

Decision on our review of competition in the electricity distribution connections market

Subject	Details
Publication date:	24 August 2022
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We want to encourage effective competition in the electricity distribution connections market as we believe it can be an effective way of delivering improvements in customer service and efficiency. Where competition has not emerged, we can intervene and place incentives on the network companies to deliver positive outcomes for consumers. We published a consultation on the level of competition in the electricity distribution connections market in March 2022. This document confirms our final decisions on where we think competition has developed to the extent, we can remove price control incentives aimed at facilitating competition – and where we think they continue to be necessary in RIIO-ED2.

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1. Executive summary

- 1.1. We launched a review of competition in the electricity distribution connections market in October 2021.¹ The aim of this review was to assess the development of effective competition since our last review in 2014. This review was against specific market indicators to inform our application of price control incentives for RIIO-ED2.²
- 1.2. In November 2021, we invited DNOs to provide data to inform the next stage of the review. Following our analysis of these submissions, we published our minded-to positions in March 2022, setting out which Relevant Market Segments ('RMS') we believed demonstrated an effective level of competition.³ We consulted on this and, having carefully considered the responses to that consultation, this document now sets out our final decisions on those RMS which demonstrate an effective level of competition. This, in turn, determines where we will permit the relevant Distribution Network Operators ('DNOs') to charge an unregulated margin on their contestable connection activities.
- 1.3. There were a total of four respondents to our March 2022 consultation – three non-confidential responses and two confidential responses. The DNOs that responded were Electricity North West Limited, UK Power Networks and Scottish and Southern Energy Networks.
- 1.4. All respondents broadly agreed with our consultation positions. As such, we are now confirming our minded-to positions for reasons set out in the consultation and this decision document.

¹ [Consultation on the proposal to review competition in the electricity distribution connections market | Ofgem](#)

² RIIO stands for Revenue = Incentives + Innovation + Outputs. The current RIIO-ED1 price control runs from 1 April 2015 to 31 March 2023. RIIO-ED2 runs from 1 April 2023 to 31 March 2028.

³ [Consultation on our review of competition in the electricity distribution connections market | Ofgem](#)

2. Introduction

- 2.1. We set price controls on the companies that operate the electricity networks in Great Britain ('GB') to ensure that current and future consumers receive the network services they require at a fair price.⁴
- 2.2. The next round of price controls for the fourteen electricity DNOs will start in April 2023 and will run until March 2028 (RIIO-ED2). As part of this process, we will set the outputs we expect from DNOs, as well as the incentives to encourage them to deliver. These include the services provided to customers requiring a new or modified connection to the electricity networks.
- 2.3. When providing a connection to the electricity distribution network, there is some work that must be undertaken by a DNO. These are referred to as 'non-contestable' activities. This reflects the nature and complexity of work required to ensure it interfaces safely and efficiently with the DNO's wider network.
- 2.4. However, there are some connection activities where competition has the potential to exist. In these cases, work can be undertaken by parties other than the DNO, such as Independent Connection Providers ('ICPs')⁵ and licensed Independent Distribution Network Operators ('IDNOs').⁶ The work where these parties can compete against the DNO are referred to as 'contestable' activities.
- 2.5. We want to encourage effective competition as we believe it can be a more effective way of delivering improvements in customer service and efficiency. Between 2012 and 2014 we ran the Distribution Price Control Review 5 ('DPCR5') Competition Test (the 'Competition Test'). This process assessed the level of effective competition in each RMS in each licensee region. Where effective competition had not been demonstrated, we applied a 4% regulated margin to contestable activities. This was to provide

⁴ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work.

⁵ Independent Connections Providers complete and develop local electricity distribution networks but cannot operate or maintain them.

⁶ Independent Distribution Network Operators (IDNOs) complete, develop, operate, and maintain local electricity distribution networks. IDNO networks are directly connected to the Distribution Network Operator (DNO) networks or indirectly to the DNO via another IDNO.

headroom for competition to develop. We also apply price control incentives to encourage good performance.

- 2.6. Where evidence of effective competition had been sufficiently demonstrated, we allowed DNOs to charge an unregulated margin and apply limited intervention through price control incentives on service provision.

Links to RIIO-ED2

- 2.7. In establishing the arrangements for RIIO-ED2, we wanted to review the level of competition in certain parts of the market to determine if there have been changes since the previous Competition Test completed in 2014. We were specifically interested in the RMS where we had previously not seen evidence that effective competition existed.
- 2.8. An important reason for undertaking this review was to help inform the application of price control incentives for RIIO-ED2 in two areas:

RMS that did not previously pass the Competition Test and in which we saw no prospect of competition developing:

- Where this is the case, we may want to consider how we can best use price control incentives in RIIO-ED2 to ensure connection customers receive a high quality of service.

