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Our ref: MH/OG/UKPN

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Dear James

Response to: Consultation on UKPN's Competition Notice

GTC operates the BUUK licensed electricity distribution businesses of The Electricity Network Company Limited (ENC) and Independent Power Networks Limited (IPNL). Both of these licensee businesses operate as independent distributors (IDNOs) providing and operating last mile networks which in turn connect to DNO distribution systems. Therefore, we witness on a daily basis the behaviours, systems and processes of all the incumbent distributors across Great Britain in the offering of competition in connections.

Over the last 7 years DNO progress on improving competition in connections progress has been slow. We have met with all of the DNOs on many occasions during that time, setting out the type of behaviours and actions that are required to facilitate a competitive market in connections. We acknowledge that some DNOs have "upped" their game to facilitate arrangements for competition in connections with one or two DNO groups being much more proactive than others. Our experience is that many of the promises and assurances DNOs give to us in meetings are still to translate into tangible actions that are applied consistently. Therefore, whilst in most cases DNOs performance is better than it was, this is in comparison to a particularly low performance baseline. When compared to the baseline for gas connections we still see significant scope for DNOs to improve.

In providing responses to Ofgem consultations on DNO submissions we refer to the presentation delivered to DNOs at Ofgem in July 2011 by the Competitive Networks Association (CNA). This highlighted the actions that DNOs needed to take to facilitate competition in connections. In doing this the CNA compared and contrasted process differences for competition in electricity connections with those in place for gas, which is considered by the majority of operators in the competitive market as best practice borne out of significant pressure by Ofgas and latterly Ofgem. The key differences were illustrated in a check list which is reproduced in Annex 1. At the presentation we indicated that in responding to any competition test we would use this checklist as part

of the competition test. As you can see from our assessment UKPN still have a number of areas to complete to ensure competition operates effectively.

We think UKPN have made significant progress to address many of the issues. Whilst we have concerns about the split of the HV works' RMS, UKPN's submission is something that we would like to support subject to receiving assurances that they will address the remaining areas without undue delay. Unfettered access to their network information is a key requirement as is a mechanism to challenge the excesses in some of the policies and procedures implemented by their Asset Management section. This is particularly important where UKPN are out of step with the rest of the UK.

An issue that has arisen recently is the requirement to obtain a construction licence from a landowner where we need to lay a cable to provide a connection. As a third party landowner invariably has no interest in allowing the cable to be laid we are struggling to get them to sign this document. This then slows the project down and has made some customers question why they would come to a competitor as we do not have the same rights of access as UKPN. This is an issue we have only experienced in UKPN's DSAs as all other DNO undertake the negotiation or let us do this work under the standard adoption agreement. We have raised this issue with UKPN and hope that we can resolve this in the near future.

We question the need and extent for detailed auditing where work is undertaken by a suitably accredited agents acting as ICPs, but where no auditing or checks are required or undertaken when the same agent acts as a subcontractor to the DNO. Such auditing arrangements impose undue costs on competitors and time delays for customers. We also experience circumstances where an over- zealous approach is applied by some auditors. This in itself distorts competition.

Another area where significant work is still required by all DNOs is the development of systems and processes to enable accredited third parties to undertake their own assessment and design of connections. This is a critical aspect of facilitating the process for competition. We note that DNOs are keen to promote assessment and design charges. Such charges should only be permitted if and when the activity becomes contestable.

We are pleased at the work that has been completed to date but will continue to push all DNOs until the market is as open as the gas industry.

Yours sincerely

Mike Harding
Head of Regulation
GTC

Annex 1

Table showing UKPN's progress against targets

Process Area	Gas	DNO Market	UKPN
ICP in control of meeting delivery to customers throughout connections process	✓	X	Partial
Design process managed by the IGT/IDNO	✓	X	Partial
No onerous application process	✓	X	X
Process removes need for onerous inspection regimes	✓	X	Partial
Self connection process in place	✓	Partial	✓
Behaviour of Upstream Operator doesn't cause loss of work	✓	X	X
No additional boundary constraints imposed by upstream operator	✓	Partial	✓
Legal/commercial issues agreed and in place	✓	Partial	✓
Agreed Industry wide arrangements (formal agreements)	✓	Partial	Partial
Emergency Response Agreements in place across the UK	✓	Partial	X

Partial indicates where we have seen significant improvements over the last few years but where we believe further work is required refine the process and make it fit for purpose.

