

Competition in connections – Consultation on SSEPD’s Competition Notices

Consultation

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Overview:

This consultation seeks views on the development of competition in Scottish and Southern Energy Power Distribution’s (SSEPD’s) Distribution Service Areas (DSAs). It follows the submission to us by SSEPD of ‘Competition Notices’¹ on 24 December 2013 on behalf of Scottish Hydro Electric Power Distribution (SHEPD) and Southern Electric Power Distribution (SEPD) in relation to seven Relevant Market Segments (RMSs) in the SEPD area and four RMSs in the SHEPD area.

We currently protect the interests of consumers by regulating the margins that Distribution Network Operators can earn from their connections business. We propose to lift price regulation for connection services where SSEPD has demonstrated that effective competition exists by satisfying both the Legal Requirements Test and a Competition Test as set out in Part C of Charge Restriction Condition (CRC) 12.² We intend to make determinations on whether SSEPD has satisfied these tests in each of its DSAs in April 2014.

In this document we highlight the information we are looking for to help us assess whether effective competition exists in RMSs covered by SSEPD’s Competition Notices. SSEPD’s Competition Notices are available on our website as an associated document to this consultation.

¹ A Competition Notice is a Notice given by the licensee in accordance with Part D of Charge Restriction Condition (CRC) 12.

² CRC 12. Licensee’s Connection Activities: Margins and the development of competition

Context

Our principal objective is to protect the interests of existing and future consumers. We consider that where competition is viable and effective it can protect customer interests better than regulation. Effective competition in the connections market should allow customers to benefit from lower prices, innovation and better service.

In recent years, we have worked closely with the industry to remove barriers and other limitations on the scope for competition in connections. In 2010, we introduced a package of measures to remove regulatory barriers to competition and to provide strong incentives for Distribution Network Operators (DNOs) to facilitate competition.

These measures include -

- providing headroom to new entrants by introducing a four per cent regulated margin that DNOs must charge on contestable (competitive) connection services in market segments where we consider competition to be viable
- providing DNOs with the opportunity to have this price control lifted in segments of the market where they can demonstrate that competition can be relied upon to protect consumer interests (by way of submitting a Competition Notice), and
- an assurance that we will continue to monitor competition in the connections market (we will review the position and consider what action to take if a DNO fails to demonstrate effective competition by 31 December 2013).

To date we have issued decisions on nine applications – 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), Scottish and Southern Energy Power Distribution (on 29 April 2013) and Scottish Power Energy Networks (on 13 December 2013). Details of our previous determinations and of any Competition Notices we are currently considering can be found on our website.³

In our previous determinations we have emphasised that we will not lift price regulation until we have sufficient evidence that customers’ interests will be protected in its absence. If a DNO does not consider that it can provide evidence of effective competition in the whole of a Relevant Market Segment (RMS) it can propose an alternative market segment.

We have received an application from Scottish and Southern Energy Power Distribution (SSEPD) on behalf of its two licensed Distribution Service Areas (DSAs): Scottish Hydro Electric Power Distribution (SHEPD) and Southern Electric Power Distribution (SEPD). This consultation seeks views on SSEPD’s application, which relates to -

- Metered Demand – HV work RMS in both DSAs
- Metered Demand – HV and EHV work RMS in both DSAs
- Metered Demand – EHV and above work RMS in both DSAs
- Distributed Generation – HV and EHV work RMS in both DSAs
- Unmetered – Local Authority work RMS in the SEPD DSA only

³ <https://www.ofgem.gov.uk/electricity/distribution-networks/connections-and-competition>



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- Unmetered – Other work RMS in the SEPD DSA only, and
- Unmetered – Private finance initiative (PFI) work RMS in the SEPD DSA only.

This is SSEPD’s second application. Our determinations in this case will be based on the evidence presented in its Competition Notice and responses to this consultation.

Associated documents

SSEPD’s Competition Notices and decisions on previous Competition Notices

<http://www.ofgem.gov.uk/Networks/Connectns/CompinConn/Pages/CompinCnnctns.aspx>

DPCR5 Final Proposals - Incentives and Obligations

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=348&refer=Networks/ElecDist/PriceCntrls/DPCR5>

Special conditions of the Electricity Distribution Licence

<http://www.ofgem.gov.uk/Networks/ElecDist/PriceCntrls/DPCR5/Documents1/CRCs%20master%20merged.pdf>

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Executive Summary

Scottish and Southern Energy Power Distribution (SSEPD) is applying for price regulation to be lifted in seven Relevant Market Segments (RMSs) in its Southern Electric Power Distribution (SEPD) Distribution Service Area (DSA) and four RMSs in its Scottish Hydro Electric Power Distribution (SHEPD) DSA.

We are seeking views and evidence by 26 March 2014 on whether we can have confidence in SSEPD being constrained by pressures from actual or potential competitors if price regulation is lifted in the RMSs covered by SSEPD’s application in each of its DSAs.

We have four months from the date SSEPD submitted its application, 24 December 2013, to determine whether to lift price regulation.

Background

We have been working to facilitate competition in electricity connections since 2000. Unlike the replacement, reinforcement and maintenance of the existing network, some connection services are contestable. This means that new entrants to the market can compete with Distribution Network Operators (DNOs) operating in their regions to give customers a real choice over their connection provider and an opportunity to shop around to get good service and value for money. We would expect competition to deliver benefits that are more difficult to achieve through regulation, such as innovation in the type of services on offer, a focus from providers on meeting customer needs and a choice for customers.

In general, however, we have been disappointed with the pace at which competition in the electricity connections market has developed. For this reason, at the last electricity distribution price control review (DPCR5), we revised regulatory arrangements to further facilitate competition. Previously, DNOs were prevented from earning a margin on connection activities. DNOs must now earn a margin of four per cent on contestable connection services in those market segments where competition is considered viable. This is intended to create headroom to allow others to compete against the DNO. In addition, since the start of DPCR5 (April 2010), DNOs have been able to submit Competition Notices to request that price regulation be lifted where they can show that effective competition exists.⁴

Considerations in determining whether to lift price regulation

In determining whether to lift price regulation, we will consider whether we can rely on actual competition or the threat of competition, rather than price regulation, to protect consumer interests. We will only lift regulation where we determine that effective competition exists. Furthermore, our previous decisions on DNOs’ Competition Notices have demonstrated that we will not lift price regulation until we have sufficient evidence that customers’ interests, in the whole of a RMS, will be protected in its absence. We will conduct a separate analysis of each DSAs covered by SSEPD’s application.

⁴ As DNOs have an important role to play in removing barriers to entry, any DNO that fails to demonstrate effective competition by December 2013 will be reviewed by Ofgem and may subsequently be referred to the Competition Commission.

One important indicator of whether competition is effective is SSEPD’s share of work carried out. Another is the number of alternative providers active in each market segment. SSEPD’s application suggests that it carries out a large share of connection projects in some RMSs where it considers that there is effective competition. While we will take into account SSEPD’s share of work, in our view it should not be considered in isolation as it can be an imperfect indicator of the effectiveness of competition. For example, a DNO may retain a high share by providing a competitive price or a high quality of service. In that case, the threat from competitors may be effective in limiting the prices that the DNO charges and/or encouraging it to innovate and improve service.

Equally, continued regulation in contestable services can have unintended consequences and stifle the scope for customers to realise the benefits, such as innovation, that competition can bring. For this reason, an approach that looks narrowly at market shares and retains price regulation until predefined thresholds have been met may not be in customers’ best interests. Where we lift price regulation, we will continue to monitor the way the market works and customers will continue to be protected by competition law.

Respondents’ views

For the reasons outlined above, we will consider a range of criteria in assessing whether effective competition exists. We will make our decision having considered the evidence in SSEPD’s Competition Notices and in responses to this consultation.

We would like to hear in particular from parties who purchase contestable connection services in the RMSs covered by SSEPD’s Competition Notices in either DSA. We would like to understand whether customers have effective choice between connections providers, whether they have the information they need to decide between alternative offerings and whether this has been, or is likely to be, successful in delivering improved service levels or more competitive prices (either from SSEPD or from its competitors).

We also seek the views of those companies competing with SSEPD or those who have done so, or who have considered doing so in the past. We would like to understand whether there are barriers to them entering or growing their market share in the RMSs covered by SSEPD’s application. In particular, we would like to understand whether SSEPD responds appropriately to the needs of its competitors when it provides them with non-contestable services (services that can only be provided by the DNO).

1. SSEPD’s Competition Notices

Chapter Summary

This chapter describes SSEPD’s Competition Notices, the process we will follow in considering whether the Legal Requirements Test and the Competition Test have been met and the structure of this consultation.

1.1. On 24 December 2013 SSEPD submitted Competition Notices⁵ in respect of its two licensed distribution networks -

- Southern Electric Power Distribution (SEPD), and
- Scottish Hydro Electric Power Distribution (SHEPD).

1.2. SSEPD’s Competition Notices serve as applications to have price regulation lifted on competitive connection activities in the following RMSs set out in CRC 12 of the Electricity Distribution Licence⁶ -

- Metered Demand HV work in both DSAs
- Metered Demand HV and EHV work in both DSAs
- Metered Demand EHV and above work in both DSAs
- Distributed Generation HV and EHV work in both DSAs
- Unmetered Local Authority work in the SEPD DSA only
- Unmetered PFI work in the SEPD DSA only, and
- Unmetered Other work in the SEPD DSA only.