RMS that did not previously pass the Competition Test, but there is now effective competition

- In RIIO-ED1, DNO performance in the RMS are subject to price control incentives. For RIIO-ED2, it may be appropriate to consider whether to apply incentives on performance, particularly on the delivery of contestable services to avoid the risk that our regulation might distort competition.

Related publications and our decision-making process

- 2.9. We published our intention to conduct a review of competition in the electricity distributions connections market in June 2021.⁷
- 2.10. In establishing the arrangements for RIIO-ED2, we wanted to review the level of competition in certain parts of the market to determine if there have been changes since the completion of the Competition Test. Specifically, we were interested in the RMS where we had previously not seen evidence that effective competition existed. Therefore, our intention with this review, was to inform our application of price control incentives for RIIO-ED2.
- 2.11. In October 2021, we provided our final decision on how the review would be carried out and our initial views on incentive application. We also requested DNOs to complete data templates to inform our assessment of competition in the electricity distribution connections market.⁸ DNOs were asked to submit completed data templates by 12 November 2021.
- 2.12. Following the completion of our assessment, we published our minded-to positions on 25 March 2022.⁹ This document outlined the assessment outcomes we identified, and how each DNOs' RMS, in this scope of this review were categorised. These assessment outcomes were:
- A RMS did not pass the competition review, but we consider there to be a prospect of competition developing
 - A RMS did not pass the competition review, and we consider there to be no prospect of competition developing
 - A RMS passed the competition review
 - RMS where data was not submitted
- 2.13. Responses to our minded-to consultation highlighted a possible inconsistency in how figures for the Distributed Generation Low Voltage (DGLV) and Metered Demand Low Voltage Relevant Market Segments (RMS) have been reported – in particular, the way

⁷ [Consultation on the proposal to review competition in the electricity distribution connections market | Ofgem](#)

⁸ [Decision on the proposal to review competition in the electricity connections market for RIIO-ED2 | Ofgem.](#)

⁹ [Consultation on our review of competition in the electricity distribution connections market | Ofgem](#)

in which domestic dwellings with rooftop solar have been treated. Our view is that paragraph 3.47 of Annex G of the Regulatory Instructions and Guidance (RIGs) describes the approach to be taken for such customers.¹⁰ Following this, we asked DNOs to confirm they had followed this approach and, where this was not the case, gave an opportunity for DNOs to resubmit their data. None of the DNOs resubmitted data following this request.

Reminder of our consultation positions

2.14. See Table 1 below for a summary of our consultation proposals:

- 84 RMS were deemed as within the scope of the competition review.
- We were minded to pass 24 RMS. We believed there was effective competition in these RMS. We were minded to remove the regulated margin and permit the DNO to charge an unregulated margin on contestable activities.
- We were not minded to pass 60 RMS. We believed there was a prospect for competition to further develop and therefore not minded to remove the regulated margin.¹¹

Table 1: Consultation proposals summary

RMS	ENWL	NPg		WPD				UKPN			SPEN		SSEN	
		NPgN	NPgY	WMID	EMID	SWALES	SWEST	LPN	SPN	EPN	SPD	SPMW	SSEH	SSES
Metered Demand LV														
Metered Demand HV														
Metered Demand HV & EHV														
Metered Demand EHV and above														
Distributed Generation LV														
Distributed Generation HV and EHV														
Unmetered Local Authority														
Unmetered PFI														
Unmetered Other														

Key

- Permit unregulated margin on contestable activities
- Retain unregulated margin on contestable activities
- Not in scope

¹⁰ [Direction to make modifications to the Regulatory Instructions and Guidance \(RIGs\) for RIIO-ED1 \(version 7.0\) | Ofgem](#)

¹¹ As part of Distribution Price Control Review 5 ('DPCR5'), we introduced a regulated margin of 4% that DNOs were required to charge connections customers for contestable works in each RMS in their licence areas. This was to create headroom for new entrants to compete.

3. Consultation responses

Section summary

This chapter summarises the stakeholder views we received and outlines our final decisions in relation to either keeping or removing the regulated margin for contestable activities for the RMS in scope of this review.

Introduction

3.1. In our consultation document we requested views on our:

- Categorisation of RMS based on low levels of competition and or where data was not submitted and,
- Whether respondents agreed with our proposals to maintain or remove the regulated margin for contestable activities for each RMS in scope of this review.

Stakeholder views on our assessment outcomes

3.2. Our consultation document outlined the assessment outcomes that were previously consulted on and agreed. Additionally, we provided greater detail on the criteria against which we determined how the RMS were categorised.

3.3. We also requested for views on certain aspects of our treatment of RMS and the regulated margin in the consultation document. These responses have been summarised below.

RMS with low levels of third party activity

What did we consult on?

3.4. We identified that there may be an outcome where a RMS does not pass the competition review, and there is no prospect of competition developing. In the consultation document, we said that we had not identified any market segments that could be categorised under this outcome. While we did identify market segments

where third party work could be described as 'limited', we did not identify any RMS which had no third-party activity over the course of the assessment period, across GB.

