

Kieran Brown
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Ofgem
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By email to: RIIOED2@ofgem.gov.uk

20 May 2022

Consultation on minded-to proposals on Ofgem review of competition in the electricity distribution connections market

Dear Kieran

Thank you for the opportunity to respond to the above consultation. This response is on behalf of UK Power Networks' three distribution licence holding companies: Eastern Power Networks plc, London Power Networks plc, and South Eastern Power Networks plc.

We support the minded-to position Ofgem presents in this consultation.

One specific area we wish to draw your attention to again is the size of the LV Generation market segment. Following the removal of Feed-In-Tariff support, the number of enquiries, connection offers and connections completed is now extremely small and it would be difficult to draw any conclusions on such a small sample. The low volume of activity and turnover is mirrored across all DSAs within Great Britain. The natural extension of this aspect of the connections market from the RIIO-ED2 Sector Specific Methodology Decision is that the incentive, or penalty, applicable to such a small market segment would be worth many times more than the market value of the entire market segment. This has been raised during RIIO-ED2 working groups and we are keen to continue this cross-industry dialogue to support Ofgem in defining arrangements which best facilitate the optimum customer benefit. Our suggestion is to merge this into another market segment, possibly LV Demand.

Our response to the specific consultation questions is included in the appendix to this response. If you have any questions regarding this response, please contact James Devriendt in the first instance.

Yours faithfully

A handwritten signature in black ink, appearing to read 'James', followed by a stylized flourish.

James Hope
Head of Regulation and Regulatory Finance
UK Power Networks

Copy Mark Adolphus, Director of Connections, UK Power Networks
James Devriendt, Head of Commercial Services, UK Power Networks
Paul Measday, Regulatory Returns & Compliance Manager, UK Power Networks
Ross Thompson, Regulatory Performance Manager, UK Power Networks

Appendix – Responses to consultation questions

Question 1 Do you agree with our treatment of RMS where we found low levels of third party activity? Please provide reasons for your views

Yes, we support the views expressed in this consultation, subject to the material comment in our covering letter concerning market segments with particularly low levels of overall activity, both DNO and third-party activity. Typically, this applies to the DG Low Voltage segment.

It is appropriate to maintain a regulated margin in segments where competition is limited in order to encourage the development of competition in the future.

Question 2 Do you agree with our proposal to maintain the regulated margin in those RMS where we did not receive market data through the DNO submissions? Please provide reasons for your views

We support this proposal. Given that the indicated incentive mechanism for major connections in RIIO-ED2 would encourage DNOs to try to pass the competition review and minimise any downside incentive exposure, it is logical to assume that where no data was submitted, there was insufficient evidence at this point in time to demonstrate effective competition. Given this, together with Ofgem's observation that there was effective competition across all relevant market segments in at least one distribution service area across Great Britain, it seems reasonable to maintain the regulated margin in these market segments.

Question 3 For each RMS and DNO where we have assessed the level of competition, do you agree with our proposal to keep or remove the regulated margin? Please state why, providing evidence and reasoning for your views. When responding, please mark clearly which DNO and RMS you are referring to

Yes, we agree with the respective proposals for each of our RMS for our three individual DNOs. Where it is deemed effective competition exists, a DNO should be free to participate with commercial freedom in offering contestable services. Where competition is not sufficiently well developed, it is appropriate to ensure competition is supported by retaining a regulated margin for contestable services; we have not seen any evidence that suggests that the 4% regulated margin is out of step with the returns a competitor might expect to derive from connections work.