RWE npower renewables

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Submitted via email to:
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RWE npower renewables,
Regulation & Policy

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Swindon, 18th January 2013

RE: Consultation on WPD's Competition Notice

Dear James,

RWE n-power renewables appreciates the opportunity to respond to this consultation regarding WPD's Competition Notice. RWE npower renewables is one of the UK's largest renewable energy developers and operators. As a customer within WPD's area of operation we have an interest in the outcomes of this consultation. We have successfully built a couple of wind farms (in the 10 MW - 70 MW range) with WPD or its predecessors and are currently progressing a number of further sites. We want to have access to high quality good value connection services for our Distributed Generation projects which connect to the High/ Extra High Voltage network.

We agree with Ofgem's view that competition can deliver what customers need in connections more effectively than regulation. We are also encouraged to see in the Ofgem annual report on distribution that overall national market penetration by IDNOs and ICPs is on a gradual increase. How to time deregulation is a very critical, challenging question. We are unable to support the removal of the price control measures from any DNO because we feel that the evidence presented is insufficient at this moment in time. Therefore regulation should not be lifted from WPD's HV-EHV DG connections market.

RWE npower renewables is currently developing approximately 185MW of EHV DG projects in the WPD area. Connection offers for all of the sites we are working with WPD were signed some time ago. The infrequency of getting new connections and the lack of aggregate historical data looking at competition levels acts as a barrier to observing whether competition is effectively developing for large scale DG connections. This is true not just for WPD but all DNOs. In addition WPD has recently (May 2011) acquired the East and West Midlands areas –this recent change of owner further adds to the difficulty of observing and determining whether it would be appropriate to remove price control measures DG HV and EHV market segment in this particular part of WPD.

Please bear these overarching concerns in mind when considering our response to your consultation questions.

The completed response table is appended below,

Best Regards,
Fruzsina

Each of the questions asked by this consultation is set out in the template below. ***Note that an editable version of this response template is available on our website as an associated document to this consultation.*** *If you do not wish to use our response template, please ensure that you indicate the RMS and DSA to which your experiences relate.*

When considering your responses to these questions, please consider your experiences, the actions that WPD has undertaken and the actions that you consider it could reasonably undertake.

Please check the RMS and DSAs that are relevant to you in the table below.

Relevant Market Segment (RMS)	WPD Competition Notice/DSA			
	South West	South Wales	East Midlands	West Midlands
1. Metered low voltage work (LV)	☐	☐	☐	☐
2. Metered high voltage work (HV)	☐	☐	☐	☐
3. Metered HV and Extra High Voltage (EHV) work	☐	☐	☐	☐
4. Metered EHV work and above	☐	☐	☐	☐
5. Distributed Generation (DG) LV work	☐	☐	☐	☐
6. DG HV and EHV work	☒	☒	☒	☒
7. Unmetered Local Authority (LA) work	☐	☐	☐	☐
8. Unmetered Private Finance Initiative (PFI) work	☐	☐	☐	☐
9. Unmetered Other work	☐	☐	☐	☐

When answering the questions below, please check the RMS(s) and DSA(s) that are relevant to your response.

Chapter Two

Question	RMS(s)	DSA(s)	Response
One: Are customers aware that competitive alternatives exist?	Metered LV ☐ Metered HV ☐ Metered HV/EHV ☐ Metered EHV+ ☐ DG LV ☐ DG HV/EHV ☒ Unmetered LA ☐ Unmetered PFI ☐ Unmetered Other ☐	S West ☐ S Wales ☐ East Mids ☐ West Mids ☐	Yes we are aware of available options via the Lloyds register.
Two: Do customers have effective choice (ie are customers easily able to seek alternative quotations)?	Metered LV ☐ Metered HV ☐ Metered HV/EHV ☐ Metered EHV+ ☐ DG LV ☐ DG HV/EHV ☒ Unmetered LA ☐ Unmetered PFI ☐ Unmetered Other ☐	S West ☐ S Wales ☐ East Mids ☐ West Mids ☐	Yes we can easily seek alternative quotations but this does not necessarily mean that we have effective choice as a DG customer. The availability of competition is not the only factor that a developer will consider when deciding whether to use an ICP. Based on our broad experience across the UK there are a range of factors which may deter DG developers from choosing to use an ICP. I) DNOs have deemed planning permission for performing works/wayleaving rights which an ICP would not have. These rights significantly reduce risk to the developer. II) The hassle and expense of having to manage two parties rather than one. This is particularly important where we need to make technical or timing changes(e.g. as a result of planning constraints).* III) The competency of the potential ICPs in relation to the scale and type of connection for the project in question as well as their experience of working with the incumbent DNO would be equally important. ICPs are still an unknown quantity for many customers, DNOs have a natural advantage of being familiar.