- 3.5. Therefore, although third party presence may have been limited, we could not be confident that the removal of the regulated margin would negatively impact the third parties that either currently operate within these RMS, have previously operated within these RMS, or may choose to do so in future. As a result, for these RMS, we proposed to maintain the 4% regulated margin on contestable activities.

Response summary

- 3.6. All respondents were supportive of our consultation positions in relation to RMS which demonstrated low levels of third-party activity.

Decision

- 3.7. We will maintain the 4% regulated margin on contestable activities in RMS where there are low levels of third-party activity.

Reasons for decision

- 3.8. As stated in our consultation document, and in paragraphs 3.4 and 3.5 above, we identified market segments where third party work could be described as 'limited'. We have not identified any RMS which had no third-party activity over the course of the assessment period, across GB, either in this competition review or the Competition Test.
- 3.9. Given this presence of competitors in the market, we believe that the removal of the regulated margin would negatively impact these third parties that either currently operate within these RMS or may choose to do so in future.

RMS where data was not submitted

What did we consult on?

- 3.10. We identified several instances where data was not submitted for certain RMS. When the regulated margin and RMS classification were introduced, we considered that competition was viable in all nine RMS. This has been demonstrated, through the presence of active third-party competitors across all RMS, in the previous Competition

Test and this competition review. Therefore, in the absence of any further information, we said we would maintain the 4% regulated margin for RIIO-ED2 for the RMS in which data was not provided.

Response summary

- 3.11. All respondents were supportive of our consultation positions in relation to RMS where data was not submitted.
- 3.12. One DNO respondent stated that it is unclear whether DNOs chose not to submit the market data or whether it was due to none being available. This respondent also highlighted that where a DNO has chosen not to submit data, they should not stand to benefit commercially or otherwise. It was also suggested that we make it a requirement for these DNOs to annually report on relevant data through regulatory reporting.

Decision

- 3.13. We will maintain the 4% regulated margin for RIIO-ED2 until our next review in the case of RMS where data was not submitted.

Reasons for decision

- 3.14. As stated in paragraph 3.10, this review of competition and the previously completed Competition Test has demonstrated the presence of third-party operators, in varying degrees, across all RMS. As a result, where DNOs did not submit data for any RMS, we will be maintaining the 4% regulated margin for RIIO-ED2 until our next review, to enable the development of competition.
- 3.15. With regards to annual regulatory reporting, we will set out all DNOs' annual reporting obligations as part of implementing RIIO-ED2.

Stakeholder views on our proposals to remove the regulated margin

- 3.16. We requested views on whether stakeholders agreed with our consultation positions for all DNOs in relation to the RMS submitted for our review.

Electricity North West Limited

3.17. Electricity North West Limited ('ENWL') passed seven out of the nine RMS at the 2012 Competition Test. This resulted in the Distributed Generation LV and Unmetered Other RMS being the two RMS in scope of this review. A summary of the minded-to proposals, as set out in the consultation document, is presented below.

Table 2: ENWL competition review minded-to proposals

RMS	ENWL
Metered Demand LV	Out of scope
Metered Demand HV	Out of scope
Metered Demand HV and EHV	Out of scope
Metered Demand EHV and above	Out of scope
Distributed Generation LV	Did not pass
Distributed Generation HV and EHV	Out of scope
Unmetered LA	Out of scope
Unmetered PFI	Out of scope
Unmetered Other	Pass

Response summary

- 3.18. ENWL agreed with our proposal to remove the regulated margin for their Unmetered Other RMS, however believed that we should pass their Distributed Generation LV RMS, following an 'in the round' assessment.
- 3.19. ENWL highlighted how their Distributed Generation LV RMS is relatively smaller when compared to their other eight RMS, when measured in terms of connections volumes. It was also highlighted that all other Low Voltage ('LV') RMS have demonstrated evidence of effective competition and that they are the most successful DNO in terms of demonstrating this over all RMS.
- 3.20. It was further stated that we take this fact into consideration, conducting an 'in the round' assessment, and pass ENWL's Distribution Generation LV RMS on the basis that ENWL are the most successful DNO in terms of demonstrating evidence of effective competition over all the RMS.

3.21. Additionally, please see the 'Other stakeholder views' section which provides a summary of the confidential response which is relevant to all DNOs.

Decisions

3.22. For ENWL's Unmetered Other RMS, we will remove the 4% regulated margin on contestable activities.

3.23. For ENWL's Distributed Generation LV RMS, we will retain the 4% regulated margin on contestable activities.

Reasons for decisions

3.24. In relation to ENWL's Unmetered Other RMS, we will be proceeding with decision set out in paragraph 3.22 above, for the reasons set out in paragraph 4.16 to 4.18 of the consultation document. We continue to believe that the evidence demonstrates that effective competition has developed as third parties are successfully competing for and winning projects against the DNO. Additionally, no further evidence or information was presented to the contrary.

