Competition Notice

Scottish and Southern Energy
Power Distribution

January 2013

Executive summary

Scottish and Southern Energy Power Distribution (SSEPD) has long been a passionate supporter of competition in the energy sector. We hold two electricity distribution licences and we are an active network operator outside our licensed areas. We now own and operate 194 electrical networks across the length and breadth of Great Britain.

As well as engaging in out-of-area network competition, we have worked hard to establish processes to support new entrants in our licensed areas. Our competitions in connections procedures are readily available to customers and alternative providers. We aim to make the process as simple as possible for all, without compromising safety or our customer service standards.

Our experience of this market, coupled with the growing number of businesses competing alongside us is, we believe, compelling evidence of the existence of an open competitive market in electrical connections.

In view of this, I firmly endorse our competition notice and believe it clearly shows our commitment to ensuring customers realise the benefits of competition.

Stuart Hogarth

Director of Distribution
Scottish and Southern Energy Power Distribution

Contents

Summary

SSEPD is a licensed Distribution Network Operator (DNO) in the south of England (SEPD and north of Scotland (SHEPD). In 'Appendix A: About us', we go into more detail about who we are and where we operate.

This document is the competition notice as required under Charge Restriction Condition 12 of the Special Licence Conditions, and was borne from the Distribution Price Control Review 5 (DPCR5) Final Proposals[1]. Ofgem placed obligations on DNOs to promote competition in the provision of connections to the electricity distribution network. As such, it sets out evidence for competition in the provision of new connections to the SEPD and SHEPD networks.

The competition notice is required to consider the extent of competition in connections in nine Relevant Market Segments (RMSs). These RMSs are listed on the next page with brief details about the nature of the segment. Brief definitions of the segments can be seen on the table on the next page, with a detailed description in the glossary.

This competition notice relates to three RMSs: HV and EHV Generation, Demand HV and EHV, and Demand HV segments. Our assessment of the evidence for the other six segments suggests that further work is required to understand the factors influencing customers' decision making about connections' providers. We have initiated this work and expect to submit a competition notice in Spring 2013. However, evidence also indicates that there is the potential for competition in all RMSs.

[1]http://www.ofgem.gov.uk/Networks/ElecDist/PriceCntrls/DPCR5/Documents1/FP_2_Incentives%20and%20Obligations%20FINAL.pdf

Description	Relevant Market Segment (RMS)	Notice submitted
Demand connections	Demand LV - larger LV end connections with only LV works	
	Demand HV - LV and/or HV end connections that involve HV works	Yes
	Demand HV and EHV - LV and/or HV end connections involving EHV works	Yes
	Demand EHV and above – EHV (and where relevant 132kV) customer connections	
Distributed Generation (DG) connections	LV metered generation – generation with works limited to LV	
	HV and EHV generation – generation with works above LV	Yes
Unmetered connections	New local authority connections – works for LA's	
	New connections work for Private Finance Initiatives (PFIs)	
	Other unmetered connections works (non-local authority or PFI)	

This notice assesses the extent of competition in the 3 RMSs using:

- Market data
- Market research

We have introduced new processes or modified some procedures in order to encourage and promote competition. For example, we have developed a re-validation process for quotations where a customer can have a quotation valid for up to 12 months. Also, we have introduced a new quotation breakdown where quotations highlight to customers that there are alternative providers available, along with a link to the Lloyd's Register of suitably accredited providers. These, and other improvements we have made, can be seen in Section 2: Processes to enable competition and Section 5: Market research.

Market data

The table below shows a summary of market data for all accepted projects during 2011/12 for the three Relevant Market Segments we are applying for.

RMS	Volume	Market value (total to be made with no margin)	% won by alternative providers	% of projects with both alternative provider and SSEPD quotation
SHEPD				
Demand HV	1105	£17,023	1.95%	4.15%
Demand HV and EHV	18	£26,651	14.3%	28.36%
HV and EHV Generation	239	£95,956	33.8%	100%*
SEPD				
Demand HV	1052	£39,115	1.49%	12.12%
Demand HV and EHV	5	£1,109,429	0.%	33.33%
HV and EHV generation	76	£28,645	21.6%	31.23%

* In all instances in SHEPD, for HV and EHV Generation, we issue the applicant with both an SSEPD quotation and an alternative provider quotation. This is a practice we have now extended to all of the segments that we are applying for under this notice.