			Potentially, further time is needed for IDNOs to go through a learning curb and build up their reputation. The low rate of acceptance of ICP offers i.e. 2 out of 27 DG HV/EHV quotes in one year would suggest to us that other DG developers are of a similar view.
Three: Does WPD take appropriate measures to ensure that customers are aware of the competitive alternatives available to them?	Metered LV ☐ Metered HV ☐ Metered HV/EHV ☐ Metered EHV+ ☐ DG LV ☐ DG HV/EHV ☒ Unmetered LA ☐ Unmetered PFI ☐ Unmetered Other ☐	S West ☐ S Wales ☐ East Mids ☐ West Mids ☐	Yes the WPD website is clear and user-friendly. The competition in connections page is easy to find and the information in there is clear. As a minor comment we have noticed that the link to the Lloyds register on this page does not work and the pdf brochure appears to have the pages in inverse order. It seems only right that marketing individual ICPs is the responsibility of those businesses. The main barrier to ICP take up for large scale DG does not seem to be customer awareness but overcoming other barriers as discussed above and as set out by the ECSG and CNA.
Four: Are quotations provided by WPD clear and transparent? Do they enable customers to make informed decisions whether to accept or reject a quote?	Metered LV ☐ Metered HV ☐ Metered HV/EHV ☐ Metered EHV+ ☐ DG LV ☐ DG HV/EHV ☒ Unmetered LA ☐ Unmetered PFI ☐ Unmetered Other ☐	S West ☐ S Wales ☐ East Mids ☐ West Mids ☐	Generally staff are approachable and have the expertise to respond to DG customer queries. WPD has pledged to provide clearer quotations. This is important as, as recently as 2009 some WPD quotes contained no breakdown of costs at all. As noted it is relatively infrequent that a developer makes a request for connection so we have not seen what the new format and level of detail is like. When you request for a WPD quote, both the contestable and non-contestable elements are broken down which is good…but it appears that if you only want the non-contestable part then the customer (or your ICP) needs to ask for a new quote for non-

			contestable only. This adds unnecessary hassle for the customer and has the potential to limit customers in seeking competitive offers. Some DNOs do not have this system. WPD should move away from it too in order to facilitate competition.
Five: Have customers benefitted from competition? Have they seen improvements in WPD's price or service quality or have they been able to source a superior service or better price from WPD's competitors?	Metered LV ☐ Metered HV ☐ Metered HV/EHV ☐ Metered EHV+ ☐ DG LV ☐ DG HV/EHV ☒ Unmetered LA ☐ Unmetered PFI ☐ Unmetered Other ☐	S West ☐ S Wales ☐ East Mids ☐ West Mids ☐	Insufficient evidence to comment. The infrequency of getting new connections and the lack of historical data looking at competition levels acts as a barrier to observing whether competition is effectively developing for large scale DG connections. This is true not just for WPD but all DNO areas. In addition WPD has recently acquired the Midlands area –this recent change of owner further adds to the difficulty of observing and determining whether it would be appropriate to remove price control measures DG HV and EHV market segment.