3.25. In relation to ENWL's proposal of an 'in the round' assessment of their Distribution Generation LV RMS, we recognise that ENWL have demonstrated evidence of effective competition in eight of the nine RMS. However, we do not think it is appropriate to change the assessment criteria of the review at this stage of the process.

3.26. The assessment criteria for our review was consulted on in May 2021¹² and our final decision was published October 2021.¹³ Stakeholders had the opportunity to propose different criteria at this time. Our assessment criteria set out which key indicators we would rely on to reach our decisions for each RMS. We did not set out any criteria that would permit an 'in the round' analysis of all RMS to dictate the outcome of a specific RMS and it was not proposed by ENWL at that time.

Northern Powergrid

¹² [Consultation on the proposal to review competition in the electricity distribution connections market | Ofgem](#)

¹³ [Decision on the proposal to review competition in the electricity connections market for RIIO-ED2 | Ofgem](#)

3.27. There were 16 RMS in scope of this review across both of Northern Powergrid’s (‘NPg’) Distribution Service Areas (‘DSAs’) – Northern Powergrid Northeast (‘NPgN’) and Northern Powergrid Yorkshire (‘NPgY’). NPgN and NPgY both passed the Metered Demand HV RMS in the previous Competition Test and submitted data for 6 RMS each through this competition review.

3.28. A summary of the minded-to proposals, as set out in the consultation document, is presented below.

Table 2: NPg competition review minded-to proposals

RMS	NPgN	NPgY
Metered Demand LV	Did not pass	Did not pass
Metered Demand HV	Out of scope	Out of scope
Metered Demand HV and EHV	Did not pass	Did not pass
Metered Demand EHV and above	No data provided	No data provided
Distributed Generation LV	Did not pass	Did not pass
Distributed Generation HV and EHV	Pass	Pass
Unmetered LA	Did not pass	Did not pass
Unmetered PFI	No data provided	No data provided
Unmetered Other	Did not pass	Did not pass

Response summary

3.29. We did not receive a consultation response from NPg. The stakeholders that responded to our consultation did not address our proposals for NPg, or present any alternative views to our classification of NPg’s RMS.

3.30. Additionally, please see the ‘Other stakeholder views’ section which provides a summary of the confidential response which is relevant to all DNOs.

Decisions

3.31. For the RMS that demonstrated evidence of effective competition, in both of NPG’s DSAs (NPgN and NPgY), we will remove the regulated margin on contestable activities.

3.32. For the RMS that did not demonstrate evidence of effective competition, in both of NPG's DSAs (NPgN and NPgY), we will retain the regulated margin on contestable activities.

Reasons for decisions

3.33. In relation to all RMS submitted by NPg for both DSAs, we will be proceeding with decisions set out in the paragraphs above, for the reasons set out in the 'Assessment outcomes' section of Chapter 4 of the consultation document and below.

- For NPgN's and NPgY's Metered Demand LV, Metered Demand HV and EHV, Distributed Generation LV, Unmetered LA and Unmetered Other RMS, our view remains that the removal of price control regulation would be a detriment to the further development of effective competition. We believe that the evidence in the consultation document shows that competition has developed in these RMS for other DNOs, with none of the responses to the consultations providing evidence to challenge this view. We therefore believe keeping the regulated margin and providing third parties with the opportunity to enter these markets is in the best interests of consumers at this time
- For NPgN and NPgY's Metered Demand EHV and Unmetered PFI RMS, keeping the regulated margin in place is consistent with our decision on the treatment of RMS where no data was submitted as described in paragraph 3.14.
- For NPgN's and NPgY's Distributed Generation HV and EHV RMS, the evidence demonstrates that effective competition has developed as third parties are successfully competing and winning projects against the DNO. Allowing NPgN and NPgY to charge an unregulated margin and applying limited intervention through price control incentives is therefore consistent with our approach set out in paragraph 2.6.

UK Power Networks

3.34. Across three of UK Power Network's DSAs, London Power Networks ('LPN'), South Eastern Power Networks ('SPN') and East of England Power Networks ('EPN'), there were 13 RMS in scope of this review.

3.35. LPN passed four RMS in the previous Competition Test and submitted data for four RMS through this competition review. SPN passed five RMS in the previous Competition

Test and submitted data for four RMS through this competition review. EPN passed five RMS in the previous Competition Test and submitted data for four RMS through this competition review.