The market data in the table above shows that there are projects available to be won by alternative providers and projects are, on average, worth an adequate amount in that it would be worthwhile for alternative providers to carry out works. The volume column shows the total number of projects carried out, where the corresponding market value shows the average cost of each project in that RMS, where SSEPD have carried out all works. It is also clear that there is active competition in each RMS, as seen in the percentage won by alternative providers. Moreover, the last column shows that customers have choice in each RMS by the number of projects which have both a quotation from SSEPD and an alternative provider.

Section 1: Regulatory requirement of this competition notice

The Electricity Distribution Licence, Charge Restriction Condition 12[2] requires us to publish and submit a competition test. These conditions were borne out of Ofgem's DPCR5 Final Proposals, which requires DNOs to provide detailed evidence demonstrating that competition exists and that any barriers to competition have been removed, by 31 December 2013

There are two parts to the competition notice:
1. The legal test
2. The competition test

The legal test, as described below, involves an assessment of the licensee's compliance with legal requirements in terms of making connections to its distribution system. The competition test presents evidence from market data, market research and DNO activities, to assess effective competition in relevant market segments (RMSs). The pre-requisite for this is that the legal test must also be passed. Should both the competition and legal test be passed, the licensee is then able to, although not obliged to, charge an unregulated margin.

The legal test

For both SHEPD and SEPD, we can confirm that there have been no enforced breaches in 2011/12, nor in the current regulatory year 2012/13 to date, of the following:

- Standard licence condition 12.6(c): Requirement to offer terms for use of system and connection;
- Amended standard licence condition 15: Standards for the provision of non-contestable connections services;
- New standard licence condition 15A: Connections policy and connection performance;
- Standard licence condition 19: Prohibition of discrimination under Chapters 4 and 5; or
- The Competition Act 1998.

We conclude from this that both SHEPD and SEPD pass the requirements of the legal test.

[2] Scottish Hydro Electric Power Distribution Limited Special Conditions, 31 March 2010 and Southern Electric Power Distribution Special Conditions, 31 March 2010

The competition test

For both SHEPD and SEPD, we demonstrate through this notice that for the three RMSs subject of this notice there are the following:

- No barriers to competition, or parts of the market where competition is not feasible p.51-66
- actual and potential competition p. 12-50
- price and transparency of pricing to customers p. 64-65
- that we promoting awareness of competitive alternatives amongst connections customers p. 8-10
- our competition in connections procedures and processes are in place p. 11
- and that we make efforts to open up non-contestable activities to competition. p. 60-61

We propose that both SHEPD and SEPD pass the requirements of the competition test.

Continuing regulatory framework

Although this notice demonstrates that competition is working well for customers in the three RMSs to which this notice relates, our activities will still be regulated.

In considering the potential impacts on customers of this opening up of competition in connections, aside from the clear benefits that an open competitive market provides, it is important to note that all standard conditions of the electricity distribution licence will still apply. Customers will still have the opportunity to refer a connection quotation to Ofgem for determination where they consider any element, including the costs, to be unreasonable. In addition, guaranteed standards of performance will still apply. This valuable level of protection will remain for all customers alongside the options and benefits provided by an open connections market.

Section 2: Processes to enable competition

Having the correct framework and processes in place are key elements for the facilitation of competition, alongside engagement with customers and with potential new service providers. We are confident that we have the necessary framework in place and that our engagement with customers and connection providers is at a level and quality which creates confidence in the market amongst stakeholders. We have also considered whether customers are aware of the alternative options available to them.

Our philosophy

As a business, we place great importance on creating a positive customer experience. As we will describe in Section 3, we recognise that we need to listen to our customers and respond to their suggestions for improvement. This is an iterative, ongoing process. One of our key objectives is to ensure customers are aware of the competitive market for connections and that our processes make accessing this market easy for them. Similarly, we are committed to ensuring that potential new entrants to the connections market are engaged and that we work with them to resolve any barriers that are identified.