1.3. CRC 12 and our DPCR5 Final Proposals set out the process we must follow in assessing the Competition Notices submitted by SSEPD. We must determine whether the Legal Requirements Test and the Competition Test (set out in CRC 12) have been met for in each of SSEPD’s DSAs.⁷ We must make these determinations within four months of receiving SSEPD’s

⁵ Whilst the licence requires DNOs to submit separate Competition Notices for each licensee, for administrative convenience we agreed that SSEPD could submit a single document covering both its licensed areas. We will make separate determinations for each licensee.

⁶ Appendix 4 sets out the details of all nine RMSs.

⁷ The Legal Requirement Test and the Competition Test are set out in Appendix 3.

Competition Notices. CRC 12 requires us to consult with parties that we believe have an interest prior to making our determinations.

1.4. Our DPCR5 Final Proposals set out key issues that DNOs should consider in making their case. In addition, our previous decisions on DNOs’ Competition Notices have demonstrated that we will not lift price regulation until we have seen sufficient evidence that customers’ interests will be protected in its absence. The key issues set out in DPCR5 Final Proposals form the basis for SSEPD’s Competition Notices. These are -

- actual and potential competition: the current level of competition the DNO faces in each market segment and the scope for this competition to grow
- price and transparency of pricing: the steps the DNO takes to ensure that customers have the information they need to make decisions between taking a service from the DNO or new entrant providers; and what the DNO is doing to ensure they do not discriminate between their own customers and new entrant providers when they price their services
- promoting awareness of competitive alternatives amongst connections customers: the steps the DNO takes to ensure that customers are aware that they can go to other providers for the service they are requesting
- competition in connections procedures and processes: the actions the DNO has taken to ensure that the procedures and processes they have in place for non-contestable services meet the needs of new entrants and are provided in a non-discriminatory manner
- efforts to open up non-contestable activities to competition: what action the DNO has taken to extend contestability, and
- barriers to competition: other actions the DNO is taking to remove barriers to new entrants competing in their area.

1.5. We intend to publish our decision on the Competition Notices submitted by SSEPD, with details of our determinations in respect of the RMSs covered by the Notices, in April 2014.

Consultation responses

1.6. In making our determinations we will consider responses to this consultation, amongst other relevant information.

1.7. We are required to make separate determinations for each DSA covered by SSEPD’s application.

1.8. We ask respondents to this consultation, wherever possible, to submit their responses using the template at appendix one of this document. In any case, we ask them to clearly set out to which DSA each section of their response relates.

1.9. Unless consultation responses are marked confidential they may be posted on our website. Please note that it could prove difficult for us to use confidential information as evidence in coming to a determination. If you consider your response to be confidential, in whole or in part, please contact us using the details on the front of this document.

1.10. Under the terms of the licence, we are required to make a determination within four months of receiving a Competition Notice from the licensee. To ensure that we fulfil these obligations the deadline by which consultation responses must be submitted to us is 26 March 2014. We consider that this gives stakeholders sufficient time to consider documents and prepare responses.

Structure of this document

1.11. While interested parties are invited to respond to all of the questions posed in this consultation, we would particularly like to invite -

- Customers to consider the issues discussed in Chapter 2 (Customers’ awareness of and ability to choose competitive alternatives) and the document summary at Chapter 6.
- Existing and potential competitors to consider the issues discussed in Chapter 3 (The potential for further competition) and the document summary at Chapter 6.

1.12. Chapter 4 presents a summary of SSEPD’s assessment of competitive activity and we seek views on the data provided in SSEPD’s Competition Notices.

1.13. Chapter 5 describes SSEPD’s current position against the Legal Requirements Test.

1.14. Appendix 1 provides a template to assist you in providing responses to the consultation document.

1.15. Appendix 2 gives an overview of the electricity connections market, our decision to introduce a regulated margin and the potential for price regulation to be lifted. It also discusses what we will consider in determining whether the Competition Test has been passed.

1.16. Appendix 3 outlines the Legal Requirements and Competition Test

1.17. Appendix 4 defines each of the nine RMSs.

1.18. Appendix 5 contains a glossary.

1.19. Appendix 6 contains a feedback questionnaire about this consultation.

1.20. We encourage all interested parties to read the documents containing SSEPD’s Competition Notices which is available on our website as associated documents to this consultation.



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1.21. We intend to publish our decision on the Competition Notices submitted by SSEPD with details of our determinations in respect of each of its DSAs in April 2014.

2. Customers’ awareness of and ability to choose competitive alternatives

Chapter Summary

This chapter seeks customers’ views on their awareness of competitive alternatives. In particular, it asks whether customers are able to make informed decisions in choosing a connections provider and whether the competitive alternatives available to them provide the service and price they expect to receive.

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

In your response please indicate the RMSs and DSA(s) to which your experiences relate.⁸

Question 1: Are customers aware that competitive alternatives exist?

Question 2: Do customers have effective choice, ie are they easily able to seek quotations from competitive alternatives?

Question 3: Does SSEPD take appropriate measures to ensure that customers are aware of competitive alternatives?

Question 4: Are quotations provided by SSEPD clear and transparent? Do they enable customers to make informed decisions of whether to accept or reject a quote?

Question 5: Have customers benefitted from competition? Have they seen improvements in SSEPD’s price or service quality, or have they been able to source a superior service or better price from SSEPD’s competitors?

2.1. We consider that for effective competition to exist, customers must have a real choice of connections providers. In determining whether this choice exists, in addition to the number of competitors active in each of the RMSs, we will consider –

- customers’ awareness of alternative providers
- the ability of customers to make informed decisions, and
- whether competitive alternatives to SSEPD offer customers an effective choice of connections provider and the quality of service and/or value for money that they expect to receive.

⁸ Wherever possible please provide your response using the template at appendix 1 of this document.

Number of competitive alternatives

2.2. SSEPD provides in its Competition Notices data on activity by competitors in each metered demand RMS and for the DG HV and EHV RMS for each DSA in the period from April 2012 to September 2013 (one year and six months).

2.3. For each metered RMS covered by SSEPD’s Notices, SSEPD reports the number of “alternative providers” that received an SSEPD quotation in the relevant period. We summarise this information in table 1. In response to a clarification question, SSEPD told us that alternative providers “are ICPs and IDNOs, or those who intend to appoint an Independent Connection Provider (ICP) or Independent Distribution Network Operator (IDNO) to carry out the contestable element.”

Table 1: Metered RMSs - Number of alternative providers that have received quotations in each of the SSEPD DSAs (1 April 2012 to 30 September 2013)

Relevant Market Segment	SEPD	SHEPD
Demand HV	36	10
Demand HV and EHV	7	7
Demand EHV and above	5	2
Distributed Generation HV and EHV	81	18

Source: SSEPD Competition Notices December 2013 and subsequent clarifications received from SSEPD

2.4. SSEPD also reports the number of alternative providers that accepted a SSEPD quotation in the relevant period. We summarise this information in table 2.

Table 2: Metered RMSs - Number of alternative providers that have accepted quotations (1 April 2012 to 30 September 2013)

Relevant Market Segment	SEPD	SHEPD
Demand HV	16	4
Demand HV and EHV	0	4
Demand EHV and above	0	0
Distributed Generation HV and EHV	26	13

Source: SSEPD Competition Notices December 2013 and subsequent clarifications received from SSEPD

2.5. In respect of the unmetered RMSs in the SEPD DSA, SSEPD provide the following information -

- In the Unmetered Local Authority RMS, only one ICP has carried out work for a Local Authority in the period from April 2012 to September 2013. Two other ICPs have “expressed an interest in this market signing Access and Adoption Agreements” with SSEPD.
- In the Unmetered PFI RMS, three ICPs have carried out work in the period from April 2012 to September 2013.

2.6. In the Unmetered Other RMS, SSEPD has not provided any information on activity by alternative providers.

2.7. We would expect customers in any RMS and DSA for which SSEPD is seeking to pass the Competition Test to have an effective choice of competitive providers when they are seeking a connection.

2.8. We would like to understand if this is the experience of customers in the RMSs in these DSAs. Have customers been able to obtain quotes from alternative providers? We are also interested in whether customers are confident that they have a real choice between connections providers.

Promoting awareness of competition

2.9. SSEPD outlines steps 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 “Connections” section of the website. The website alerts potential connectees that some of the work associated with the new connection can be carried out by ICPs. Links to the list of ICPs maintained by Lloyd’s Register and a list of IDNO names on the Ofgem website are also provided.
- Every customer that applies for a connection is sent a factsheet that explains that customers may choose to use an alternative provider to carry out the non-contestable works.
- All quotations show contestable and non-contestable portions of the work separately.
- Regular workshops and one-to-one meetings with customers are held, where SSEPD explains the option of choosing an alternative provider to carry out non-contestable works.

2.10. To demonstrate the level of awareness of competition amongst its customers, SSEPD reports the results of a customer survey that was conducted over a six-week period in August and September 2013. As part of this survey, every customer that received a quotation from SSEPD was contacted.

2.11. Table 3 summarises the results of the customer survey as reported by SSEPD. The results in this table relate specifically to the Demand HV and DG HV and EHV RMSs.

Table 3: Awareness of competition – Results from a customer survey (Aug/Sep 2013)

Relevant Market Segment	% of respondents scoring SSEPD 7/10 or above on “keeping them aware of competition”		% of respondents who had considered or sought alternative offers	
	SEPD	SHEPD	SEPD	SHEPD
Demand HV	63%	55%	26%	32%
Distributed Generation HV and EHV	78%	88%	33%	38%

Source: SSEPD Competition Notices December 2013 and subsequent clarifications received from SSEPD

2.12. Appendix G of SSEPD’s Notices reports the results from an independent qualitative survey of customers in the unmetered RMSs. Nine customers in the SEPD DSA and six customers in the SHEPD DSA were covered by the survey. Statements made by respondents include -

- “[T]hey do quite a good job at our twice a year meeting. I am completely aware I have a choice.”
- “As a choice is it really worth the Highland council getting involved with other providers, it’s not really. Through their communication they’ve made it clear that we can but up north everyone’s made the decision not to go there.”