3.36. A summary of the minded-to proposals, as set out in the consultation document, is presented below

Table 4: UKPN competition review minded-to proposals

RMS	LPN	SPN	EPN
Metered Demand LV	Did not pass	Did not pass	Did not pass
Metered Demand HV	Pass	Pass	Pass
Metered Demand HV and EHV	Out of scope	Out of scope	Out of scope
Metered Demand EHV and above	Out of scope	Out of scope	Out of scope
Distributed Generation LV	Did not pass	Did not pass	Did not pass
Distributed Generation HV and EHV	Out of scope	Out of scope	Out of scope
Unmetered LA	Pass	Out of scope	Out of scope
Unmetered PFI	Out of scope	Out of scope	Out of scope
Unmetered Other	Pass	Pass	Pass

Response summary

3.37. In their response, UKPN agreed with our consultation proposals in relation to their RMS stating that where it is deemed effective competition exists, a DNO should be free to participate with commercial freedom in offering contestable services. Alternatively, where competition is not sufficiently well developed, it is appropriate to ensure competition is supported by retaining a regulated margin for contestable services.

3.38. Additionally, please see the 'Other stakeholder views' section which provides a summary of the confidential response which is relevant to all DNOs.

Decisions

- 3.39. For the RMS that demonstrated evidence of effective competition, in all three of UKPN's DSAs (LPN, SPN and EPN), we will remove the regulated margin on contestable activities.
- 3.40. For the RMS that did not demonstrate evidence of effective competition, in all three of UKPN's DSAs (LPN, SPN and EPN), we will retain the regulated margin on contestable activities.

Reasons for decisions

- 3.41. In relation to all RMS submitted by UKPN for all three DSAs, we will be proceeding with decisions set out in the paragraphs above, for the reasons set out in the 'Assessment outcomes' section of Chapter 4 of the consultation document and below.
- For the Metered Demand LV and Distributed Generation LV RMS in LPN, SPN and EPN, our view remains that the removal of price control regulation would be a detriment to the further development of effective competition. We believe that the evidence in the consultation document shows that competition has developed in these RMS for other DNOs, with none of the responses to the consultations providing evidence to challenge this view. We therefore believe keeping the regulated margin and providing third parties with the opportunity to enter these markets is in the best interests of consumers at this time.
 - For the Metered Demand HV RMS and Unmetered Other RMS in LPN, SPN and EPN, as well as the Unmetered LA RMS in LPN, the evidence demonstrates that effective competition has developed as third parties are successfully competing and winning projects against the DNO. Allowing UKPN to charge an unregulated margin and applying limited intervention through price control incentives is therefore consistent with our approach set out in paragraph 2.6.

Western Power Distribution

- 3.42. Across four of Western Power Distribution's ('WPD') DSAs, West Midlands ('WMID'), East Midlands ('EMID'), South Wales ('SWALES') and South West ('SWEST'), there were 23 RMS in scope of this review.

- 3.43. WMID passed four RMS in the previous Competition Test and submitted data for five RMS through this competition review. EMID passed four RMS in the previous Competition Test and submitted data for five RMS through this competition review. SWALES passed two RMS in the previous Competition Test and submitted data for seven RMS through this competition review. SWEST passed three RMS in the previous Competition Test and submitted data for six RMS through this competition review.
- 3.44. A summary of the minded-to proposals, as set out in the consultation document, is presented below

Table 5: WPD competition review minded-to proposals

RMS	WMID	EMID	SWALES	SWEST
Metered Demand LV	Did not pass	Did not pass	Did not pass	Did not pass
Metered Demand HV	Pass	Pass	Did not pass	Did not pass
Metered Demand HV and EHV	Not in scope	Not in scope	Did not pass	Did not pass
Metered Demand EHV and above	Not in scope	Not in scope	Did not pass	Did not pass
Distributed Generation LV	Did not pass	Did not pass	Did not pass	Did not pass
Distributed Generation HV and EHV	Pass	Pass	Pass	Not in scope
Unmetered LA	Not in scope	Not in scope	Not in scope	Not in scope
Unmetered PFI	Not in scope	Not in scope	Not in scope	Not in scope
Unmetered Other	Pass	Pass	Did not pass	Did not pass

Response summary

- 3.45. We did not receive a consultation response from WPD. The stakeholders that responded to our consultation did not address WPD in their response, or present any alternative views to our classification of WPD’s RMS.

3.46. Additionally, please see the 'Other stakeholder views' section which provides a summary of the confidential response which is relevant to all DNOs.

Decisions

3.47. For the RMS that demonstrated evidence of effective competition, in all four of WPD's DSAs (WMID, EMID, SWALES and SWEST), we will remove the regulated margin on contestable activities.

3.48. For the RMS that did not demonstrate evidence of effective competition, in all four of WPD's DSAs (WMID, EMID, SWALES and SWEST), we will retain the regulated margin on contestable activities.

Reasons for decisions

3.49. In relation to all RMS submitted by WPD for all four DSAs, we will be proceeding with decisions set out in the paragraphs above, for the reasons set out in the 'Assessment outcomes' section of Chapter 4 of the consultation document and below.