In order to facilitate the culture and behaviour change in our business to support our customers' requirements, Power2Serve was launched in late 2006 with the aim of improving our customer service. Under this umbrella title we have introduced a suite of initiatives to drive forward constant improvement in our customer relationships. One of the principles we have adopted to improve our customers' experience is Commitment Based Management (CBM). We know from experience that customers value the personal interactions, commitments and promises that we make to them.

Since Power2Serve was introduced, we have made significant improvements in our customer engagement. Some of the improvements include:

- We have listened to customers when they said it was difficult to contact us, so we increased the publication of our telephone number in phone books and online.
- Redesigned our call centre processes in connections so that a dedicated team respond to queries
- Have provided GIS records access to alternative provider

- We regularly travel around our depots to directly address issues on both a local and regional basis

More of these improvements can be seen in the section below: Making customers aware of competition.

Making customers aware of competition

As part of our Customer Service ethos we are committed to ensuring that all of our customers are aware of their options under competition in connections.

We highlight the alternative provider option on our website[3] which includes, alongside the Common Charging Methodology Statement, a comprehensive explanation of the options available under competition in connections and a link to the Lloyds register of suitably accredited service providers. This identifies, before connection application, what can be carried out by others and all currently accredited alternative providers who can do this work for the customer.

In all three of the RMSs to which this competition notice relates, we offer two choices to customers at the first stages of issuing a quotation. We offer an all works option or non-contestable only option where the latter can be accepted while the customer enquires about appointing an alternative provider. There may then be a situation where the customer initially had decided to go for an alternative provider, but later reconsiders. The customer can then come back to us and accept an all works quotation.

Additionally, we included a paragraph on all our quotations reminding customers that elements of the quotation could be provided by an alternative provider, and again giving the web link for these:

‘SSE Power Distribution is the Distribution Network Operator (DNO) for the area in which your project is located. There are Independent Connection Providers (ICPs) and Independent Distribution Network Operators (IDNOs) who may be able to provide you with an alternative quotation to carry out some of this work. Please refer to www.lloydsregister.co.uk for further details’

We have a dedicated improvement team which actions various initiatives. Some of their work can be seen in the Market Research section. On top of this work, the team have been trying to increase customer awareness in general. One of these improvements includes putting a large notice of contact details into the Yellow Pages and online at www.yell.com with freephone telephone numbers. The team are in contact with BT with the view to continuing this to other sources. The advert more easily guides customers to contact the right department when enquiring about a connection and then customers are presented with options including appointing an alternative provider.

[3] http://www.ssepd.co.uk/Connections/

Moreover, a dedicated business improvement team regularly facilitate the training of staff in order to increase the knowledge and skill set of our call handlers so they will more easily be able to advise how to fill out application forms and more detailed aspects of the connection process including alternative providers. Therefore, staff are being kept up to date with improvements, making the process more simple and transparent.

To quantify customer awareness we added a question to our customer survey during May and June 2011, asking approximately 260 randomly selected customers per week ‘Were you aware that some parts of your job could have been done by others?’. As a result of our initiatives, 67.5% of customers confirm they are aware that elements of their quotation could be provided by an alternative provider. This is reflected in the three RMSs in terms of the high level of quotations issued and accepted which demonstrates a good knowledge of the process. Recently, we commissioned market research to investigate wider customer awareness and barriers

Section 3: Supporting market entry

SSEPD are committed to facilitating an open and competitive market. As part of this, we have been involved in many initiatives with the view to helping increase participation in the market.

We have been involved in encouraging alternative providers to carry out their own final connections. Having initiated trials from March 2011 onwards, we now have in place as business as usual, the opportunity for an alternative provider to carry out the final connection to the LV or HV network within SHEPD and/or SEPD[4]. By extending the contestability of projects we are opening up more areas to competition.

Moreover, we support the provision of part funded connections reinforcement work and we expect to be engaging in trials once contractual and financial issues are overcome.

More information on this can also be seen in the 'what SSEPD have done in response' under the barrier 'activities are not open to competition'. In this section we explain in further detail the activities we are carrying out in order to increase the level of participation.