We have marked the 'No onerous application process' down due to the recently introduced earthing policy.

Table of the RMS’s that are relevant to GTC.

DSA	DSA’s	RMS’s
Eastern Power Networks plc	<input checked="" type="checkbox"/>	Metered HVHV <input checked="" type="checkbox"/> Unmetered (LA) <input type="checkbox"/> Unmetered (Other) <input type="checkbox"/>
London Power Networks plc	<input checked="" type="checkbox"/>	Metered HVHV <input checked="" type="checkbox"/> Unmetered (LA) <input type="checkbox"/> Unmetered (Other) <input type="checkbox"/>
South Eastern Power Networks plc	<input checked="" type="checkbox"/>	Metered HVHV <input checked="" type="checkbox"/> Unmetered (LA) <input type="checkbox"/> Unmetered (Other) <input type="checkbox"/>

In providing details for the Competition Test GTC can confirm that we are involved in the highlighted RMS’s within the DSAs shown in the table. GTC consider that we are able to respond on the relevant questions for all of these sectors.

Chapter Two

Question	RMS(s)		DSA(s)		Response
<p>One: Do you, as a customer or competitor, view these proposed alternatives as distinct segments within the connections market? Are they an appropriate way of segmenting the market for the assessment of effective competition?</p>	Metered HVHV	<input checked="" type="checkbox"/>	EPN	<input checked="" type="checkbox"/>	<p>UKPN have not picked up the significant volume of LV customers connected to the HV points of connections that have been applied for by ICPs and IDNOs. In our opinion this would have allowed them to apply for the full HV work RMS.</p>
Unmetered (LA)	<input type="checkbox"/>	LPN	<input checked="" type="checkbox"/>		
Unmetered (Other)	<input type="checkbox"/>	SPN	<input checked="" type="checkbox"/>		
<p>Two: Do you consider that UKPN’s definitions of its proposed alternative segments are clear and unambiguous?</p>	Metered HVHV	<input checked="" type="checkbox"/>	EPN	<input checked="" type="checkbox"/>	<p>We are not convinced that this will be clear for customers as they may not understand the difference between an HV connection and an IDNO HV connection where LV customers are being supplied by the IDNO.</p>
Unmetered (LA)	<input type="checkbox"/>	LPN	<input checked="" type="checkbox"/>		
Unmetered (Other)	<input type="checkbox"/>	SPN	<input checked="" type="checkbox"/>		
<p>Three: Please provide details of any connection activity which would be difficult to categorise under the proposed alternative segments.</p>	Metered HVHV	<input checked="" type="checkbox"/>	EPN	<input checked="" type="checkbox"/>	<p>As above we believe that an IDNO HV connection will be difficult to categorise.</p>
Unmetered (LA)	<input type="checkbox"/>	LPN	<input checked="" type="checkbox"/>		
Unmetered (Other)	<input type="checkbox"/>	SPN	<input checked="" type="checkbox"/>		

Question	RMS(s)	DSA(s)	Response
Four: Are there other factors that we should take into account in deciding whether to accept or reject UKPN’s proposed definitions of the alternative market segments?	Metered HVHV <input checked="" type="checkbox"/>	EPN <input checked="" type="checkbox"/>	We believe that the above issue needs to be considered in any decision to accept this change of definition.
	Unmetered (LA) <input type="checkbox"/>	LPN <input checked="" type="checkbox"/>	
	Unmetered (Other) <input type="checkbox"/>	SPN <input checked="" type="checkbox"/>	

Chapter Three

Question	RMS(s)	DSA(s)	Response
One: Are customers aware that competitive alternatives exist?	Metered HVHV <input checked="" type="checkbox"/>	EPN <input checked="" type="checkbox"/>	Over the last two years UKPN have spent a significant amount of time and effort informing customers that competition exists and how they can contact alternative providers.
	Unmetered (LA) <input type="checkbox"/>	LPN <input checked="" type="checkbox"/>	
	Unmetered (Other) <input type="checkbox"/>	SPN <input checked="" type="checkbox"/>	
Two: Do customers have effective choice, ie are they easily able to seek quotations from competitive alternatives?	Metered HVHV <input checked="" type="checkbox"/>	EPN <input checked="" type="checkbox"/>	We believe that there are now significant numbers of competitors offering choice to customers in this RMS.
	Unmetered (LA) <input type="checkbox"/>	LPN <input checked="" type="checkbox"/>	
	Unmetered (Other) <input type="checkbox"/>	SPN <input checked="" type="checkbox"/>	
Three: Does UKPN take appropriate measures to ensure that customers are aware of competitive alternatives?	Metered HVHV <input checked="" type="checkbox"/>	EPN <input checked="" type="checkbox"/>	We believe that UKPN are taking appropriate measures to ensure that customers are aware of competition.
	Unmetered (LA) <input type="checkbox"/>	LPN <input checked="" type="checkbox"/>	
	Unmetered (Other) <input type="checkbox"/>	SPN <input checked="" type="checkbox"/>	