- For the Metered Demand LV and Distributed Generation LV RMS in WMID, EMID, SWALES and SWEST, as well as the Metered Demand HV, Metered Demand HV and EHV, Metered Demand EHV and above and Unmetered Other RMS in the SWALES and SWEST regions, our view remains that the removal of price control regulation would be a detriment to the further development of effective competition. We believe that the evidence in the consultation document shows that competition has developed in these RMS for other DNOs, with none of the responses to the consultations providing evidence to challenge this view. We therefore believe keeping the regulated margin and providing third parties with the opportunity to enter these markets is in the best interests of consumers at this time.
- For the Metered Demand HV and Unmetered Other RMS in WMID and EMID, as well as the Distribution Generation HV and EHV in WMID, EMID and SWALES, the evidence demonstrates that effective competition has developed as third parties are successfully competing and winning projects against the DNO. Allowing WPD to charge an unregulated margin and applying limited intervention through price control incentives is therefore consistent with our approach set out in paragraph 2.6.

Scottish Power Energy Networks

3.50. Across both of Scottish Power Energy Network’s DSAs, Scottish Power Distribution (‘SPD’) and Scottish Power Manweb (‘SPMW’), there were 14 RMS in scope of this review.

3.51. SPD had passed the Metered Demand LV and Metered Demand HV RMS in the previous Competition Test and submitted data for five RMS through this competition review. Data was not provided for the Unmetered PFI and the Metered Demand EHV and above RMS. SPMW had passed the Unmetered LA and Unmetered PFI RMS in the previous Competition Test and submitted data for six RMS through this competition review. Data was not provided for the Metered Demand EHV and above RMS.

3.52. A summary of the minded-to proposals, as set out in the consultation document, is presented below

Table 6: SPEN competition review minded-to proposals

RMS	SPD	SPMW
Metered Demand LV	Out of scope	Did not pass
Metered Demand HV	Out of scope	Did not pass
Metered Demand HV and EHV	Did not pass	Did not pass
Metered Demand EHV and above	No data provided	No data provided
Distributed Generation LV	Pass	Did not pass
Distributed Generation HV and EHV	Pass	Did not pass
Unmetered LA	Did not pass	Out of scope
Unmetered PFI	No data provided	Out of scope
Unmetered Other	Did not pass	Did not pass

Response summary

3.53. We did not receive a consultation response from SPEN. The stakeholders that responded to our consultation did not present any alternative views to our classification of SPEN’s RMS.

3.54. Additionally, please see the 'Other stakeholder views' section which provides a summary of the confidential response which is relevant to all DNOs.

Decisions

3.55. For the RMS that demonstrated evidence of effective competition, in both of SPEN's DSAs (SPD and SPMW), we will remove the regulated margin on contestable activities.

3.56. For the RMS that did not demonstrate evidence of effective competition, in both of SPEN's DSAs (SPD and SPMW), we will retain the regulated margin on contestable activities.

Reasons for decisions

3.57. In relation to all RMS submitted by SPEN for both DSAs, we will be proceeding with decisions set out in the paragraphs above, for the reasons set out in the 'Assessment outcomes' section of Chapter 4 of the consultation document and below.

- For the Metered Demand HV and EHV and Unmetered Other RMS in both SPD and SPMW, as well as the Metered Demand LV, Metered Demand HV, Distributed Generation LV and Distributed Generation HV and EHV in SPMW, and the Unmetered LA RMS in SPD, our view remains that the removal of price control regulation would be a detriment to the further development of effective competition. We believe that the evidence in the consultation document shows that competition has developed in these RMS for other DNOs, with none of the responses to the consultations providing evidence to challenge this view. We therefore believe keeping the regulated margin and providing third parties with the opportunity to enter these markets is in the best interests of consumers at this time.
- For the Metered Demand EHV and above in SPD and SPMW, as well as the Unmetered PFI RMS in SPD, we are keeping the regulated margin in place is consistent with our decision on the treatment of RMS where no data was submitted as described in paragraph 3.14.
- For SPD's Distributed Generation LV and Distributed Generation HV and EHV RMS, the evidence demonstrates that effective competition has developed as third parties are successfully competing and winning projects against the DNO. Allowing SPD to charge an unregulated margin and applying limited intervention

through price control incentives is therefore consistent with our approach set out in paragraph 2.6.

Scottish and Southern Electricity Networks

- 3.58. Across both of Scottish and Southern Energy Network’s (‘SSEN’) DSAs, Scottish and Southern Scottish Hydro Electric Power Distribution (‘SSEH’) and Scottish and Southern Energy Networks Southern Electric Power Distribution (‘SSES’), there were 16 RMS in scope of this review.
- 3.59. SSEH had not passed any RMS in the previous Competition Test and submitted data for seven RMS through this competition review. Data was not provided for the Unmetered PFI and Metered Demand EHV RMS. SSES had passed the Distributed Generation HV and EHV and Unmetered PFI RMS in the previous Competition Test and submitted data for seven RMS through this competition review.
- 3.60. A summary of the minded-to proposals, as set out in the consultation document, is presented below

Table 7: SSEN competition review minded-to proposals

RMS	SSEH	SSES
Metered Demand LV	Did not pass	Did not pass
Metered Demand HV	Did not pass	Pass
Metered Demand HV and EHV	Did not pass	Pass
Metered Demand EHV and above	No data provided	Pass
Distributed Generation LV	Did not pass	Did not pass
Distributed Generation HV and EHV	Pass	Out of scope
Unmetered LA	Did not pass	Pass
Unmetered PFI	No data provided	Out of scope
Unmetered Other	Did not pass	Did not pass

Response summary

- 3.61. SSEN stated that they had difficulty in understanding whether the assessment of the level of competition was carried out consistently across each DNO and RMS, as the

assessment criteria was not clear. SSEN highlighted the Unmetered Other RMS in their SSEH DSA as an example.

