

Appendix – Responses to consultation questions

Section 3 Questions

Question 1 Do you agree that the current classification of RMS remains appropriate as a means of distinguishing between different types of connections work and customer type? If you disagree, please provide your views on which alternative classifications should apply

Generally, the market classifications provide a reasonable division between the types of connection work, but there is not necessarily a good correlation between customer type and RMS, particularly for LV demand and HV demand connections. Both these segments include, to varying degrees, everything from domestic, small commercial, large commercial, consultants and multi-national corporations. It falls upon the DNO to ensure that whatever type of customer applies for a connection, they are appropriately engaged and provided access to information which supports access to competition.

Where a market segment is particularly small in terms of the volume of activity, as is the case for LV generation, it may be difficult to make an informed decision on the key market indicators. In this case, it may be appropriate to merge the segment with another adjacent segment (e.g. LV Demand) and consider the combined segment.

Therefore, the RMS are suitable for the proposed competition review, subject to the level of activity in any one market sector being of a suitable volume and value to make an informed decision.

Question 2 Do you agree with our proposal not to consider the level of effective competition in the Excluded Market Segments? Please provide reasons for your views.

Whilst UK Power Networks have provided access to competition via the Small Service Self-Serve initiative, with over 300 connections per year completed by Independent Connection Providers (ICPs), the predominance of DNO connections remains and it is appropriate that these areas of connections activity remain Excluded Market Segments. As such we agree with your proposal.

Question 3 Do you agree with our proposal not to consider the level of effective competition in the RMS that previously passed the Competition Test? Please provide reasons for your views. Please also provide any information or evidence that you have, which may suggest that competitive conditions have materially changed (in particular, if such changes have not been positive) in these RMS since we conducted the Competition Test.

Yes, UK Power Networks agrees with the proposal not to consider RMS which have previously passed the Competition Test. Once competition has been established, it is difficult to subscribe to a view that it has subsequently been restricted, particularly given the added market controls that have been established during ED1, subsequent to the last competition review in 2013, such as the Incentive on Connections Engagement (ICE) and License Condition 52.

Question 4 Do you agree with our proposal to assess whether effective competition exists by only considering the key indicators for competition set out in Section 5? Please state why if you disagree, and consider that there are other factors we should take into account, such as DNO behaviour, processes and customer awareness.

The key indicators set out in Section 5 should be used as the primary assessment method, but UK Power Networks believe that several other factors should be taken into consideration where applicable:

- Stakeholder feedback should be taken into account where particular positive or negative feedback is received on a DNO's support of a competitive market in any one RMS.
- Whilst acknowledged in the text of the consultation, it is not apparent from Table 5 in the consultation document that DNOs' explanation would be taken into consideration if there were any specific factors which impacted any data in the submission. Any such factors should be considered when undertaking the market assessment.
- Further to the point above, it is important the market assessment takes into account the DNO behaviours, both positive and negative, in supporting and developing a genuinely competitive market. This may include, but is not limited to, qualitative feedback from customers and competitors through ICE, both within and outside of markets deemed open to competition.
- 2020/2021 data should be included in the data template for the purpose of this competition review. Whilst this regulatory year may have been impacted by Covid, this applies equally to DNOs and ICPs and it should not materially impact one group of connection service providers any more so than another group – there is no clear reason why market share should be impacted by Covid.

Section 4 Questions

For an RMS that does not pass the competition review, but we consider there to be a prospect of competition developing;

Question 5 Do you think we should apply price control incentives on DNO performance? If so, should these be only penalties on poor performance, or should we consider rewarding DNOs that provide a higher quality of service? Please state what impact you consider this might have on competition.

Directionally, it is difficult to argue a case for financially rewarding DNOs for providing higher levels of service, on grounds that this would serve to potentially inhibit the further development of competition. However, where there is a prospect of competition developing and DNOs are demonstrating good performance in supporting the development of competition, it may be appropriate to permit DNOs a further competition review during ED2, should the market conditions have progressed beyond the status determined at the proposed ED1 review.

Where service levels are below a defined minimum standard, it seems appropriate that DNOs are exposed to an appropriate performance framework. Therefore, we agree with this aspect of the proposals in the consultation. UK Power Networks have noted from the ED2 sector-specific framework the indication of a potential penalty of 0.1% per RMS for poor performance. As a point of principle, we believe any potential penalty should be capped to a proportion of the total value of a RMS, noting that currently, the value of at least one RMS is less than 0.1% of base revenue.

