

Interested parties

Direct Dial: 020 7901 1861  
Email: James.Veaney@ofgem.gov.uk

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Dear stakeholder,

**Publication of Scottish and Southern Energy Power Distribution's application to have price regulation lifted on competitive connection activities in various Relevant Market Segments (RMSs)**

**The application**

On 23 December 2013 Scottish and Southern Energy Power Distribution (SSEPD) submitted to Ofgem a document containing Competition Notices in respect of its two licensed distribution networks – Southern Electric Power Distribution plc (SEPD) and Scottish Hydro Electric Power Distribution plc (SHEPD) ('distribution services areas' (DSAs)). The Competition Notices serve as applications by SSEPD to have price regulation lifted on competitive connection activities in various RMSs set out in Charge Restriction Condition 12 (CRC 12) of the Electricity Distribution Licence.

In summary, SSEPD is applying to have price regulation lifted in –

- Both its DSAs for the 'Demand connections – HV', 'Demand connections – HV and EHV', 'Demand connections – EHV' and 'Distributed Generation – HV and EHV' RMSs.
- The SEPD DSA for the 'Unmetered Connections – Local Authority', 'Unmetered Connections – PFI' and 'Unmetered Connections – other' RMSs.

Having received these applications, we must make separate decisions whether or not to lift price regulation on competitive connection activities, in respect of each Relevant Market Segment and each licensee area.

**Background**

We consider that, where it is possible, competition can deliver benefits to customers 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.

In Distribution Price Control Review 5 (DPCR5) we introduced a new approach to facilitating competition in connections to electricity distribution networks.<sup>1</sup> Since 1 October 2010, Distribution Network Operators (DNOs) have been allowed to earn a regulated margin (fixed at 4 per cent above cost)<sup>2</sup> on contestable connection activities in nine Relevant

<sup>1</sup> Please refer to DPCR5 Final Proposals - Incentives and Obligations for further information: <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=348&refer=Networks/ElecDist/PriceCtrls/DPCR5>. The detail of the obligations on DNOs are set out in CRC 12 of their licences.

<sup>2</sup> Previously under DNO approved connection charging methodologies their connection charges were limited to recovery of reasonable costs.

Market Segments where we consider competition to be viable. The purpose of the headroom created by this regulated margin is to attract new market entrants.

In addition, our DPCR5 proposals also made provision for DNOs to submit a Competition Notice to have price regulation lifted on competitive connection activities in the Relevant Market Segments. This opportunity to earn an unregulated margin was designed to encourage a change of mindset by DNOs with regard to competition and stimulate the removal of potential barriers to competition. We also set out that any DNO that failed to demonstrate competition, or put forward a case by December 2013, would be reviewed by Ofgem and could subsequently be referred to the Competition Commission.

### **Next steps – deciding whether to lift price regulation**

The process for assessing a Competition Notice submitted by a DNO is set out in CRC 12 and the DPCR5 Final Proposals document.

Ultimately, in assessing a Competition Notice we will be looking at whether we can rely on real competition or the threat of competition to protect consumer interests rather than regulating prices charged by the DNO. We will conduct a separate analysis of each market segment for each of SSEPD's licensed areas and we will only lift price regulation where we consider that effective competition exists.<sup>3</sup>

Before we make a decision on SSEPD's Competition Notices we will consult with parties that we believe have an interest in the Notice. We intend to publish a consultation on SSEPD's Competition Notice in February 2014. Our consultation will highlight the particular issues on which we would welcome respondents' views and evidence. In the meantime, we are publishing a copy of SSEPD's Competition Notice on our website. This is intended to allow interested parties the opportunity to consider SSEPD's application ahead of our formal consultation.

Interested parties should make their comments known to us through the formal consultation process in due course. However, if you have any questions about this letter or any other aspects of the Competition Notice process please contact [connections@ofgem.gov.uk](mailto:connections@ofgem.gov.uk).

Yours sincerely

James Veaney  
Head of Distribution Policy

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<sup>3</sup> Price regulation will be lifted where DNOs demonstrate that they have passed both a Legal Requirements Test and a Competition Test, both set out in CRC 12 and the DPCR5 Final Proposals document.  
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=348&refer=Networks/ElecDist/PriceCtrls/DPCR5>