), the Electricity Network Company Limited and Independent Power Networks Limited. The response from Brookfield relates to all metered demand RMSs in both SPM and SPD areas.

1.5 The response from Brookfield made the following points -

- Most developers are aware that competitive alternatives to SPEN exist.
- POC quotes provided by SPEN are "not as transparent as other DNOs", and SPEN does not provide "all the information we require to completely understand the proposition".
- Legal costs for securing land rights are "far higher than the costs we experience across the rest of the UK", and are "always provided after the work has been completed". It adds that the "legal cost of SP's sub lease […] is out of proportion with other DNOs and makes it difficult to compete [with SPEN] due to the additional cost this puts on our offering."
- Brookfield acknowledges that IDNOs have been more successful in the SPEN areas than in other DNO areas. However, they believe this is because "most of the first IDNO groups were born out of SP". Brookfield believes that the current situation is different, and that "IDNOs are winning a far larger share year on year [in other DNO areas] than is won in SP".

1.6 Brookfield also stated that "at the present time there is not the appetite to enter the market further as the timescales and cost to connect and the inability to deliver a service to our customers cannot be guaranteed."

1.7 In relation to SPEN's complaints handling and dispute resolution systems, Brookfield stated that "when we raise an official complaint it does not get dealt with until we complain again. Normally this is after the date that our customer required a response so we cannot deliver the level of customer service that we provide in other parts of the UK."

1.8 In conclusion, Brookfield stated that it does not support SPEN's application, and that it "ranks them lowest when compared with other DNOs in providing Competition in Connection".

CALA Homes (East)

1.9 CALA Homes (East) is a residential property developer operating in the east of Scotland.

1.10 The respondent makes the point that it in most cases, it prefers to award contracts for new connections to IDNOs rather than SPEN. This is because SPEN is not able to make asset adoption payments to the developer, whereas an IDNO can (to the extent commercially feasible). This limits the extent to which the respondent can benefit from competition.

Data facilities Ltd

1.11 Data facilities Ltd is a consultancy that offers advice to customers seeking new utility connections.

1.12 The response relates to all metered demand and distributed generation segments in both the SPM and SPD areas. It made the following points -

- It is aware that competitive alternatives exist.
- It believes that customers have an effective choice of connection provider, but that it is difficult to compare SPEN with alternative providers because "it is not easy to see like for like quotes".
- SPEN takes appropriate steps to make customers aware of competitive alternatives.
- All SPEN quotations seen by the respondent have contained the information needed to make an informed choice between providers.
- It believes that the margins available to alternative providers are low, and this hinders competition.

Energetics

1.13 Energetics is a licensed independent distribution network operator (IDNO). The response from Energetics relates to all metered demand RMSs, and the Distributed Generation Low Voltage segment, in both SPM and SPD areas.

1.14 The response raised a number of concerns about SPEN's business processes and practices -

- The response claimed that SPEN designers "periodically produce incomplete designs" in response to competitive connection applications.
- SPEN quotations "which are not acceptable even due to SP's failures require to be reapplied for".
- When a new DG LV connection is made to an IDNO's network, SPEN charges the IDNO a £350 fee for "network studies". The respondent disputes the validity of this fee.
- The response claims that SPEN adopts a "zero risk" approach to land rights, and that its approach to land rights "introduce considerable delay and excessive costs across all RMSs".
- SPEN's policy of requiring "on most occasions to have to pay all monies upfront is an additional barrier to competition."
- The response claims that SPEN has produced point of connection quotes and full works quotes for the same connections where the charges for non-contestable work were different. This has occurred in the metered demand LV and metered demand HV segments.

1.15 Based on its overall view of SPEN, the respondent stated that "a fundamental change is required within the SPEN organisation before OFGEM could be confident that price regulation could be lifted."

RWE npower renewables

1.16 RWE npower renewables (RWE) is a generation developer and operator, and is a connections customer of SPEN in both distribution service areas. The response from RWE relates to DG LV segment in SPM and DG HV and EHV segment in both SPM and SPD areas.

1.17 The response made the following points -

- The respondent is aware of competitive alternatives to SPEN. However, for a number of reasons not specific to SPEN alone, it believes that it does not have an effective choice. DNOs have deemed planning rights, giving them an advantage

over ICPs. As a customer, RWE would prefer to deal with one party rather than two. And finally, there are question marks around the competence of ICPs in dealing with the type of connection work that RWE are involved in.

- RWE believes SPEN takes appropriate steps to make customers aware that competitive alternatives exist.
- SPEN quotes are clear and transparent. The level of breakdown of charges in SPEN quotes compares favourably with the quotations produced by other DNOs. However, RWE suggests that SPEN could "improve the general format of presenting both contestable and full-works quotes – they can be unclear to follow".
- SPEN's policy of allowing customers to request a POC quote and an full works quote through the same application process is helpful, and "facilitates the comparison of DNO and ICP quotes". The three month validity period of SPEN quotes is "reasonable".
- RWE stated that "non-contestable and 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)". The response also says that adoption charges applied by SPEN (and other DNOs) are "high cost, non-transparent".
- RWE believe that the data provided by SPEN on competitive activity show that "there is not sufficient competition". This comment related to the DG HV and EHV segment in both SPM and SPD DSAs.

1.18 In summary, RWE stated that "the penetration of competitors in delivering HV-EHV DG connections appears far too low to convince us that price control regulation of the HV-EHV DG connections should be lifted at this time".

Utility connections (UK) Ltd

1.19 Utility connections (UK) Ltd is a consultancy that offers advice to customers seeking new utility (electricity, gas and water) connections in both SPEN DSAs.

1.20 The response relates to the metered demand LV, metered demand HV and metered demand HV/EHV RMSs in the SPM area. It made the following points -

- The respondent "regularly uses IDNO as well as DNO for procurement".
- Its clients are aware of competitive alternatives to SPEN, and have used them in the past. It has been informed by SPEN that competitive quotations can be obtained.
- SPEN quotations are clear, and non-contestable charges in SPEN POC quotations are consistent with charges in SPEN full works quotations.
- It believes that customers have an effective choice of connection provider, and that customers have benefitted from competition in the SPM area.

Confidential

1.21 We received one confidential response to our consultation.

1.22 The response noted that it is "difficult to compete with SPEN" in the SPM area. The response highlighted the difficulties that ICPs and IDNOs have faced in persuading SPEN to cooperate with them to reform the legal process for obtaining land rights.

1.23 The response stated that although SPEN "have historically had the highest penetration of IDNO networks in their SPD area", this is because "the two largest

IDNOs in the early stages of their development decided to focus their efforts on SPD, not because SPD were the most accommodating but instead because geographically it suited those IDNO to operate in this area". The response went on to say that "[t]he market share acquired by the IDNOs occurred in spite of SPs efforts to distort competition and because of SPs own failing to deliver connections to their customers. It certainly did not arise as a result of SP's effort to promote competition".