2.13. We seek customers’ views on the points made by SSEPD. In particular, we are interested in whether actions taken by SSEPD to make customers aware of the competitive alternatives available to them are adequate. When responding, please consider your experiences, the actions that SSEPD has undertaken and the actions that you consider it could reasonably undertake.

Transparency of pricing and giving customers the ability to choose

2.14. 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.

2.15. SSEPD states that every quotation issued in the metered RMSs “automatically includes a choice”. Customers that receive this quote may ask SSEPD to carry out all the works or it may ask SSEPD to carry out the non-contestable works only. In response to a clarification question, SSEPD told us that if a customer accepts the non-contestable part of the quotation, they can appoint an ICP/IDNO to carry out the contestable works without re-applying to SSEPD. SSEPD added that “the ICP or IDNO would then approach SEP/SHSEP on the customer’s behalf to arrange for a design approval/inspection in association with their contestable works and their final connection.”

2.16. According to SSEPD, its quotations include a “comprehensive breakdown of costs”, and that its pricing is “transparent and clearly competitive compared to [other DNOs].”

2.17. Appendix C of SSEPD’s Notices include example quotations showing the breakdown between contestable and non-contestable works. The sample quotes provided also show, separately, the price that connectees would pay if they were to ask SSEPD to carry out all works, and the price that they would pay if they were to ask SSEPD to carry out non-contestable works only.

2.18. All SSEPD quotations include the connection designer’s name and contact details, allowing the recipient to “speak to the person who planned their connection”.

2.19. SSEPD’s survey of ICPs and IDNOs identified the 30-day validity period of its quotations as the main barrier to competition in the SSEPD areas. According to SSEPD, it has reviewed the validity period of their quotations, and “going forward our standard validity period would be 90 days”. In response to a clarification question, SSEPD told us that it had extended the standard quotation validity period to 90 days for all new connections quotations issued after 1 December 2013 in the RMSs covered by its application.

2.20. We seek the views of customers and competitors on these points made by SSEPD. In particular -

- Are quotations provided by SSEPD clear and transparent?
- Do SSEPD’s quotations enable customers to make an informed decision to accept or reject a quote?
- Does the validity period on SSEPD quotes allow customers sufficient time to consider competitive alternatives?

Benefits

2.21. In addition, we are interested in whether customers consider that they have benefitted from competition. Such a benefit could be seen, for example, either in improvements in SSEPD’s services or charges in the face of competition or by new entrants providing a superior level of service and/or a better price.

3. The potential for further competition

Chapter Summary

This chapter seeks views of existing and potential competitors on the likely development of future competitive activity in the RMSs covered by SSEPD’s application. It considers the number of competitors already in the market, potential barriers to the further growth of competition and what factors influence competitors’ decisions to enter each RMS.

Question box

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

In your response please indicate the RMS(s) and DSA(s) to which your experiences relate.⁹

Question 1: Does the level of competitive activity in the RMSs show that there is the potential for further competition to develop?

Question 2: Consider the organisational structure of SSEPD’s business and its procedures and processes:

- ➔ how do they compare to those you encounter elsewhere in the gas and electricity markets or other industries? Do they reflect best practice?
- ➔ do they enable competitors to compete with the timescales for connection (from quote to energisation) offered by SSEPD? Or do they offer SSEPD any inherent advantage over its competitors or prevent existing competitors from competing with them effectively?
- ➔ do they assist, obstruct or delay connections providers entering any RMS?

Question 3: Are the non-contestable charges levied by SSEPD for statutory connections in the RMS consistent with those levied for competitive quotations? Are they easily comparable with competitive quotations? Do the differences in charges between a point of connection (POC) quote and the non-contestable elements of an all works quote act as a barrier to competition?

Question 4: What factors are key influences on the development of competition in the RMS? In particular, if you are an existing/potential competitor:

- ➔ what is the potential for competitors to enter each RMS, or grow their share of the RMS if they already operate in it?
- ➔ are there any types of connection in any RMS, or geographic locations in SSEPD’s DSAs, that by their nature, are not attractive to competition? Please explain why in your response.

⁹ Wherever possible please provide your response using the template at appendix 1 of this document.

3.1. While we will consider current levels of competition when determining whether to lift price regulation in the RMSs in each DSA, it will only be considered alongside the potential for further competition to develop.

3.2. In this chapter we ask for competitors’ views on the potential for further competition to develop in each of SSEPD’s two DSAs. In particular, we ask for views on the ease with which competitors can enter and compete, whether there are barriers to competition and we ask about SSEPD’s efforts to open up non-contestable activities to competition. We also invite views on how competition might develop in the future.

Ease of entering and competing in the market

The number of competitors active in the market

3.3. We consider that the ease with which competitors can enter the market and the number of competitors leaving the market are indicators of the potential for further competition to develop.

3.4. In its Competition Notice SSEPD provides details of the number of competitors active in each RMS and DSA in the period from April 2012 to September 2013. A high level summary of the information provided on alternative providers receiving quotations can be found in the section of this document on SSEPD’s assessment of existing competitive activity in Chapter 2.

3.5. We ask existing/potential competitors whether they consider that the level of competitive activity in each of the DSAs in itself shows that there is the potential for further competition to develop.

Barriers to effective competition

3.6. We consider that it is important to look at whether barriers to competition exist in the market that -

- prevent competitors from competing effectively (for example, barriers that may make it difficult for competitors to compete with SSEPD in terms of service or price), or
- prevent further competition (for example, barriers that may make entering an RMS unattractive, or barriers that obstruct or delay entry to the RMS).

3.7. We are not only considering potential barriers that are within SSEPD’s control to remove, but also natural barriers or regulatory barriers that may obstruct competition from developing further.

3.8. SSEPD’s Competition Notice sets out the actions they have taken to address potential barriers to competition raised by a number of bodies, including -

- in work developed by the Competitive Networks Association (CNA)

- those identified by members of the Electricity Connections Steering Group (ECSG).
- those identified through an independent survey of ICPs and IDNOs carried out by a market research company on behalf of SSEPD.

3.9. We invite respondents’ views on the existence of barriers to compete in any of the SSEPD DSAs. We also invite views on the effectiveness of the measures taken by SSEPD to address some of the potential barriers, as described in its Competition Notices.

Availability of guidance and information for ICPs/IDNOs

3.10. 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. SSEPD’s own survey of ICPs and IDNOs identified the lack of such information as one of the top barriers to competition in the SSEPD areas.

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

3.12. SSEPD’s website provides a range of information for customers and potential competitors. These include a “comprehensive suite of process, design and technical specification documents”. Information on the website is reviewed every three months and documents updated as necessary. SSEPD offers a start-up meeting to all new alternative providers who wish to enter the market in either area.

3.13. SSEPD also provides “code of practice documentation” relating to connections on request and offer guidance to help customers and alternative providers interpret these documents. These include “process maps, namely the connection call off process, design approval process, point of connection process and project release process”.

3.14. SSEPD offers alternative providers access to its mains records through its Geographical Information System (GIS). It also provides network load and feeder load analysis for “all voltage levels except 11 kV and LV systems” through its long term development statements (LTDS).

Service and response times

3.15. 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). SSEPD’s own survey of ICPs and IDNOs identified this as one of the main barriers to competition in the SSEPD areas.

3.16. We recognise that unduly long timeframes to handle requests by alternative providers might hamper the ability of alternative providers to compete with a DNO. Uncertainty about

these timeframes might also increase the risk – in the eyes of the final customer – of using an alternative provider.

3.17. SSEPD has set out a number of measures that it has implemented in order to improve the level of customer service it provides to all customers.

- Improvements to its management structure, including the appointment of a new dedicated Head of Customer Service, new connections and enquiry team managers to improve front-line call centre services, doubling the number of “call takers” responding to new connections enquiries, and a new connections manager in each DSA who would be responsible for all new connections quotations.
- A new complaints handling team has been set up with three managers and nine other staff to “actively engage with customers to resolve complaints at source”.

3.18. SSEPD reports the results of a customer satisfaction survey carried out as part of the Broad Measure of Customer Service incentive arrangements for DNOs. Table 4 summarises the results of the customer survey as reported by SSEPD for the 17 month-period from 1 April 2012 to 31 August 2013. Customer scores for two activities are presented – one for “new connections quotations” and the other for “the physical new connection”.

Table 4: Customer service survey results (1 April 2012 to 31 August 2013)

Relevant Market Segment	Average score out of 10 for quotations (number of respondents in brackets)		Average score out of 10 for connections (number of respondents in brackets)	
	SEPD	SHEPD	SEPD	SHEPD
Demand HV	7.66 (61)	8.26 (69)	8.00 (10)	8.81 (26)
Demand HV and EHV	8.00 (1)	-	-	8.00 (1)
Demand EHV and above	-	-	-	-
Distributed Generation HV and EHV	-	8.86 (14)	-	-
Unmetered Local Authority	-		-	
Unmetered PFI	-		-	
Unmetered Other	8.92 (13)		-	

Source: SSEPD Competition Notices December 2013 and subsequent clarifications received from SSEPD

Contractual arrangements for the adoption of assets built by ICPs

3.19. The ECSG 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 ECSG raise the issue of security arrangements (bonds) to protect the DNO against any liability in case there is a fault in the adopted network. This is not specific to SSEPD.