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<p>Four: Are quotations provided by UKPN clear and transparent? Do they enable customers to make informed decisions whether to accept or reject a quote?</p>	<p>Metered HVHV <input checked="" type="checkbox"/></p> <p>Unmetered (LA) <input type="checkbox"/></p> <p>Unmetered (Other) <input type="checkbox"/></p>	<p>EPN <input checked="" type="checkbox"/></p> <p>LPN <input checked="" type="checkbox"/></p> <p>SPN <input checked="" type="checkbox"/></p>	<p>UKPN have significantly improved their quotations so that they are far clearer for customers. Whilst there are still some areas that need improvement, particularly the over-use of the term “miscellaneous” to describe charging elements, UKPN’s quotes provide reasonably clear information to evaluate their quotations.</p>
<p>Five: Have customers benefitted from competition? Have they seen improvements in UKPN’s price or service quality or have they been able to source a superior service or better price from UKPN’s competitors?</p>	<p>Metered HVHV <input checked="" type="checkbox"/></p> <p>Unmetered (LA) <input type="checkbox"/></p> <p>Unmetered (Other) <input type="checkbox"/></p>	<p>EPN <input checked="" type="checkbox"/></p> <p>LPN <input checked="" type="checkbox"/></p> <p>SPN <input checked="" type="checkbox"/></p>	<p>We believe that customers have seen a significant improvement over the last two years due to the work that UKPN have put into Competition in Connections. This is very different to the period when EDF owned the company and is a credit to the commitment put into this area by the Directors and Competition Team in UKPN. In particular Steve Rogers and Sue Jones have made significant contributions and UKPN would not have moved as far as they have without their efforts. Whilst there is still a way to go but with their efforts and the commitment of the Directors we believe that UKPN have the potential to be the best DNO in the UK.</p>

Chapter Four

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Question	RMS(S)		DSA(S)		Response
<p>One: Does the level of competitive activity in the market segments show that there is the potential for further competition to develop?</p>	Metered HVHV	<input checked="" type="checkbox"/>	EPN	<input checked="" type="checkbox"/>	<p>We believe there is scope for further completion to develop in this RMS.</p>
Unmetered (LA)	<input type="checkbox"/>	LPN	<input checked="" type="checkbox"/>		
Unmetered (Other)	<input type="checkbox"/>	SPN	<input checked="" type="checkbox"/>		
<p>Two: Consider the organisational structure of UKPN’s business and its procedures and processes –</p> <p>(a) how do they compare to those you encounter elsewhere in the gas and electricity markets or other industries? Do they reflect best practice?</p> <p>(b) do they enable competitors to compete with the timescales for connection (from quote to energisation) offered by UKPN? Or do they offer UKPN any inherent advantage over its competitors or prevent</p>	Metered HVHV	<input checked="" type="checkbox"/>	EPN	<input checked="" type="checkbox"/>	<p>UKPN have significantly invested in staff over the last few years to improve their performance. This has moved them to one of the best performers in the market. There are still some areas where we believe improvement is required and they are not at the level of the best in class in electricity (ENWL) or the gas market comparisons.</p> <p>Whilst the DNOs still manage the assessment and design aspect of quotations all competitors are at a disadvantage to the DNO’s own Section 16 teams. Once we can assess the network and decide on the best option for our customer, then we will be able to compete based on our ability to deliver.</p> <p>The implementation of UKPN’s earthing policy is a cause for significant concern. We understand that all competitors see this as an undue new barrier that is</p>
Unmetered (LA)	<input type="checkbox"/>	LPN	<input checked="" type="checkbox"/>		
Unmetered (Other)	<input type="checkbox"/>	SPN	<input checked="" type="checkbox"/>		