Chapter Three

Question	RMS(S)	DSA(S)	Response
One: Does the level of competitive activity in the RMSs show that there is the potential for further competition to develop?	Metered LV ☐ Metered HV ☐ Metered HV/EHV ☐ Metered EHV+ ☐ DG LV ☐ DG HV/EHV ☒ Unmetered LA ☐ Unmetered PFI ☐ Unmetered Other ☐	S West ☐ S Wales ☐ East Mids ☐ West Mids ☐	From a customer perspective: Even once the competition test is passed Ofgem needs to monitor and ensure that competition increases over time. If competition does not deliver better value and services Ofgem needs to be prepared to rethink its policy.
Two: Consider the organisational structure of WPD's business and its procedures and processes –	Metered LV ☐ Metered HV ☐ Metered HV/EHV ☐ Metered EHV+ ☐ DG LV ☐	S West ☐ S Wales ☐ East ☐	No Comment

(a) how do they compare to those you encounter elsewhere in the gas and electricity markets or other industries? Do they reflect best practice? **(b)** do they enable competitors to compete with the timescales for connection (from quote to energisation) offered by WPD? Or do they offer WPD any inherent advantage over its competitors or prevent existing competitors from competing with them effectively? **(c)** do they assist, obstruct or delay connections providers entering the RMSs?	DG HV/EHV Unmetered LA Unmetered PFI Unmetered Other	Mids West Mids	
Three: Are the non-contestable charges levied by WPD for statutory connections in the RMSs consistent with those levied for competitive quotations? Are they easily comparable with competitive quotations?	Metered LV Metered HV Metered HV/EHV Metered EHV+ DG LV DG HV/EHV Unmetered LA Unmetered PFI Unmetered Other	S West S Wales East Mids West Mids	No Comment

Four: What factors are key influences on development of competition in the RMSs? In particular, if you are an existing/potential competitor **(a)** what is the potential for you to enter new RMSs, or grow your share of an RMS you already operate in? **(b)** are there are any types of connection in any of the RMSs, or geographic locations in WPD's DSAs, that by their nature, are not attractive to competition? Please explain your response.	Metered LV ☐ Metered HV ☐ Metered HV/EHV ☐ Metered EHV+ ☐ DG LV ☐ DG HV/EHV ☐ Unmetered LA ☐ Unmetered PFI ☐ Unmetered Other ☐	S West ☐ S Wales ☐ East Mids ☐ West Mids ☐	No Comment

Chapter Four

Question	RMS(S)	DSA(S)	Response
One: Do you agree with the methods used by WPD to analyse the level of competition in each of the RMSs covered by its application? In particular, do you consider that WPD gives a clear indication of the current level of competitive activity?	Metered LV ☐ Metered HV ☐ Metered HV/EHV ☐ Metered EHV+ ☐ DG LV ☐ DG HV/EHV ☒ Unmetered LA ☐ Unmetered PFI ☐ Unmetered Other ☐	S West ☐ S Wales ☐ East Mids ☐ West Mids ☐	Although the approach to analyse competition is a good start, it has not painted a complete picture for us as a DG developer. It is difficult for us to take a clear view for two key reasons: - The data presented is merely a snapshot of one year. The length of time it takes to deliver a wind farm makes it difficult to fully determine whether it would be appropriate to remove price control measures in the HV-EHV DG category. Any developer will only be applying for a handful of projects in a 12 month period so will have little to go on in reporting change.

			The fact that the figures presented only represent a 12 month period and large connections can take several years to progress, it is difficult to ascertain how representative the aggregate data is. - No benchmark is provided. Ofgem should have data from prior to when the 4% regulated margin was first introduced under DPCR5. Even if the specific way of categorising connections by RMS did not exist is there no proxy/ way of collecting historical data from the ICPs themselves? Where can we view such evidence? It would be useful to see whether this policy has made any difference? That way it would be easier to comment on whether it is still needed.
Two: Do you consider that competitive activity is at a level that in itself indicates that effective competition exists?	Metered LV ☐ Metered HV ☐ Metered HV/EHV ☐ Metered EHV+ ☐ DG LV ☐ DG HV/EHV ☒ Unmetered LA ☐ Unmetered PFI ☐ Unmetered Other ☐	S West ☐ S Wales ☐ East Mids ☐ West Mids ☐	No. The numbers on their own would suggest that there is little competition. For HV-EHV DG connections less than 10% of all quotes accepted by customers are quotes offered by ICPs. Clearly, there are competitors – this is illustrated by the fact that across the four WPD zones between 4-11 ICPs requested quotes over the year. However, the proportion of cases where they get involved in bidding (3-12% of all quotes) and their success rate (3-7%) appears very low on face value. It is not possible to say whether these numbers are so low because WDP offers are more competitive or because competition is in fact being hindered by the barriers identified by the Electricity Connections Steering Group.