Supporting those already participating in the market, we provide information through our website and have a dedicated team who deal with connections, who are trained to advise on various aspects of the process.

We also provide alternative providers with access to our GIS records so they are better informed about our network.

To conclude, we support market entry both in terms of potential participants and those already involved in the market. We are committed to supporting market entry and encouraging more alternative providers to enter the market, as well as supporting those already active in the market.

[4] Page 88 of our CCCMS: http://www.ssepd.co.uk/uploadedFiles/Controls/Lists/Resources/SEPD_2012_-_2013_Charging_statements/SEPD_CCCM_CS_October2012.pdf

Section 4: Market data

Summary

This section presents the market data including the level of participation and the trends over time. There is also information on the activity of alternative providers in terms of number of projects won, and the overall number of projects available to be won.

Throughout this section, we split each segment into two, reflecting the two distribution areas, SHEPD and SEPD. The following format is common to each segment, in each area and is line with the graphs and data presented.

a) Firstly we show where the segment is relative to others in terms of volume available and the average cost per project.
b) Then we consider how many quotations for all works have been quoted and accepted[5].
c) The percentage of quotations issued which have gone on to be accepted is then shown graphically.
d) The number of different alternative providers is then shown.
e) The number of quotations issued and accepted where alternative providers will carry out the contestable elements is presented.
f) The percentage of quotations issued to alternative providers which have gone on to be accepted is then shown.

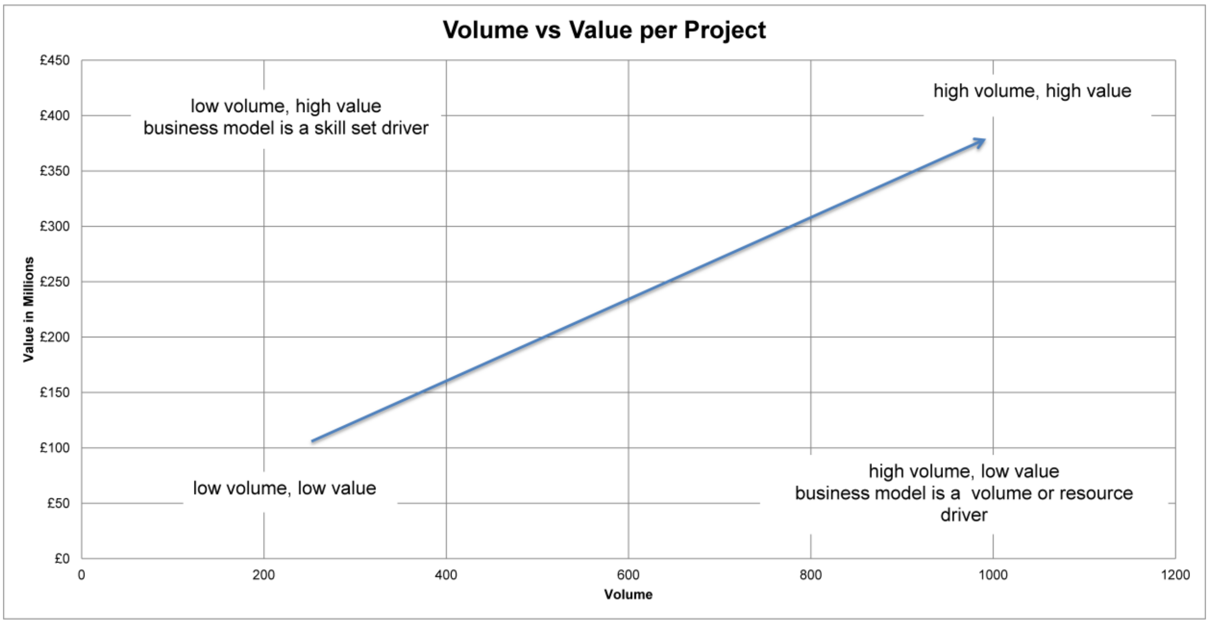
In all three of the segments to which this notice relates we offer our quotations both as non-contestable only, where the customer can then appoint an alternative provider to carry out the contestable element, or all works carried out by SSEPD. This gives the customer choice not only at the tendering stage, but right through to quotation acceptance.