3.62. In our consultation we stated that SSEH's Unmetered Other RMS did not demonstrate effective competition. SSEN compared it to ENWL's Unmetered Other RMS, which we believe demonstrated effective competition, as a potential example of inconsistent assessment criteria application.

3.63. Additionally, please see the 'Other stakeholder views' section which provides a summary of the confidential response which is relevant to all DNOs.

Decisions

3.64. For the RMS that demonstrated evidence of effective competition, in both of SSEN's DSAs (SSEH and SSES), we will remove the regulated margin on contestable activities.

3.65. For the RMS that did not demonstrate evidence of effective competition, in both of SSEN's DSAs (SSEH and SSES), we will retain the regulated margin on contestable activities.

Reasons for decisions

3.66. For SSEH's Unmetered Other RMS, SSEH's share of units completed increased from 46% to 67%, between 2019 and 2021. Additionally, the total number of units completed maintained a decreasing trend, decreasing from 975 to 265 over the assessment period. Therefore, we believe that the data demonstrates how SSEH were completing an increasing number of connections in a decreasing sample size, thus reflecting their dominance in the market. As a result, we will not be removing the 4% regulated margin for contestable activities in this RMS.

3.67. Moreover, for all other RMS submitted by SSEN for both their DSAs, we will be proceeding with decisions set out in the paragraphs above, for the reasons set out in the 'Assessment outcomes' section of Chapter 4 of the consultation document and below.

- For the Metered Demand LV and Distributed Generation LV RMS in both SSEH and SSES, as well as the Metered Demand HV, Metered Demand HV and EHV and Unmetered LA RMS in SSEH, our view remains that the removal of price control regulation would be a detriment to the further development of effective

competition. We believe that the evidence in the consultation document shows that competition has developed in these RMS for other DNOs, with none of the responses to the consultations providing evidence to challenge this view. We therefore believe keeping the regulated margin and providing third parties with the opportunity to enter these markets is in the best interests of consumers at this time.

- For the Metered Demand EHV and above and Unmetered PFI RMS in SSEH, we are keeping the regulated margin in place is consistent with our decision on the treatment of RMS where no data was submitted as described in paragraph 3.14.
- For SSEH’s Distributed Generation HV and EHV RMS, as well as the Metered Demand HV, Metered Demand HV and EHV, Metered Demand EHV and above and Unmetered LA RMS in SSES, the evidence demonstrates that effective competition has developed as third parties are successfully competing and winning projects against the DNO. Allowing SSEH and SSES to charge an unregulated margin and applying limited intervention through price control incentives is therefore consistent with our approach set out in paragraph 2.6.

Other stakeholder views

3.68. Respondents also gave views on areas that are outside the scope of this consultation.

3.69. A confidential respondent stated that they do not think that the market as a whole is ready to have the regulated margin removed. They highlighted service issues from DNOs to demonstrate this, stating that when receiving services from specific DNOs, they face issues in the form of delays in receiving information, providing non-contestable elements, and receiving Point of Connections (POCs). More widely, across all DNOs, they state that there are issues like over reliance on the DNO, when engineering difficulties are encountered.

3.70. We are not proposing to remove the regulated margin from the market as a whole because of this review. We are only doing this where we consider there is sufficient evidence of effective competition. With regards to the other concerns that were raised, this review considered whether there was an increase or decrease in the level of third-party activity against specific metrics. These metrics did not consider DNO behaviours or performance. Therefore, while we note the concerns stated in paragraph 3.66, this aim of this review was not to assess the quality of service being provided by DNOs. Notwithstanding this, we are developing a Major Connections Incentive for RIIO-ED2.

The aim of this will be to ensure that DNOs provide a high-quality level of service to major connections customers. We encourage all stakeholders to provide views on it in their responses to our RIIO-ED2 Draft Determinations.