Chapter Six

Question	RMS(S)	DSA(S)	Response
One: 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 WPD's ability to earn a margin is removed?	Metered LV ☐ Metered HV ☐ Metered HV/EHV ☐ Metered EHV+ ☐ DG LV ☐ DG HV/EHV ☒ Unmetered LA ☐ Unmetered PFI ☐ Unmetered Other ☐	S West ☐ S Wales ☐ East Mids ☐ West Mids ☐	See our response to Chapter 2 Question 2. It is also unclear to us what action would be taken to monitor barriers to competition developing further on an ongoing basis if the price control measures were removed. As an incumbent, WPD would have an advantage over other market players and this advantage does not seem to be addressed by accepting the removal of price regulation of connection activities. In other sectors, e.g. telecommunications, British Telecom has ongoing obligations to offer local loop access in its telephone exchanges under a regulated framework. It then competes for services such as ADSL in the same way as other service providers to end consumers. It would seem appropriate that something similar should apply to DNOs if price regulation of connection activities were removed.
Two: Do you consider that there is scope for competitors to grow their market share (for example, if WPD put up its prices or if its quality dropped), or are there factors constraining this?	Metered LV ☐ Metered HV ☐ Metered HV/EHV ☐ Metered EHV+ ☐ DG LV ☐ DG HV/EHV ☒ Unmetered LA ☐ Unmetered PFI ☐ Unmetered Other ☐	S West ☐ S Wales ☐ East Mids ☐ West Mids ☐	Yes it can be assumed that if WPD's quality dropped or if prices increased unfairly there is potentially scope for competitors to grow provided that the barriers highlighted by Electricity Connections Steering Group are overcome. Across the UK we have experience of a number of such barriers which could prevent growth and deter DG developers from going with ICPs. (These comments are not specific to WPD). I) DNOs have deemed planning permission for performing works/wayleaving rights which an ICP would not have. These rights signficantly reduce risk to the developer. II) The hassle and expense of having to manage two parties rather than one. This is particularly important

			where we need to make technical or timing changes (e.g. as a result of planning constraints).
Three: Do you consider that there is scope/appetite for new participants to enter the market? Do you consider that new entrants would be able to provide similar or better services than existing participants or are there factors constraining this?	Metered LV ☐ Metered HV ☐ Metered HV/EHV ☐ Metered EHV+ ☐ DG LV ☐ DG HV/EHV ☒ Unmetered LA ☐ Unmetered PFI ☐ Unmetered Other ☐	S West ☐ S Wales ☐ East Mids ☐ West Mids ☐	Competitors can enter the market but they often seem to lack the required level of expertise. As a developer this means that the project will be exposed to more risk during this period and we would occur additional costs in managing additional interfaces.
Four: Given your overall view of WPD, do you consider that we can have confidence in them to operate appropriately in the event that price regulation is lifted?	Metered LV ☐ Metered HV ☐ Metered HV/EHV ☐ Metered EHV+ ☐ DG LV ☐ DG HV/EHV ☐ Unmetered LA ☐ Unmetered PFI ☐ Unmetered Other ☐	S West ☐ S Wales ☐ East Mids ☐ West Mids ☐	No comment
Five: 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 LV ☐ Metered HV ☐ Metered HV/EHV ☐ Metered EHV+ ☐ DG LV ☐ DG HV/EHV ☒ Unmetered LA ☐ Unmetered PFI ☐ Unmetered Other ☐	S West ☐ S Wales ☐ East Mids ☐ West Mids ☐	Ofgem's ongoing role in monitoring whether competition is effective in both market segments that have passed the CT and those that have not should be considered somewhere.