The connections data used in this Notice comes from our project management system which went live on 1 August 2010. This means the count of quotations issued and accepted is slightly deflated during August and September 2010 as it does not include quotations we received before 1 August 2010 but which were issued or accepted in August and September 2010.

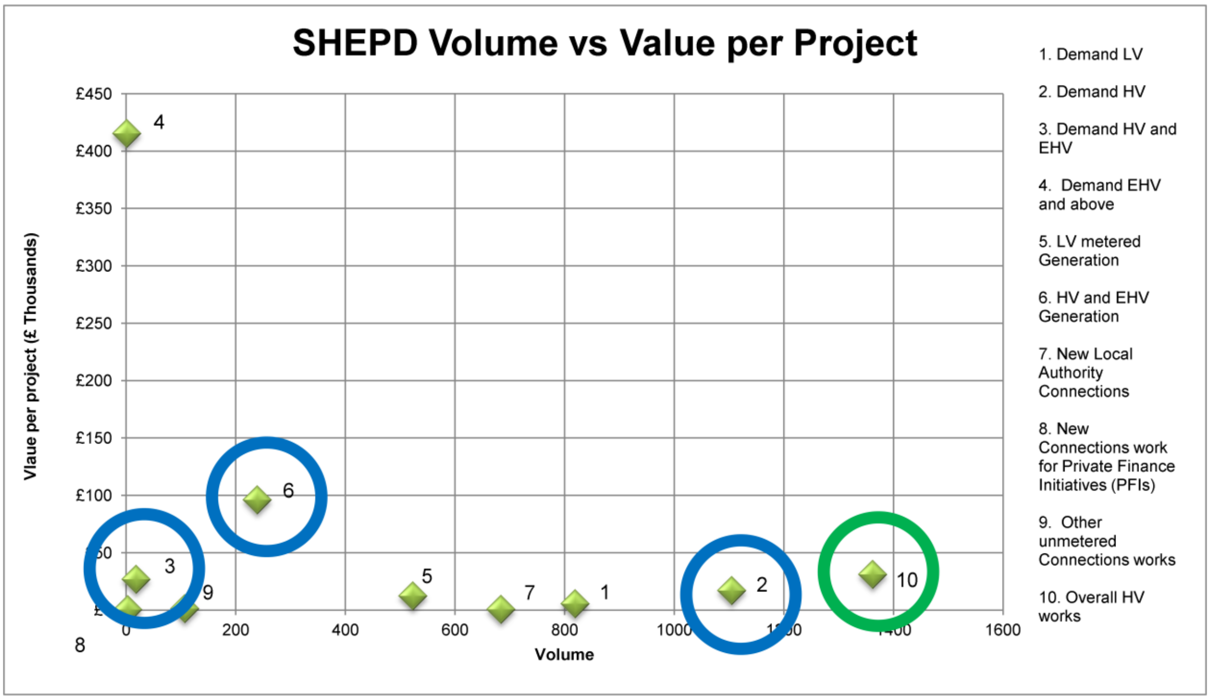
[5] This data is representative of all quotations where we offer both non-contestable and an all works option. There are some instances where we do not quote 'all works' as the customer has gone directly to an alternative provider.

