Competition Issues

Initial thoughts for discussion at CONWG

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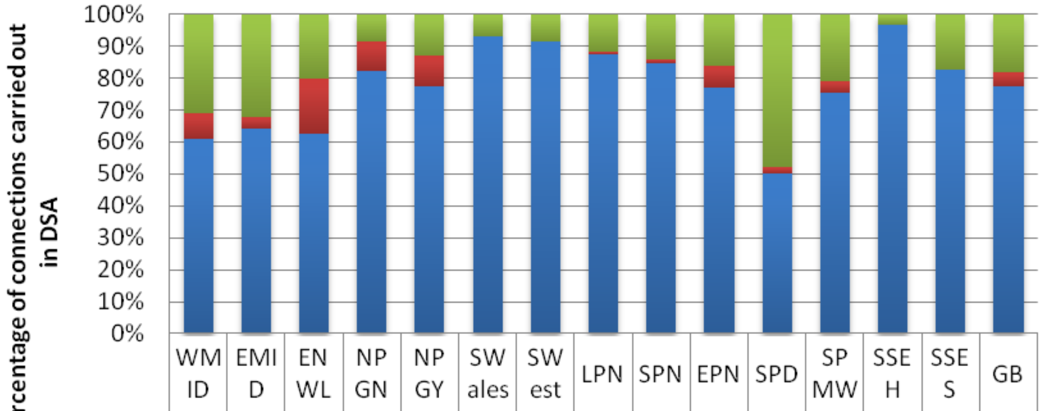
What we need to think about

- Impact of Competition Tests
  - Impact on GSoP
  - Impact on regulated margin
  - Impact of increasing competition

Impact of Competition Tests



	WM ID	EMI D	EN WL	NP GN	NP GY	SW ales	SW est	LPN	SPN	EPN	SPD	SP MW	SSE H	SSE S	GB
IDNO %	31%	32%	20%	9%	13%	7%	9%	12%	14%	16%	48%	21%	3%	17%	18%
ICP %	8%	4%	17%	9%	10%	0%	0%	1%	1%	7%	2%	4%	0%	0%	5%
DNO %	61%	64%	62%	82%	77%	93%	91%	87%	85%	77%	50%	75%	97%	82%	77%

- The market share data for 2010/11 published in Ofgem's Annual Report shows the increasing levels of competition across many DNO areas
- The Competition Tests have acted as an enabler to focus DNOs on making improvements to support competition
- Further Competition Test applications are expected this year
- If we assume this direction of travel for the remainer of DPCR5 and assume all/most market segments have passed the Competition Tests, what aspects do we need to consider for RIIO-ED1?

Impact on GSoP

- GSoP was introduced as part of DPCR5 to provide penalty payments to customers who did not received service to prescribed timescales
- As competition develops in many DNOs and across most market segments does the application of GSoP need to be reviewed for ED1?
- In market segments where there is competition is it still appropriate to have regulated standards being applied?
  - Will market forces drive the necessary DNO behaviour in terms of speed?
  - Will other ED1 incentives do the same
- Should inconsistencies between GSoP and non-contestable standards be removed
  - There are differences in reporting and guidance
  - There are different criteria that result in licence breeches
  - There remains a three month standard

Impact on margins

- Regulated margin was introduced *“to provide more headroom for the development of competition”*
- By December 2013 DNOs have to submit Competition Test Notices for all relevant market segments (ie those where competition is expected)
  - Or submit a report with similar evidence
- Ofgem will need to consider what it will do with respect to the 4% regulated margin
  - At this time?
  - As part of RIIO-ED1?
- For any segments that have not passed the Competition Tests, should the margin
  - Remain at 4%?
  - Be reduced to zero?
  - Be increased to create further headroom?

Impact of increasing competition

- We have seen the increasing levels of competition across many DNOs
  - Four DNOs made less than 70% of connections in 2010/11
- In particular IDNOs accounted for over 18% of the new connections made
- Whist this is not yet at the levels of 51% experienced in gas there is a significant upward trend
- Ofgem need to consider the trigger point that would cause them to review the level of regulation applied to IDNOs