3.20. SSEPD states that it has “rewritten [its] Adoption Agreement to be bilateral in nature (simply between the alternative provider and ourselves) rather than tripartite (to include the developer).”

3.21. SSEPD also states that it has revised its requirement for additional security “should a company be of high financial risk”. SSEPD will now only ask for additional security “where we also have experience of the specific party concerned defaulting on an agreement. Even when requested, this security need only simply be a parent company guarantee”.

3.22. SSEPD has reduced the “defect correction period for assets adopted from alternative providers from three to two years”. This is in line with the obligations that SSEPD applies to contractors working on behalf of itself.

Inspection and monitoring of assets built by ICPs

3.23. The ECSG has raised the issue of inspections and monitoring of assets built by ICPs as a potential barrier to competition. In particular, it questioned the proportionality of the cost and time taken by DNOs to inspect these assets.

3.24. SSEPD states that it does not carry out any “more stringent inspections or monitoring activities than has been suggested by Ofgem”. SSEPD provides details of steps it has taken to “positively reduce the level of inspection and monitoring of alternative providers activity”.

3.25. SSEPD also states that it recognises the NERS accreditation and does not carry out additional “trade tests” to verify the skills of alternative providers, with the exception of providers that work live on existing SSEPD assets or make final HV connections to the SSEPD network.

3.26. SSEPD intends to start trialling a new “iAudit” system, whereby some audit tasks can be carried out remotely by SSEPD inspectors based on photographs taken on site using a mobile application. In response to a clarification question, SSEPD told us that it intends to “commence the trial in April 2014. It will initially be applied to Demand HV sites in both SHEPD and SEPD with the intention to roll out it to all RMSs by September 2014.”

Arrangements for obtaining land rights

3.27. The CNA has identified the process of obtaining land rights when an ICP or IDNO carries out the contestable work as a potential barrier to competition. According to the CNA, DNOs can be slow to initiate the process for securing leases, easements etc and slow to progress them

once begun. This can frustrate competitors as DNOs require all the legal agreements to be in place before they will energise the new connection.

3.28. SSEPD states that it has “fully adopted the streamlined independent network operators Incorporated Legal Process”. This process allows an IDNO to “incorporate” SSEPD’s rights within a standardised legal agreement with land owners, removing the need for SSEPD involvement in the process.

Consistency of charges

3.29. A potential barrier to competition will arise if there are differences between POC quotes and all works quotes in the charges set by the DNO for the same non-contestable work. This may place an alternative provider at an undue disadvantage when competing with the DNO for work.

3.30. Appendix C of SSEPD’s Notices includes sample quotations that separately show the price that connectees would pay if they were to ask SSEPD to carry out all works, and the price that they would pay if they were to ask SSEPD to carry out non-contestable works only. This allows customers to compare the non-contestable works charges under either scenario.

3.31. We seek respondents’ views on whether the non-contestable charges levied by SSEPD for all works quotes are consistent with those levied for non-contestable works only quotes, and whether SSEPD’s approach to charging for non-contestable work acts as a barrier to competition.

Other potential barriers

3.32. The potential barriers highlighted by the CNA and the ECSG include others that we have not discussed above, including -

- developing ongoing relationships (DNOs are often seen to be poor at “soft skills”, eg communication, cooperativeness, relationship with competitors), and
- dispute resolution (competitors raised concerns that the length of time taken to resolve disputes can leave them unable to compete effectively).

3.33. We seek respondents’ views on the extent to which they consider the procedures and processes SSEPD has put in place and identified in its Competition Notice to be sufficient to enable others to compete effectively. In particular, we seek competitors’ views on –

- Does SSEPD enable alternative connections providers to compete with its own connections timescales (from quote to energisation)? Or does SSEPD have any inherent advantage or prevent existing competitors from competing effectively?
- How does SSEPD assist, obstruct or delay connections providers entering the RMSs covered by its Notices?

- Do any of the potential barriers to the development of competition that have previously been identified still exist in the SSEPD DSAs?

The future growth of competition

3.34. We are interested in whether existing or potential competitors intend to expand or start their business in the RMSs covered by SSEPD’s Notices in either DSA. We are also interested in the factors that competitors take into consideration in deciding whether to compete with SSEPD.

3.35. We note that you may consider this information to be confidential. If you do, please provide it in a separate annex to your response and clearly mark it as confidential.

The potential for competition to develop

3.36. Further to the potential barriers to competition discussed earlier in this chapter, we note that the potential for competition to develop in the RMSs may be influenced by a number of factors, for example the level of contestable service offered by SSEPD to its customers, economic conditions and the level of margin charged by SSEPD.

3.37. We seek views of existing and potential competitors on what factors they consider are key influences on the development of competition in SSEPD’s DSAs.

3.38. We also seek the views of existing and potential competitors in SSEPD’s DSAs on the potential for them to enter, or grow their business in, the RMSs covered by SSEPD’s application within the next five years.

3.39. We also seek existing and potential competitors’ views as to whether there are any types of connection in the RMSs, or geographic locations in SSEPD’s DSAs, that, by their nature, are not attractive to competition. If you consider some connections/areas are not attractive to competition, why is that the case?

Efforts to open up non-contestable activities to competition

3.40. Connections works are split between works that are contestable and those that are non-contestable.

3.41. 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.

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

3.43. SSEPD’s Notices sets out a number of ways in which it has extended contestability in both SEPD and SHEPD areas.

- Live LV jointing is now a contestable activity.
- Alternative providers in the unmetered RMSs are able to identify their own point of connections.
- Alternative providers in the unmetered RMSs are able to approve their own designs for the point of connection, provided they use SSEPD standard designs.
- SSEPD allows alternative providers to operate under their own Distribution Safety Rules, “with no need to be authorised under [SSEPD’s rules]”.
- Standalone metered and unmetered disconnection services are now contestable.
- HV jointing is now a contestable activity, but so far no alternative provider has expressed an interest in undertaking this activity.
- The provision of SSEPD “rent a jointer” services for ICPs that require it.

3.44. SSEPD is also carrying out a number of trials with the aim of making certain non-contestable activities contestable in the future:

- Allowing providers in the metered RMSs to identify their own point of connection.
- Allowing alternative providers to compete for “part funded” work.
- Sharing of the final “point of isolation” on “common IDNO/DNO equipment (eg LV cabinet)”.

3.45. We seek views on SSEPD’s activities to open up non-contestable activities to competition. In particular, we seek views on how SSEPD engages with stakeholders in considering the extent of contestability and in developing procedures and processes (at the trial stage and for newly contestable activities) that promote competition.

3.46. We ask existing and potential competitors whether they consider the extension of contestability is likely to stimulate further competition in SSEPD’s DSAs.

4. SSEPD’s assessment of existing competitive activity

Chapter Summary

This chapter presents a summary of the information provided by SSEPD to support its assessment of existing competitive activity in the RMSs covered by SSEPD’s application and seeks views from interested parties.

Question Box

Question 1: Do you agree with the methods used by SSEPD to assess the level of competition in the RMSs? In particular, do you consider that the data provided gives a clear indication of the current level of competitive activity in each RMS?

Question 2: Do you consider that competitive activity is at a level that in itself indicates that effective competition exists? Do you consider that the coverage of existing competitive activity extends across each RMS?

4.1. In this chapter, we provide a summary of the information provided by SSEPD in its Competition Notices. We are seeking views on this information and on the level of competitive activity in each DSA.

4.2. The data presented in SSEPD’s Competition Notices relates to the period from April 2012 to September 2013, broken down into three six-monthly periods.

4.3. SSEPD has presented the following information on competitive activity within each RMS and DSA -

- The number of different types of quotes issued and accepted.
- The estimated value of contestable work associated with different types of quotations.

4.4. In relation to the data on quotations issued, SSEPD has defined the following categories:

- SEPD or SHEPD quotations. These are quotations where SSEPD would carry out both contestable and non-contestable works.
- SEPD or SHEPD (with choice) quotations. These are dual quotations that are capable of being accepted either on an “all works” (contestable and non-contestable) basis, or on a non-contestable works only basis.
- ICP/IDNO quotations. These are POC quotations for non-contestable works only.

4.5. In relation to the data on quotations accepted, SSEPD has used the following categories:

- SEPD or SHEPD (all works) quotations. These are accepted quotations where SSEPD would carry out both contestable and non-contestable works.
- SEPD or SHEPD (non-contestable only) quotations. These are dual quotations that have been accepted on a non-contestable works only basis. That is, SSEPD would carry out the non-contestable works only.
- ICP/IDNO quotations. These are accepted POC quotations for non-contestable works only.

4.6. In response to a clarification question, SSEPD explained the method used to estimate the value of contestable work associated with each type of quotation:

- In the case of accepted SEPD or SHEPD (non-contestable only) quotations, the actual values of the contestable element were used (i.e. the value that SEPD or SHEPD had offered for the contestable work).
- In the case of accepted ICP/IDNO quotes, SSEPD applied a segment-specific average value for the contestable works. In the DG HV EHV RMS, different values were assumed for HV generation and EHV generation projects as “HV generation and EHV generation projects had significantly different average values.” In the Demand HV/EHV RMS, actual values based on details of projects where SSEPD carried out all the works were used.

4.7. The tables below present the data for each DSA. These are based on data in the SSEPD Competition Notices and subsequent clarifications received from SSEPD.

4.8. We have calculated SSEPD’s share of contestable work based on the data provided. In doing so, we have assumed that an ICP or IDNO would always carry out the contestable work associated with accepted SEPD or SHEPD (non-contestable only) quotations.