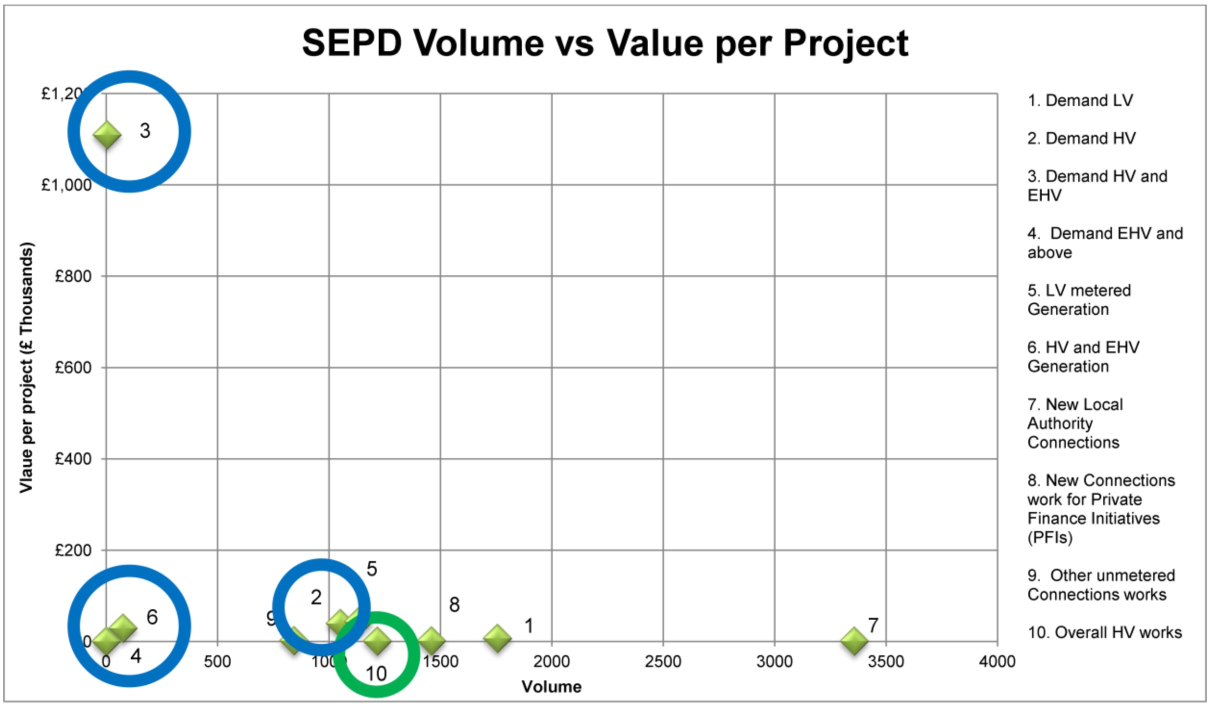
Overview of market

Throughout this section, we refer to graphs of volume and value, detailing the RMSs. These graphs have been split into SHEPD and SEPD to show SSEPD's two areas and the differences between segments within these areas. The bottom left hand corner shows segments which represent low volume in terms of the number of projects available and low value per project. That is, there are not many projects and of the ones which do exist, the cost per project is low. The top right hand corner shows the increasing amount of volume and value to be made per project. The bottom right corner of the graph shows a market where an alternative provider's business model will be a volume or resource driver. The top left hand corner shows a market where the business model is a skill set driver, as the projects available have greater values but have low volumes. This is seen on the graph below.



Using the same format as the graph above, we have populated the graph with all nine RMSs to show the relative differences between the segments. The graph, which is split between SHEPD and SEPD, can be seen on the next page. The blue circles show the 3 RMSs for which this notice relates, and the green circle shows the cumulative amount of these, that is, the overall market for HV works.





Supporting the view that there needs to be adequate value and volume for an active market to develop, we would expect there to be little incentive for alternative providers to enter the market in those segments in the bottom left hand corner. However, the majority of the segments are in this category and we have seen some competition develop in segments where there has been very little value and volume. This shows that some segments are competitive even when they do not meet the pre-requisite of adequate value and volume.

However, we are aware that the three segments of which this notice relates: Demand HV, HV and EHV Generation and Demand HV and EHV, are all very similar. Each segment requires a similar skill set so participants in each individual RMS can more easily have the option to expand into the other HV works segment. Therefore, it could be said that these three RMSs are one overarching market. Therefore, we firstly present the overall HV market, which includes the three RMSs for which this Notice relates. We then go on to break these down into the three RMSs.

Section 4.1: Overall HV market

This section shows the cumulative market for the three RMSs for which this notice applies. It includes Demand HV, HV and EHV Generation and Demand HV and EHV where an explanation of each RMS is provided in the subsequent chapters within Section 4.

In both SHEPD and SEPD the number of quotations accepted each year is generally similar at 1362 in SHEPD and 1133 in SEPD.