Question 6 Should we maintain the regulated margin? If you think it should be maintained, please explain why and whether you consider there should be a change in the 4% level of margin that is currently applied.

The reasons supporting the decision to introduce a regulated margin into DPCR5 remain valid and the typical margins available in similar industry segments are not dissimilar to the regulated 4% margin (typically referred to as mark-up rather than margin). Therefore, retaining a 4% regulated margin is the most appropriate decision.

For an RMS that does not pass the competition review, and we consider there to be no prospect of competition developing;

Question 7 Do you think we should apply price control incentives on DNO performance? If so, should these just be penalties on poor performance, or should we consider rewarding DNOs that provide a higher quality of service? Please state what impact you consider this might have on competition.

If a market segment has no prospect of competition developing, this aligns to the situation in the Excluded Market Segments. Therefore, it would seem most appropriate to adopt similar regulatory treatment as for the Excluded Market Segments, such as application of the Broad Measure of Customer Satisfaction, with a reward or penalty for good or poor performance respectively via a price control incentive. The application of Average Time to Quote/Connect incentives, wider than the existing Excluded Market Segments, does not make a compelling case as connections in other market segments tend to be less transactional in nature, multi-phased and planned as part of a wider site development.

UKPN believes that, irrespective of whether competition has a prospect of developing in any market segment, DNOs should work to encourage excellent service and genuine choice for customers by fostering competition. For example, we have introduced our Small Service Self-Serve product, which is enabling over 300 ICP connections per year through this route within Excluded Market Segments. In this respect, incentive arrangements should have no bearing on the further development of competition.

Question 8 Should we remove the regulated margin? If you think it should be maintained, please explain why and whether you consider there should be a change in the 4% level of margin that is currently applied

In line with our response to question 7, there is no margin applied in the Excluded Market Segments. In-keeping with this, there should be no regulated margin chargeable in this instance.

For an RMS that passes the competition review;

Question 9 Should we limit the application of price control incentives? If you think we should apply price control incentives, please explain why and what type of incentives would be appropriate.

It is UK Power Networks' position that where a competitive market exists, typical market forces will determine the outcomes for actors in this market; price control incentives for contestable work are not needed or appropriate in this case.

Question 10 Should we permit DNOs to charge an unregulated margin? If you think the regulated margin should be maintained, please explain why and whether you consider there should be a change in the 4% level of margin that is currently applied.

The current arrangements for RMS that have passed the competition review appear to be working and on this basis, a DNO should be free to determine what margin it wishes to apply, within the conditions of its licence and competition law.

Section 5 Questions

Question 11 Do you agree that our assessment criteria successfully captures the key market indicators that would inform us of whether third party presence has expanded or decreased over time? If not, please specify if there is other information we should consider, in determining whether effective competition exists and why.

In line with our response to question 4, the key indicators set out in Section 5 should be used as the primary assessment method, but UK Power Networks believe that several other factors should be taken into consideration where applicable:

- Stakeholder feedback should be taken into account where particular positive or negative feedback is received on a DNO's support of a competitive market in any one RMS.
- Whilst acknowledged in the text of the consultation, it is not apparent from Table 5 in the consultation document that a DNO's explanation would be taken into consideration if there were any specific factors which impacted any data in the submission. Any such factors should be considered when undertaking the market assessment.
- 2020/2021 data should be included in the data template for the purpose of this competition review. Whilst this regulatory year may have been impacted by Covid, this applies equally to DNOs and ICPs and it should not materially impact one group of connection service providers any more so than another group – there is no clear reason why market share should be impacted by Covid.

Question 12 Should we consider data from the 2020/21 regulatory year or given the impact of the Covid-19 pandemic, would this not be a reliable indication of the underlying levels of competition?

As discussed above in our responses to questions 4 and 11, data from the regulatory 2020/21 should be sought from DNOs and considered in the assessment.

Question 13 What are your views on the structure of the data template we are proposing to use to carry out our analysis?

Having reviewed the data template, it appears entirely suitable to collect the appropriate data from DNOs and undertake competition analysis.

Paragraph 5.19 proposes that the values of full, partial and non-accepted schemes, categorised by contestable and non-contestable, are submitted. It is important that interpretation of this data factors in the knowledge that partial acceptance average values will be very small relative to full acceptance values or non-acceptance values. Partial acceptances only include non-contestable elements of quotations, whereas full and non-acceptance values will include contestable elements of scope, which are typically much greater in value than the non-contestable elements of scope.