4.9. We encourage interested parties to refer to SSEPD’s Competition Notice for full details of its data analysis.

Table 5: Metered Demand HV RMS - SEPD

SEPD	April to Sep 2012	Oct 2012 to March 2013	April to Sep 2013
Number of quotations issued			
Total number of quotations issued	809	918	1,107
Number of ICP/IDNO quotations issued	212	289	283
Number and contestable value of quotations accepted			
Total number of quotations accepted	193	248	344
Estimated total contestable value of accepted quotations	£11.5 million	£7.4 million	£13.5 million
SEPD’s share of contestable work			
SEPD share of contestable work by number of accepted quotes	90%	93%	89%
SEPD share of contestable work by contestable value	90%	93%	87%

Source: SSEPD Competition Notices December 2013 and subsequent clarifications received from SSEPD

Table 6: Metered Demand HV RMS - SHEPD

SHEPD	April to Sep 2012	Oct 2012 to March 2013	April to Sep 2013
Number of quotations issued			
Total number of quotations issued	639	532	639
Number of ICP/IDNO quotations issued	19	31	30
Number and contestable value of quotations accepted			
Total number of quotations accepted	327	265	285
Estimated total contestable value of accepted quotations	£3.7 million	£2.5 million	£4.0 million
SHEPD’s share of contestable work			
SHEPD share of contestable work by number of accepted quotes	99%	99%	99%
SHEPD share of contestable work by contestable value	99%	99%	99%

Source: SSEPD Competition Notices December 2013 and subsequent clarifications received from SSEPD

Table 7: Metered Demand HV and EHV RMS - SEPD

SEPD	April to Sep 2012	Oct 2012 to March 2013	April to Sep 2013
Number of quotations issued			
Total number of quotations issued	9	6	11
Number of quotations issued to ICP/IDNOs	2	1	4
Number and contestable value of quotations accepted			
Total number of quotations accepted	1	1	3
Estimated total contestable value of accepted quotations	£3.2 million	£0.3 million	£0.04 million
SEPD’s share of contestable work			
SEPD share of contestable work by number of accepted quotes	100%	100%	100%
SEPD share of contestable work by contestable value	100%	100%	100%

Source: SSEPD Competition Notices December 2013 and subsequent clarifications received from SSEPD

Table 8: Metered Demand HV and EHV RMS - SHEPD

SHEPD	April to Sep 2012	Oct 2012 to March 2013	April to Sep 2013
Number of quotations issued			
Total number of quotations issued	22	28	34
Number of quotations issued to ICP/IDNOs	12	12	8
Number and contestable value of quotations accepted			
Total number of quotations accepted	7	3	16
Estimated total contestable value of accepted quotations	£2.9 million	£0.02 million	£3.3 million
SHEPD’s share of contestable work			
SHEPD share of contestable work by number of accepted quotes	57%	100%	88%
SHEPD share of contestable work by contestable value	4%	100%	50%

Source: SSEPD Competition Notices December 2013 and subsequent clarifications received from SSEPD

Table 9: Metered Demand EHV and above RMS - SEPD

SEPD	April to Sep 2012	Oct 2012 to March 2013	April to Sep 2013
Number of quotations issued			
Total number of quotations issued	4	1	4
Number of ICP/IDNO quotations issued	3	1	4
Number and contestable value of quotations accepted			
Total number of quotations accepted	0	0	0
Estimated total contestable value of accepted quotations	0	0	0
SEPD’s share of contestable work			
SEPD share of contestable work by number of accepted quotes	-	-	-
SEPD share of contestable work by contestable value	-	-	-

Source: SSEPD Competition Notices December 2013 and subsequent clarifications received from SSEPD

Table 10: Metered Demand EHV and above RMS - SHEPD

SHEPD	April to Sep 2012	Oct 2012 to March 2013	April to Sep 2013
Number of quotations issued			
Total number of quotations issued	0	1	2
Number of ICP/IDNO quotations issued	0	1	2
Number and contestable value of quotations accepted			
Total number of quotations accepted	0	0	0
Estimated total contestable value of accepted quotations	0	0	0
SHEPD’s share of contestable work			
SHEPD share of contestable work by number of accepted quotes	-	-	-
SHEPD share of contestable work by contestable value	-	-	-

Source: SSEPD Competition Notices December 2013 and subsequent clarifications received from SSEPD

Table 11: Distributed Generation HV and EHV RMS - SEPD

SEPD	April to Sep 2012	Oct 2012 to March 2013	April to Sep 2013
Number of quotations issued			
Total number of quotations issued	97	193	371
Number of quotations issued to ICP/IDNOs	46	115	196
Number and contestable value of quotations accepted			
Total number of quotations accepted	38	58	85
Estimated total contestable value of accepted quotations	£2.2 million	£18.1 million	£21.4 million
SEPD’s share of contestable work			
SEPD share of contestable work by number of accepted quotes	55%	26%	25%
SEPD share of contestable work by contestable value	12%	19%	2%

Source: SSEPD Competition Notices December 2013 and subsequent clarifications received from SSEPD

Table 12: Distributed Generation HV and EHV RMS - SHEPD

SHEPD	April to Sep 2012	Oct 2012 to March 2013	April to Sep 2013
Number of quotations issued			
Total number of quotations issued	448	390	479
Number of quotations issued to ICP/IDNOs	19	24	28
Number and contestable value of quotations accepted			
Total number of quotations accepted	206	169	200
Estimated total contestable value of accepted quotations	£22.4 million	£17.6 million	£22.9 million
SHEPD’s share of contestable work			
SHEPD share of contestable work by number of accepted quotes	81%	86%	84%
SHEPD share of contestable work by contestable value	79%	91%	75%

Source: SSEPD Competition Notices December 2013 and subsequent clarifications received from SSEPD

Table 13: Unmetered Local Authority RMS - SEPD

SEPD	April to Sep 2012	Oct 2012 to March 2013	April to Sep 2013
Number of connections completed			
Connections completed by SSEPD	2,611	1,601	2,434
Connections where SSEPD provided “Rent a jointer” service to an ICP	0	0	0
Connections completed by an ICP	0	0	44
Contestable value of connections completed			
Total contestable value of connections completed	£0.52 million	£0.51 million	£0.51 million
SEPD’s share of work			
SEPD share by number of completed connections	100%	100%	98%

Source: SSEPD Competition Notices December 2013 and subsequent clarifications received from SSEPD

Table 14: Unmetered PFI RMS - SEPD

SEPD	April to Sep 2012	Oct 2012 to March 2013	April to Sep 2013
Number of connections completed			
Connections completed by SSEPD	1,533	1,601	1,967
Connections where SSEPD provided “Rent a jointer” services to an ICP	12,660	12,663	14,299
Connections completed by an ICP	1,400	1,403	2,924
Contestable value of connections completed			
Total contestable value of connections completed	£3.1 million	£2.9 million	£3.2 million
SEPD’s share of work			
SEPD’s share of completed connections	10%	10%	10%
Percentage of completed connections where SEPD provided “Rent a jointer” services to an ICP	81%	81%	75%

Source: SSEPD Competition Notices December 2013 and subsequent clarifications received from SSEPD

Table 15: Unmetered Other RMS - SEPD

SEPD	April to Sep 2012	Oct 2012 to March 2013	April to Sep 2013
Number of connections completed			
Connections completed by SSEPD	1,426	1,800	1,525
Connections where SSEPD provided “Rent a jointer” service to an ICP	0	0	0
Connections completed by an ICP	0	0	0
Contestable value of connections completed			
Total contestable value of connections completed	£0.51 million	£0.57 million	£0.43 million
SEPD’s share of work			
SEPD share by number of completed connections	100%	100%	100%

Source: SSEPD Competition Notices December 2013 and subsequent clarifications received from SSEPD

5. SSEPD’s compliance with the legal requirements test

Chapter Summary

This chapter contains our assessment of the position of Scottish Hydro Electric Power Distribution (SHEPD) and Southern Electric Power Distribution (SEPD) against the Legal Requirements Test.

The Legal Requirements Test

5.1. CRC12 and the DPCR5 Final Proposals Document set out a Legal Requirements Test that must be considered in conjunction with the Competition Test when we determine whether to lift price regulation in any RMS.

5.2. Compliance with the Legal Requirements Test is a necessary pre-condition for passing the Competition Test. The legal requirements set out in the test are for the DNO to have no enforced breaches in the given regulatory year of any of the five strands detailed below -

- Standard Licence Condition (SLC) 12.6(c) (Requirement to offer terms for use of system and connection)
- SLC 15 (Standards for the provision of Non-Contestable Connection Services)
- SLC 15A (Connections policy and connection performance)
- SLC 19 (Prohibition of discrimination under Chapters 4 and 5, and
- The Competition Act 1998.

SSEPD’s current position

5.3. For the purposes of this assessment of SSEPD’s Competition Notice, submitted on 24 December 2013, the relevant regulatory year is 2013-14 which runs from 1 April 2013 to 31 March 2014.

5.4. Whilst the 2013-14 regulatory year is yet to run its course, there are currently no enforced breaches against Scottish Hydro Electric Power Distribution (SHEPD) or Southern Electric Power Distribution (SEPD) against any of the five strands of the Legal Requirements Test.

Future compliance with the Legal Requirements test

5.5. If Scottish Hydro Electric Power Distribution (SHEPD) and Southern Electric Power Distribution (SEPD) no longer meet the Legal Requirements Test after price regulation has been lifted, we could issue a clawback direction under Special Licence Condition CRC 12.40. The clawback direction would require the relevant licensee to make repayment of some or all of the Margin that it had charged in its Connection Charges in relation to its Connection Activities in the Relevant Market Segment during a specified period of time.