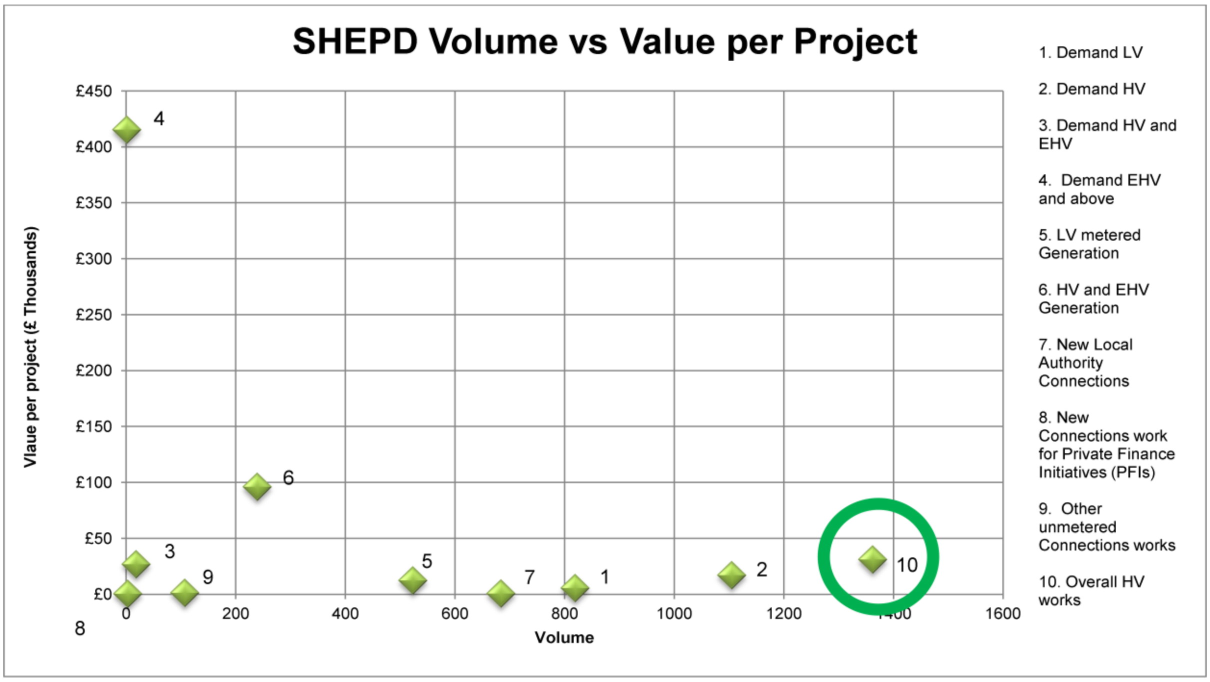
However, the average value per project is significantly more in SEPD, at £43,136, compared to the equivalent in SHEPD of £31,001.

On average, 44.17% of all HV projects have both a quotation from SHEPD and alternative providers, and 25.56% have both a quotation from SEPD and alternative providers. This shows that customers are aware of competition and are making choices between the options.