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<p>existing competitors from competing with them effectively?</p> <p>(c) do they assist, obstruct or delay connections providers entering the market segment?</p>			<p>not replicated anywhere else in the electricity market. Unfortunately, the policy relies on so many subjective assumptions to be applied that it is meaningless, but puts in place a barrier to gaining design approval and therefore slows down the overall process of connecting customers. We understand that the policy is applied less stringently within UKPN business and so our timescale is not as good it should be.</p> <p>The effect this is having is that we are seeing a high proportion of design rejections to such an extent that nearly every HV/HV project is being delayed. In comparison across the rest of the DNO market we do not get any design failures, which suggests that this earthing policy is having a detrimental effect on competition.</p> <p>An issue that has arisen recently is the requirement to obtain a construction licence from a landowner where we need to lay a cable to provide a connection. As a third party landowner invariably has no interest in allowing the cable to be laid we have found a reluctance to engage in this process and some landowners have refused to sign this document. This then slows the project down and has made some customers question why they would come to a competitor as we do not have the same rights of access as UKPN. This is an issue we have only experienced in UKPN’s DSAs as all other DNOs undertake the negotiation or let us do this work under the standard adoption agreement. We have raised this issue with UKPN and hope that we can resolve this in</p>

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Question	RMS(S)	DSA(S)	Response
			<p>the near future.</p> <p>We question the need for detailed auditing where work is undertaken by a suitably accredited agents acting as ICPs, but where no auditing or checks are required or undertaken when the same agent acts as a subcontractor to the DNO. Such auditing arrangements impose undue costs on competitors, undue time delays for customers, appears to be unduly discriminatory and as consequence distort competition</p> <p>Apart from the above issue we do not see any other delays in the overall process to connect our customers and are pleased that UKPN are working so hard to allow self connect to occur across all of their DSAs.</p>
<p>Three: Are the non-contestable charges levied by UKPN 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 POC quote and the non-contestable elements of a full works quote act as a barrier to competition?</p>	<p>Metered HVHV <input checked="" type="checkbox"/></p> <p>Unmetered (LA) <input type="checkbox"/></p> <p>Unmetered (Other) <input type="checkbox"/></p>	<p>EPN <input checked="" type="checkbox"/></p> <p>LPN <input checked="" type="checkbox"/></p> <p>SPN <input checked="" type="checkbox"/></p>	<p>UKPN have spent a lot of time and effort making the quotes we receive more transparent. We now see a lot of information that helps us in our decision making. There is still an over-reliance on the use of the ‘Miscellaneous’ tab. We understand that UKPN are still working on this area. Notwithstanding this UKPN are providing some of the clearest information across the Electricity market.</p>

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<p>Four: What factors are key influences on development of competition in the market segments? In particular, if you are an existing/potential competitor:</p> <p>(a) what is the potential for competitors to enter the market segments, or grow their share of the market segments if they already operate in?</p> <p>(b) are there are any types of connection in the market segments, or geographic locations in UKPN’s DSAs, that by their nature, are not attractive to competition? Please explain why in your response.</p>	<p>Metered HVHV <input checked="" type="checkbox"/></p> <p>Unmetered (LA) <input type="checkbox"/></p> <p>Unmetered (Other) <input type="checkbox"/></p>	<p>EPN <input checked="" type="checkbox"/></p> <p>LPN <input checked="" type="checkbox"/></p> <p>SPN <input checked="" type="checkbox"/></p>	<p>There is still room to expand in this RMS. If the IDNO market is captured under this category.</p> <p>All of the RMSs in all DSAs are attractive to GTC.</p>

Chapter Five

Question	RMS(S)	DSA(S)	Response
One: Do you agree with the methods used by UKPN to assess the level of competition in the market segments covered by its application? In particular, do you consider that the data provided gives a clear indication of the current level of competitive activity in each segment?	Metered HVHV <input checked="" type="checkbox"/> Unmetered (LA) <input type="checkbox"/> Unmetered (Other) <input type="checkbox"/>	EPN <input checked="" type="checkbox"/> LPN <input checked="" type="checkbox"/> SPN <input checked="" type="checkbox"/>	We have a concern in terms of the split in this sector. If IDNO connections (with associated LV connections) are covered within the amended RMS then customers will receive a regulated quote if they ask the DNO to build out the LV connections but an ICP will receive an unregulated quote if they are to have the subsequent network adopted by an IDNO. This will cause confusion for customers and potentially for ICPs.
Two: Do you consider that competitive activity is at a level that in itself indicates that effective competition exists? In each market segment, do you consider that the coverage of existing competitive activity extends across segment?	Metered HVHV <input checked="" type="checkbox"/> Unmetered (LA) <input type="checkbox"/> Unmetered (Other) <input type="checkbox"/>	EPN <input checked="" type="checkbox"/> LPN <input checked="" type="checkbox"/> SPN <input checked="" type="checkbox"/>	We believe that UKPN have worked hard to establish competition in their DSAs. Whilst there are still a lot of things to do UKPN are proving to be helpful in delivering projects on behalf of the customers. We still need to have better access to their systems and work with them to open up the remaining aspects highlighted at the CNA meeting.