6. Summary

Chapter Summary

This chapter summarises the issues discussed in this consultation. It seeks views from customers and existing and potential competitors on whether, taking all of the issues discussed into consideration, price regulation should be lifted.

Question box

In your response please indicate the DSA to which your experiences relate.¹⁰

Question 1: Do you consider customers have an effective choice of connections provider? In particular, do you feel that levels of choice, value and service will be protected and will improve if the restriction on SSEPD’s ability to earn a margin is removed?

Question 2: Do you consider that there is scope for competitors to grow their market share, (for example if SSEPD put up its prices or if its quality dropped) or are there factors constraining this?

Question 3: Do you consider that there is scope and/or appetite for new participants to enter the market? Do you consider that new entrants would be able to provide similar or better services than existing participants or are there factors constraining this?

Question 4: Given your overall view of SSEPD, do you consider that we can have confidence in them to operate appropriately in the event that price regulation is lifted?

Question 5: Do you consider that there are factors not addressed in this consultation that should be taken into consideration in determining whether price regulation should be lifted?

6.1. As discussed throughout this document, we consider that effective competition should not be determined by looking at market share data alone.

6.2. We note that SSEPD retains a large proportion of the market in the DSAs for which it seeks price regulation to be lifted. However, we also recognise that price controls may limit the attractiveness of a market to new entrants and that the current level of regulated margin may be set too low and may not enable third parties to compete effectively.

6.3. We reiterate that the intention of our assessment is to judge whether, in the event that price regulation is removed, competition could be relied upon to protect customers’ interests by delivering choice, quality and value for customers. We ask respondents to consider whether, on balance, consumer interests in the RMSs covered by SSEPD’s application are better protected by regulation than they would be by competition. We also remind respondents that if price regulation is lifted in the RMS, we will continue to monitor SSEPD’s compliance with competition law and we will take seriously any evidence of anti-competitive behaviour.

¹⁰ Wherever possible please provide your response using the template at appendix 1 of this document.

6.4. We seek interested parties’ responses to the questions posed throughout this document. In particular we seek customers’ and existing and potential competitors’ views on the following points -

- Is there currently effective choice for customers in the RMSs in the DSAs covered by SSEPD’s Competition Notices? In particular, do customers feel that levels of choice, value and service will be protected and will improve if the restriction on SSEPD’s ability to earn a margin is removed?
- Is there scope and/or appetite for competitors to grow their market share in the RMSs covered by SSEPD’s application (for example, if SSEPD put up its prices or if its quality dropped) or are there factors constraining this?
- Is there scope and/or appetite for new participants to enter the RMSs covered by SSEPD’s application? Would they be able to provide similar or better services than existing participants or are there factors constraining this?
- Given your overall view of SSEPD, can we have confidence in it to operate appropriately in the circumstance that price regulation were lifted?

6.5. We also seek interested parties’ views as to whether there are factors not addressed in this consultation that should be taken into consideration in determining whether price regulation should be lifted in the RMSs covered by SSEPD’s application.

6.6. In conclusion, we encourage all interested parties to read SSEPD’s Competition Notice which is available on our website as an associated document to this consultation.

6.7. We would like to remind interested parties that since we are required to make separate determinations for each SSEPD DSA, responses to this consultation should be drafted in such a way that they clearly set out to which DSA each section of the response relates. We also ask that, wherever possible, interested parties provide evidence to verify their claims.

Appendices

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Appendix 1 - Consultation Response and Questions

1.1. We would like to hear the views of interested parties in relation to any of the issues set out in this document.

1.2. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter heading and which are replicated below.

1.3. Responses should be received by 26 March 2014 and should be sent to:

James Veaney
Smarter Grids and Governance Distribution Policy
020 7901 1861
james.veaney@ofgem.gov.uk

1.4. Unless marked confidential, all responses will be published by placing them in our library and on its website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. We shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

1.6. Next steps: Having considered the responses to this consultation, we intend to publish our decision in relation to SSEPD’s Competition Notice in April 2014.

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

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

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

RMS	SEPD	SHEPD
1. Metered high voltage work (HV)	<input type="checkbox"/>	<input type="checkbox"/>
2. Metered HV and Extra High Voltage (EHV) work	<input type="checkbox"/>	<input type="checkbox"/>
3. Metered EHV and above work	<input type="checkbox"/>	<input type="checkbox"/>
4. Distributed Generation (DG) HV and EHV voltage	<input type="checkbox"/>	<input type="checkbox"/>
5. Unmetered local authority (LA) work	<input type="checkbox"/>	
6. Unmetered PFI work	<input type="checkbox"/>	
7. Unmetered Other	<input type="checkbox"/>	

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

Chapter Two

Question	RMS(s)	DSA(s)	Response
One: Are customers aware that competitive alternatives exist?	Metered HV <input type="checkbox"/>	SEPD <input type="checkbox"/>	
	Metered HV/EHV <input type="checkbox"/>	SHEPD <input type="checkbox"/>	
	Metered EHV & above <input type="checkbox"/>		
	DG HV/EHV <input type="checkbox"/>		
	Unmetered (LA) <input type="checkbox"/>		
	Unmetered PFI <input type="checkbox"/>		

Competition in connections – Consultation on SSEPD’s Competition Notices

Question	RMS(s)	DSA(s)	Response
	Unmetered (Other) <input type="checkbox"/>		
<p>Two: Do customers have effective choice (ie are customers easily able to seek alternative quotations)? from competitive alternatives?</p>	<p>Metered HV <input type="checkbox"/></p> <p>Metered HV/EHV <input type="checkbox"/></p> <p>Metered EHV & above DG HV/EHV <input type="checkbox"/></p> <p>Unmetered (LA) <input type="checkbox"/></p> <p>Unmetered PFI <input type="checkbox"/></p> <p>Unmetered (Other) <input type="checkbox"/></p>	<p>SEPD <input type="checkbox"/></p> <p>SHEPD <input type="checkbox"/></p>	
<p>Three: Does SSEPD take appropriate measures to ensure that customers are aware of the competitive alternatives available to them?</p>	<p>Metered HV <input type="checkbox"/></p> <p>Metered HV/EHV <input type="checkbox"/></p> <p>Metered EHV & above DG HV/EHV <input type="checkbox"/></p> <p>Unmetered (LA) <input type="checkbox"/></p> <p>Unmetered PFI <input type="checkbox"/></p> <p>Unmetered <input type="checkbox"/></p>	<p>SEPD <input type="checkbox"/></p> <p>SHEPD <input type="checkbox"/></p>	

Competition in connections – Consultation on SSEPD’s Competition Notices

Question	RMS(s)	DSA(s)	Response
	(Other)		
<p>Four: Are quotations provided by SSEPD clear and transparent? Do they enable customers to make informed decisions of whether to accept or reject a quote?</p>	<p>Metered HV <input type="checkbox"/></p> <p>Metered HV/EHV <input type="checkbox"/></p> <p>Metered EHV & above DG HV/EHV <input type="checkbox"/></p> <p>Unmetered (LA) <input type="checkbox"/></p> <p>Unmetered PFI <input type="checkbox"/></p> <p>Unmetered (Other) <input type="checkbox"/></p>	<p>SEPD <input type="checkbox"/></p> <p>SHEPD <input type="checkbox"/></p>	
<p>Five: Have customers benefitted from competition? Have they seen improvements in SSEPD’s price or service quality, or have they been able to source a superior service or better price from SSEPD’s competitors?</p>	<p>Metered HV <input type="checkbox"/></p> <p>Metered HV/EHV <input type="checkbox"/></p> <p>Metered EHV & above DG HV/EHV <input type="checkbox"/></p> <p>Unmetered (LA) <input type="checkbox"/></p> <p>Unmetered PFI <input type="checkbox"/></p> <p>Unmetered (Other) <input type="checkbox"/></p>	<p>SEPD <input type="checkbox"/></p> <p>SHEPD <input type="checkbox"/></p>	

Question	RMS(s)	DSA(s)	Response

Chapter Three

Question	RMS(S)	DSA(S)	Response
One: Does the level of competitive activity in the RMSs show that there is the potential for further competition to develop?	Metered HV <input type="checkbox"/>	SEPD <input type="checkbox"/>	
	Metered HV/EHV <input type="checkbox"/>	SHEPD <input type="checkbox"/>	
	Metered EHV & above <input type="checkbox"/>		
	DG HV/EHV <input type="checkbox"/>		
	Unmetered (LA) <input type="checkbox"/>		
	Unmetered PFI <input type="checkbox"/>		
	Unmetered (Other) <input type="checkbox"/>		
Two: Consider the organisational structure of SSEPD’s business and its procedures and processes – (a) how do they compare to those you encounter elsewhere in the gas and electricity markets or other industries? Do they reflect best practice?	Metered HV <input type="checkbox"/>	SEPD <input type="checkbox"/>	
	Metered HV/EHV <input type="checkbox"/>	SHEPD <input type="checkbox"/>	
	Metered EHV & above <input type="checkbox"/>		
	DG HV/EHV <input type="checkbox"/>		
	Unmetered (LA) <input type="checkbox"/>		
	Unmetered PFI <input type="checkbox"/>		