- 3.71. UKPN stated that the basis of which the penalty for the Major Connections Incentive would be calculated, as set out in our RIIO-ED2 Sector Specific Methodology Decision, would result in a penalty being worth a sum greater than the market value of some smaller RMS.¹⁴
- 3.72. We have set out our proposals on the Major Connections Incentive and penalty rate in our RIIO-ED2 Draft Determinations Core Document. We will also continue to work with DNOs on the incentive, ahead of Final Determinations.
- 3.73. SSEN also provided comments on a set of binding commitments made by SSE plc in 2015 following an investigation into connections within the SEPD region ('the Commitments').¹⁵
- 3.74. The Commitments are subject to review by GEMA five years after the implementation date (7 May 2022). Under the terms of the Commitments, this review requires us to consider whether there are changes of circumstances relevant to the Commitments such that they should be released or varied to remove aspects of the Commitments that are no longer considered necessary or appropriate. We are currently reviewing the commitments and will publish a decision in due course.

¹⁴ See [here](#) for our Sector Specific Methodology Decision published on 17 December 2020.

¹⁵ [Decision of the Gas and Electricity Markets Authority to accept binding commitments from SSE plc, following investigation into compliance with Chapter II of the Competition Act 1998 and/or Article 102 of the Treaty on the Functioning of the European Union | Ofgem](#)

4. The Authority's determination on the application of a regulated margin in Relevant Market Segments

Section summary

This section sets out the Authority's determination on the application of the regulated margin following our decisions for each DNO on those RMS which have passed the competition review

Background

- 4.1. This chapter sets out the Authority's determinations on whether DNOs are obliged to charge an unregulated margin on contestable connections services in the RMS within the scope of this review.
- 4.2. Under the terms of its Electricity Distribution Licence Standard Licence Condition 14.16 (SLC 14.16), DNOs must set their Connection Charges at a level that will enable it to recover:
 - the appropriate proportion of the costs directly or indirectly incurred in carrying out any works for the extension or reinforcement of its Distribution System, or for the provision and installation, maintenance, repair, and replacement, or (as the case may be) removal following disconnection, of any electric lines or electrical plant; and
 - such a margin as it is allowed to charge under Charge Restriction Condition 2K (CRC 2K).
- 4.3. CRC 2K.4 states the licensee must charge a Margin of 4% unless directed otherwise by the Authority. CRC 2K.5 also states the licensee may charge an Unregulated Margin in RMS where the Authority has determined, in respect of any RMS, that the licensee is entitled (but not obliged) to charge an Unregulated Margin in Connection Charges in relation to its Connection Activities in the RMS. An Unregulated Margin is one which is defined in SLC 1 as one that is not limited by any provision of the Electricity Distribution Licence.

- 4.4. In order to inform our decision on whether the licensee(s) should be entitled to charge an Unregulated Margin, we consulted on our approach to reviewing competition in the electricity distribution connections market and requested data from DNOs in the manner described in paragraphs 2.9 to 2.12 of this document.
- 4.5. This document now sets out our final decisions. Chapter 3 of this document sets out our reasons for each DNO and those RMS which were in scope of the competition review.

The Authority’s determination

- 4.6. In accordance with CRC 2K.5 of the Electricity Distribution Licence, and where we have decided to pass a DNO’s RMS as part of this competition review, the Authority determines that the relevant licensee shall be entitled (but not obliged) to charge an Unregulated Margin on its Connection Charges in relation to its Connections Activities.
- 4.7. For the avoidance of doubt, the RMS for each DNO where this is the case are set out in Table 8 below.

Table 8: RMS which have passed the competition review for all DNOs

DNO	DSA	RMS which have passed the competition review
ENWL	ENWL	Unmetered Other
NPg	NPgN	Distributed Generation HV and EHV
	NPgY	Distributed Generation HV and EHV
WPD	WMID	Metered Demand HV, Distributed Generation HV and EHV, Unmetered Other
	EMID	Metered Demand HV, Distributed Generation HV and EHV, Unmetered Other
	SWALES	Distributed Generation HV and EHV
UKPN	LPN	Metered Demand HV, Unmetered LA, Unmetered Other
	SPN	Metered Demand HV, Unmetered Other
	EPN	Metered Demand HV, Unmetered Other
SPEN	SPD	Distributed Generation LV, Distributed Generation HV and EHV
SSEN	SSEH	Distributed Generation HV and EHV
	SSES	Metered Demand HV, Metered Demand HV and EHV, Metered Demand EHV and above, Unmetered LA

- 4.8. Our reasons for concluding that the specific RMS that passed this review of competition demonstrated evidence of effective competition are set out in our March 2022 consultation¹⁶ on a review of competition in the electricity distribution connections market and in Chapter 3 of this decision document.
- 4.9. In accordance with CRC 2K.3 of the Electricity Distribution Licence, DNOs will be required to continue applying a regulated margin of 4% for those RMS which did not pass this competition review.

Future reviews

- 4.10. We will only conduct a future review of competition in the connections market if we consider that sufficient evidence has been provided so demonstrate that by doing so will likely lead to consumer benefit and we are of the view that is a priority work area. This could include helping to inform incentive setting for future price controls. We will consult with stakeholders in advance of any further work.

¹⁶ [Consultation on our review of competition in the electricity distribution connections market | Ofgem](#)