Chapter Seven

Question	RMS(S)	DSA(S)	Response
One: Do you, as a customer or competitor, view these proposed alternatives as	Metered HVHV <input checked="" type="checkbox"/> Unmetered (LA) <input type="checkbox"/>	EPN <input checked="" type="checkbox"/> LPN <input checked="" type="checkbox"/>	GTC’s concern in this separation is the issue around the same customer seeing a project being within this segment or outside, depending on whom the ultimate

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distinct segments within the connections market? Are they an appropriate way of segmenting the market for the assessment of effective competition?	Unmetered (Other) <input type="checkbox"/>	SPN <input checked="" type="checkbox"/>	owner of the LV connections will be. This does seem to be an arbitrary split and difficult to understand in terms of the customer. Equally the market appears to be a very small slice of the conventional RMS and may be too small to make any significant impact on customers.
Two: 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 UKPN’s ability to earn a margin is removed?	Metered HVHV <input checked="" type="checkbox"/> Unmetered (LA) <input type="checkbox"/> Unmetered (Other) <input type="checkbox"/>	EPN <input checked="" type="checkbox"/> LPN <input checked="" type="checkbox"/> SPN <input checked="" type="checkbox"/>	There are a number of participants in the RMS and it is clear that more will become involved in the next few years.
Three: Do you consider that there is scope for competitors to grow their market share, (for example if UKPN put up its prices or if its quality dropped) or are there factors constraining this?	Metered HVHV <input checked="" type="checkbox"/> Unmetered (LA) <input type="checkbox"/> Unmetered (Other) <input type="checkbox"/>	EPN <input checked="" type="checkbox"/> LPN <input checked="" type="checkbox"/> SPN <input checked="" type="checkbox"/>	There are a number of factors affecting this RMS. We believe that the biggest current issues are the earthing policy and the use of easements currently in place with UKPN. Whilst we are discussing these issues with UKPN they are still to be resolved. The lack of visibility of, and access to, UKPN’s network information is hampering the market being developed in the same way as the gas industry.
Four: 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	Metered HVHV <input checked="" type="checkbox"/> Unmetered (LA) <input type="checkbox"/> Unmetered (Other) <input type="checkbox"/>	EPN <input checked="" type="checkbox"/> LPN <input checked="" type="checkbox"/> SPN <input checked="" type="checkbox"/>	We believe that there is scope to grow market share as long as market entrants can deliver without being impinged by the delays caused in operating the earthing policy currently in place with UKPN. This is causing more cost and time delays to the customer which needs to be addressed.

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Question	RMS(S)	DSA(S)	Response
services than existing participants or are there factors constraining this?			
Five: Given your overall view of UKPN, do you consider that we can have confidence in them to operate appropriately in the event that price regulation is lifted?	Metered HVHV <input checked="" type="checkbox"/> Unmetered (LA) <input type="checkbox"/> Unmetered (Other) <input type="checkbox"/>	EPN <input checked="" type="checkbox"/> LPN <input checked="" type="checkbox"/> SPN <input checked="" type="checkbox"/>	We believe that UKPN have genuine intent to ensure that competition thrives and gets better over the coming years. Our concern would be that standards change and it makes it more difficult to keep up with the requirements of these changes. Providing that UKPN undertake proper consultations and ensure that the standards are properly thought through and appropriate then we will be happy to see price regulation lifted.
Six: 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 HVHV <input checked="" type="checkbox"/> Unmetered (LA) <input type="checkbox"/> Unmetered (Other) <input type="checkbox"/>	EPN <input checked="" type="checkbox"/> LPN <input checked="" type="checkbox"/> SPN <input checked="" type="checkbox"/>	We still feel that UKPN’s IT systems are not good enough to allow us to undertake proper assessment of points of connection and complete all of the design work required to compete against their own Section 16 business. This is a concern across all DNOs and is one of the last major hurdles that must be addressed to allow competition to flourish in the same way as the gas industry.