Question	RMS(S)	DSA(S)	Response
<p>(b)do they enable competitors to compete with the timescales for connection (from quote to energisation) offered by SSEPD? Or do they offer SSEPD any inherent advantage over its competitors or prevent existing competitors from competing with them effectively?</p> <p>(c) do they assist, obstruct or delay connections providers entering the RMSs?</p>	<p>Unmetered <input type="checkbox"/></p> <p>(Other)</p>		
<p>Three: Are the non-contestable charges levied by SSEPD for statutory connections in the RMSs consistent with those levied for competitive quotations? Are they easily comparable with competitive quotations? Do the differences in charges between a point of connection (POC) quote and the non-contestable elements of an all works quote act as a barrier to competition?</p>	<p>Metered HV <input type="checkbox"/></p> <p>Metered HV/EHV <input type="checkbox"/></p> <p>Metered EHV & above <input type="checkbox"/></p> <p>DG HV/EHV <input type="checkbox"/></p> <p>Unmetered (LA) <input type="checkbox"/></p> <p>Unmetered PFI <input type="checkbox"/></p> <p>Unmetered (Other) <input type="checkbox"/></p>	<p>SEPD <input type="checkbox"/></p> <p>SHEPD <input type="checkbox"/></p>	

Competition in connections – Consultation on SSEPD’s Competition Notices

Question	RMS(S)	DSA(S)	Response
<p>Four: What factors are key influences on development of competition in the RMSs? In particular, if you are an existing/potential competitor</p> <p>(a) what is the potential for competitors to enter each RMSs, or grow their share of an the RMS if they already operate in it?</p> <p>(b) are there are any types of connection in any of the RMSs, or geographic locations in SSEPD’s DSAs, that by their nature, are not attractive to competition? Please explain your response.</p>	Metered HV	<input type="checkbox"/> SEPD <input type="checkbox"/>	
	Metered HV/EHV	<input type="checkbox"/> SHEPD <input type="checkbox"/>	
	Metered EHV & above	<input type="checkbox"/>	
	DG HV/EHV	<input type="checkbox"/>	
	Unmetered (LA)	<input type="checkbox"/>	
	Unmetered PFI	<input type="checkbox"/>	
Unmetered (Other)	<input type="checkbox"/>		

Chapter Four

Question	RMS(S)	DSA(S)	Response
<p>One: Do you agree with the methods used by SSEPD to analyse the level of competition in each of the RMSs covered by its application? In particular, do you consider that SSEPD the data provided gives a clear indication of the current level of competitive</p>	Metered HV	<input type="checkbox"/> SEPD <input type="checkbox"/>	
	Metered HV/EHV	<input type="checkbox"/> SHEPD <input type="checkbox"/>	
	Metered EHV & above	<input type="checkbox"/>	
	DG HV/EHV	<input type="checkbox"/>	
	Unmetered (LA)	<input type="checkbox"/>	

Competition in connections – Consultation on SSEPD’s Competition Notices

activity in each RMS?	Unmetered PFI <input type="checkbox"/>		
	Unmetered (Other) <input type="checkbox"/>		
Two: Do you consider that competitive activity is at a level that in itself indicates that effective competition exists? Do you consider that the coverage of existing competitive activity extends across each RMS?	Metered HV <input type="checkbox"/>	SEPD <input type="checkbox"/>	
	Metered HV/EHV <input type="checkbox"/>	SHEPD <input type="checkbox"/>	
	Metered EHV & above <input type="checkbox"/>		
	DG HV/EHV <input type="checkbox"/>		
	Unmetered (LA) <input type="checkbox"/>		
	Unmetered PFI <input type="checkbox"/>		
	Unmetered (Other) <input type="checkbox"/>		

Chapter Six

Question	RMS(S)	DSA(S)	Response
One: Do you consider customers have an effective choice of connections provider? In particular, do you feel that levels of choice, value and service will be protected and will improve if the restriction on SSEPD’s ability to earn a	Metered HV <input type="checkbox"/>	SEPD <input type="checkbox"/>	
	Metered HV/EHV <input type="checkbox"/>	SHEPD <input type="checkbox"/>	
	Metered EHV & above <input type="checkbox"/>		
	DG HV/EHV <input type="checkbox"/>		
	Unmetered (LA) <input type="checkbox"/>		

Competition in connections – Consultation on SSEPD’s Competition Notices

Question	RMS(S)	DSA(S)	Response
margin is removed?	Unmetered PFI <input type="checkbox"/> Unmetered (Other) <input type="checkbox"/>		
Two: Do you consider that there is scope for competitors to grow their market share (for example, if SSEPD put up its prices or if its quality dropped), or are there factors constraining this?	Metered HV <input type="checkbox"/> Metered HV/EHV <input type="checkbox"/> Metered EHV & above <input type="checkbox"/> DG HV/EHV <input type="checkbox"/> Unmetered (LA) <input type="checkbox"/> Unmetered PFI <input type="checkbox"/> Unmetered (Other) <input type="checkbox"/>	SEPD <input type="checkbox"/> SHEPD <input type="checkbox"/>	
Three: Do you consider that there is scope and/or appetite for new participants to enter the market? Do you consider that new entrants would be able to provide similar or better services than existing participants or are there factors constraining this?	Metered HV <input type="checkbox"/> Metered HV/EHV <input type="checkbox"/> Metered EHV & above <input type="checkbox"/> DG HV/EHV <input type="checkbox"/> Unmetered (LA) <input type="checkbox"/>	SEPD <input type="checkbox"/> SHEPD <input type="checkbox"/>	

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Question	RMS(S)	DSA(S)	Response
	Unmetered PFI <input type="checkbox"/> Unmetered (Other) <input type="checkbox"/>		
Four: Given your overall view of SSEPD, do you consider that we can have confidence in them to operate appropriately in the event that price regulation is lifted?	Metered HV <input type="checkbox"/> Metered HV/EHV <input type="checkbox"/> Metered EHV & above DG HV/EHV <input type="checkbox"/> Unmetered (LA) <input type="checkbox"/> Unmetered PFI <input type="checkbox"/> Unmetered (Other) <input type="checkbox"/>	SEPD <input type="checkbox"/> SHEPD <input type="checkbox"/>	
Five: Do you consider that there are factors not addressed in this consultation that should be taken into consideration in determining whether price regulation should be lifted?	Metered HV <input type="checkbox"/> Metered HV/EHV <input type="checkbox"/> Metered EHV & above DG HV/EHV <input type="checkbox"/> Unmetered (LA) <input type="checkbox"/> Unmetered PFI <input type="checkbox"/>	SEPD <input type="checkbox"/> SHEPD <input type="checkbox"/>	

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Question	RMS(S)	DSA(S)	Response
	Unmetered (Other) <input type="checkbox"/>		

Appendix 2 – Background

This appendix provides some background to our decision to introduce regulated margins and the potential for DNOs to have price regulation lifted where they meet both a Legal Requirements Test and a Competition Test.

Competition in Connections

Overview of competition in connections

1.7. Many of the activities of electricity network companies have the characteristics of a natural monopoly and are regulated by Ofgem. Some network activities are not natural monopolies such as the construction of new assets required to extend the network or connect to the existing network. Independent Connections Providers (ICPs) compete with network operators to construct connections (including constructing any network extension required for new developments), but only licensed companies can own and operate the assets once they have been installed.

1.8. Where effective competition is possible, it can be a much better way to protect consumers' interests than regulation. This is because it provides customers with choice and competition between service providers is likely to be more effective than regulation at promoting lower prices, innovation and better service standards. We have sought to promote competition in both the installation of connections to gas and electricity distribution networks, and in the subsequent ownership and operation of those assets.

Role of the host distributor in supporting competition

1.9. Each DNO sets out in its charging methodology the scope of connection services that ICPs are permitted to compete with the incumbent to provide. Activities that ICPs can carry out are described as 'contestable' and those that can only be carried out by the host distributor (DNO) are referred to as 'non-contestable'. Some services may be considered non-contestable by the DNO due to technical or safety reasons. Other services may be considered non-contestable where current legislative or regulatory arrangements make it difficult for competition to develop.

1.10. Current examples of contestable works include construction of assets and jointing of dead cables. Examples of non-contestable works include determination of Point of Connection (POC) and design approval. Ofgem is currently working with industry to extend contestability. Further details can be found in Chapter 3 of this document.

1.11. Since ICPs rely on the DNO to provide non-contestable services it is important for competition in connections that the incumbent does not abuse its position as the monopoly provider of these services. The Competition Act and the Electricity Distribution Licence include measures to prohibit the incumbents from discriminating unduly against competitors in the provision of non-contestable services.

Growth of competition in connections

1.12. Since the introduction of competition¹¹ we have seen competition grow rapidly in gas connections, to the extent that more than half of all connections are now installed by new entrants. Competition in the electricity connections market has developed much less rapidly.

1.13. In the metered electricity connections market (across all DNOs), market penetration by new entrants¹² stood at only 13 per cent in 2009-10. Although this was a marginal increase in new entrants’ market share since 2008-09, the overall level remained low and the rate of growth remained slow. In the unmetered market (across all DNOs), market penetration by new entrants rose to nine per cent in 2009-10, compared to less than two per cent in 2008-09.¹³

DPCR5 Final Proposals – Introduction of regulated margins and the potential for Ofgem to lift price regulation

1.14. The 2008-09 and 2009-10 Connections Industry Reviews highlighted concerns about the development of competition in the electricity connections market. We set out to address these concerns as part of the last price control review (DPCR5), which came into effect in April 2010, by introducing a new approach to facilitating competition in connections to electricity distribution networks. Developments were inserted into the Electricity Distribution Licences of the various DNOs as Charge Restriction Condition 12 (CRC 12).¹⁴

1.15. We recognised that there are some market segments where competition may not currently be viable, for example the provision of one-off Low Voltage (LV) connections. These market segments are described as Excluded Market Segments for the purposes of CRC 12 and they are set out at Appendix 3 of this document. One factor that may make jobs in these market segments unattractive to ICPs is their general low value. In these market segments where competition is not currently considered viable, DNOs are not allowed to earn a margin on any of the connections services they provide.

1.16. The arrangements introduced at DPCR5 have however enabled DNOs to earn a regulated margin (set at four per cent above cost)¹⁵ on contestable connection services in those market segments where competition is considered viable. These market segments are described as Relevant Market Segments (RMSs) in CRC 12 and are set out in Appendix 3 of this document. They include metered demand and generation connections at all voltages but exclude certain metered demand connections (one off industrial and commercial work at low voltage and domestic LV work relating to no more than four domestic premises) where competition is not considered currently

¹¹ Competition was introduced in gas connections in 1998 and electricity connections in 2000.

¹² ICPs and Independent Distribution Network Operators (IDNOs).

¹³ Note that market penetration by new entrants (metered connections) rose to 23 per cent in 2010-11.

¹⁴ Charge Restriction Condition 12 - <http://epr.ofgem.gov.uk/index.php?pk=folder575248>

¹⁵ Previously under DNO approved connection charging methodologies their connection charge were limited to recovery of reasonable costs.

viable. They also include unmetered connections activities. The purpose of the regulated margin is to create headroom to encourage new entrants and to remove the stifling impact on competition that may have existed when the DNOs were not allowed to earn a margin over their costs on contestable services.

1.17. In addition to this regulated margin, we also made provision for DNOs to apply to have price regulation lifted in market segments where competition can be relied upon to protect customer interests.

1.18. The Competition Test is designed to enable DNOs to demonstrate that effective competition exists in each RMS. The key overall consideration in our assessment is whether competition can be relied upon to protect the interests of customers. By this we mean that competition will deliver good levels of service and innovation in the connections market at prices which represent value for customers. We would expect that service, innovation and value should reflect customers’ experience in similar competitive markets such as the provision of other utility services/infrastructure. Further, we would expect that competition would deliver improvements in these areas over time, again to an extent that should be comparable with similar industries. For effective competition to exist, customers must have a real choice between alternative connections providers and/or, if the existing market participants do not deliver, there must be a credible threat of new providers entering the market.

1.19. If customers are to be able to choose between alternative connections providers, SSEPD, as the owner of the local distribution network, and provider of non-competitive connections services,¹⁶ has an important role to play. If actual and potential alternative providers are going to be able to put genuine competitive pressure on SSEPD then they will need to be able to receive timely and reliable non-contestable connections services. Further, for competition to work effectively the alternative providers must not be significantly disadvantaged in comparison with SSEPD’s own connection business. In considering whether an alternative provider is at a disadvantage to SSEPD, we note that it is irrelevant whether any disadvantage is due to the actions of SSEPD or an inherent feature of the connections market (for example, limited access to SSEPD’s network for safety reasons).

1.20. To further encourage DNOs to facilitate competition we also set out that any DNO that failed to demonstrate competition, by December 2013, would be reviewed by Ofgem and could subsequently be referred to the Competition Commission.

1.21. In DPCR5 Final Proposals we set out the information that DNOs should provide in making their evidence case. These issues form the structure of SSEPD’s Competition Notices. They are:

- actual and potential competition (the current level of competition the DNO faces in each market segment and the scope for this competition to grow)

¹⁶ Some aspects of the connection activity are deemed non-contestable and a can (currently) only be provided by the owner of the distribution network to which a connection is being made.

- price and transparency of pricing to customers (the steps the DNO takes to ensure that customers have the information they need to make decisions between taking a service from the DNO or a new entrant provider, and what they are doing to ensure they do not discriminate between their own customers and new entrant providers when they price their services)
- promoting awareness of competitive alternatives amongst connections customers (the steps the DNO takes to ensure that customers are aware that they can go to other providers for the service they are requesting)
- competition in connections procedures and processes (the actions the DNO has taken to ensure that the procedures and processes they have in place for non-contestable services meet the needs of new entrants and are provided in a non-discriminatory manner)
- efforts to open up non-contestable activities to competition (what action the DNO has taken to extend contestability), and
- barriers to competition (other actions the DNO is taking to remove barriers to new entrants competing in their area).

Appendix 3 – The Legal Requirements and Competition Test

1.22. Both the Legal Requirements Test and the Competition Test are set out in DPCR5 Final Proposals and referenced in CRC 12. Both Tests are reproduced below.

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

The Legal Requirements Test


1.24. Compliance with the Legal Requirements Test is essential for passing the Competition Test. The legal requirements are for the DNO to have no enforced breaches in the given regulatory year of -

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

The Competition Test

1.25. Overall, we will be looking to see whether we can rely on real competition or the threat of competition to protect consumer interests rather than regulation of the margin earned by the DNO. There are a number of key issues that DNOs should consider in making their evidence case. This is not intended to be an exhaustive list of requirements but provides guidance on aspects of the market that we will look at -

- barriers to competition (including parts of the market where competition is not feasible and the reasons why);



Competition in connections – Consultation on SSEPD’s Competition Notices

- actual and potential competition (this is intended to capture views on levels of competitive activity)
- price and transparency of pricing to customers
- promoting awareness of competitive alternatives amongst connection customers
- competition in connections procedures and processes, and
- efforts to open up non-contestable activities to competition.

Appendix 4 – The Relevant Market Segments

1.26. This section reproduces all of the Relevant Market Segments (RMSs) set out in CRC 12 of the Electricity Distribution Licence.

1.27. Metered Demand Connections

- **Low Voltage (LV) Work** (LV connection activities involving only LV work, other than in respect of the Excluded Market Segments (see paragraph 1.31 below).)
- **High Voltage (HV) Work** (LV or HV connection activities involving HV work (including where that work is required in respect of connection activities within an Excluded Market Segment)).
- **HV and Extra High Voltage (EHV) Work** (LV or HV connection activities involving EHV work.)
- **EHV work and above** (EHV and 132kV connection activities.)

1.28. Metered Distributed Generation (DG)

- **LV work** (LV connection activities involving only LV work.)
- **HV and EHV work** (Any connection activities involving work at HV or above.)

1.29. Unmetered Connections

- **Local Authority (LA) work** (New connection activities in respect of LA premises.)
- **Private finance initiatives (PFI) Work** (New connection activities under PFIs.)
- **Other work** (All other non-LA and non-PFI unmetered connections work.)

1.30. The Excluded Market Segments are as follows:

- LV connection activities relating to no more than four domestic premises or one-off industrial and commercial work, and
- connection activities in respect of a connection involving three-phase whole current metering at premises other than Domestic Premises.

Appendix 5 - Glossary

C

Competition Test

The Competition Test is set out in Distribution Price Control Review 5 Final Proposals - Incentives and Obligations and referenced in CRC 12. It is also recreated at Appendix 3 to this document.

CIR Connections Industry Review

An annual Ofgem publication that sets out how the gas and electricity connections market has developed in the given year. It also details how licensed companies have complied with their connections related obligations and standards.

CRC Charge Restriction Condition

A special condition of the Electricity Distribution Licence.

D

DG Distributed Generation

Distributed generation is also known as embedded or dispersed generation. It is an electricity generating plant connected to a distribution network rather than the transmission network. There are many types and sizes of distributed generation facilities. These include Combined Heat and Power (CHP), wind farms, hydro electric power or one of the new smaller generation technologies.

DNO Distribution Network Operator

There are 14 Electricity Distribution Network Operators that carry electricity from the transmission system and some distributed generators to industrial, commercial and domestic end users. They have distribution services areas which correspond to those of the former public electricity suppliers (before privatisation in 1990). They are owned by six different corporate groups.

DPCR Distribution Price Control Review

The price review applicable to electricity distribution network operators. The fifth Distribution Price Control Review (DPCR5) was launched in April 2010.

DSA Distribution Services Area

Electricity DNOs each have a distribution services area. With the exception of embedded independent networks they are monopoly operators within that area and are subject to particular licence requirements accordingly.

E

ECSG **Electricity Connections Steering Group**

Advises Ofgem on the measures that are required to support the development of competition in the electricity connections market.

EHV **Extra High Voltage**

Over 22 kV but less than or equal to 72 kV.

EMS **Excluded Market Segments**

As set out in CRC 12. In DPCR5 Final Proposals Ofgem considered that that competition was not viable in these market segments at that time or in the foreseeable future. DNOs are not able to earn a regulated margin in these market segments.

HV **High Voltage**

Exceeds 1 kV but does not exceed 22 kV.

I

ICP **Independent Connections Provider**

An independent connections provider not affiliated to a distribution network operator.

IDNO **Independent Distribution Network Operator**

The Authority has issued six distribution licenses to IDNOs. IDNOs own and operate various small networks embedded within DNO networks. IDNOs do not have DSAs.

L

Legal Requirements Test

The Legal Requirements Test is set out in Distribution Price Control 5 Final Proposals - Incentives and Obligations and referenced in CRC 12. It is also recreated at Appendix 3 to this document.

LV **Low Voltage**

Does not exceed one kV

P

POC **Point of Connection**

The point at which new works are connected to the existing distribution network.

R

Regulatory Year

From 1 April to 31 March.

RMS **Relevant Market Segment**

As set out in CRC 12, in DPCR5 Final Proposals Ofgem considered that that competition is viable in these market segments. DNOs currently charge a four per cent margin on contestable services provided in these market segments.

S

SLC **Standard Licence Condition**

A Condition of the Electricity Distribution licence.

SSEPD **Scottish and Southern Energy Power Distribution**

A collective name for the two licensed distribution network operators to whom this consultation relates – Southern Electric Power Distribution (SEPD) and Scottish Hydro Electric Power Distribution (SHEPD)

Appendix 6 - Feedback Questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report’s conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

1.2. Please send your comments to:

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Consultation Co-ordinator
Ofgem
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London
SW1P 3GE
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