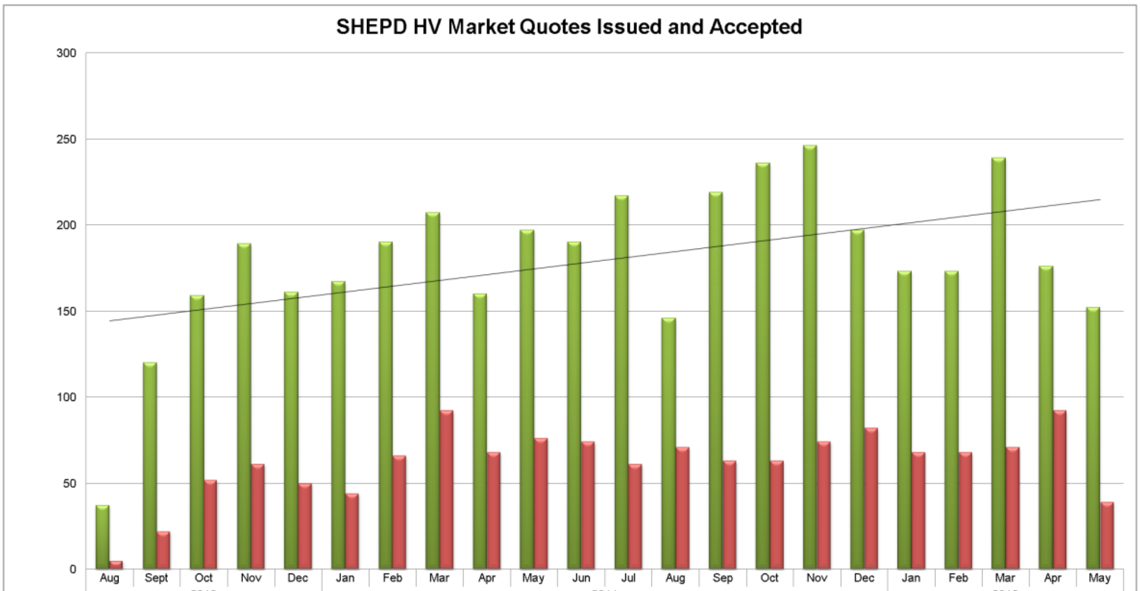
Overall, there were 9.74% of projects won by alternative providers in SHEPD and 3.16% won by alternative providers in SEPD. The data which is split into each RMS can be seen in the subsequent sections.

Overall HV in SHEPD

a) The graph below shows the overall HV market, which encompasses the three RMS for which this notice applies, has the highest volume. It represents the third highest value per project, when taken as the whole HV market.

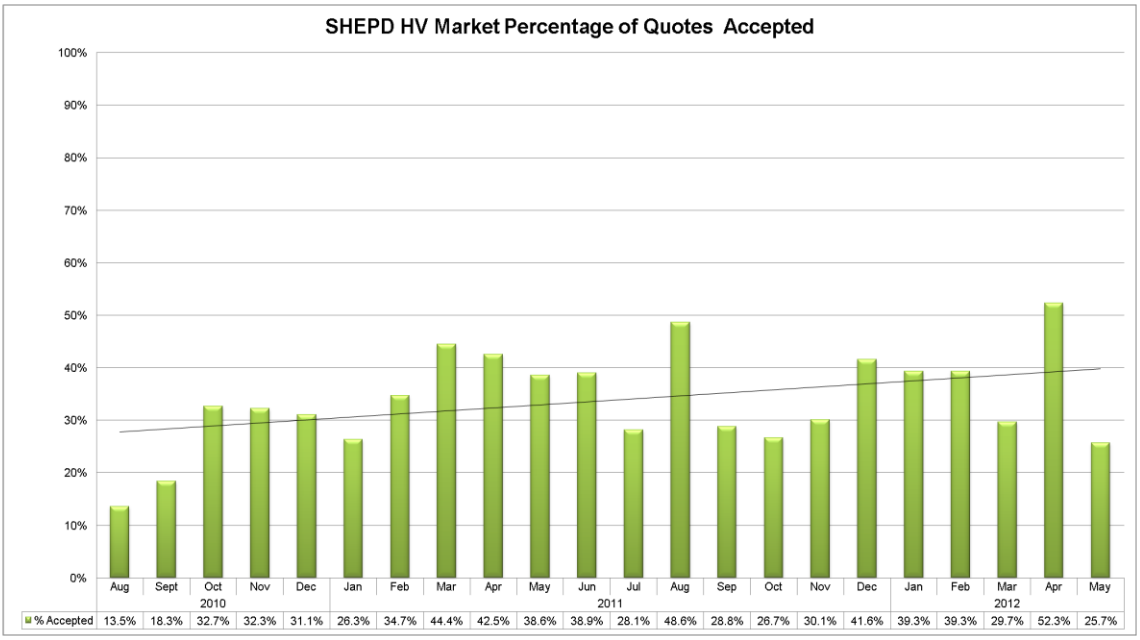


b) The graph below shows the number of quotations issued to and accepted by customers where SHEPD will carry out all works. There is a general increase in the number of quotations issued, and a consistent level of quotations accepted. This shows that the overall HV market has many projects available.

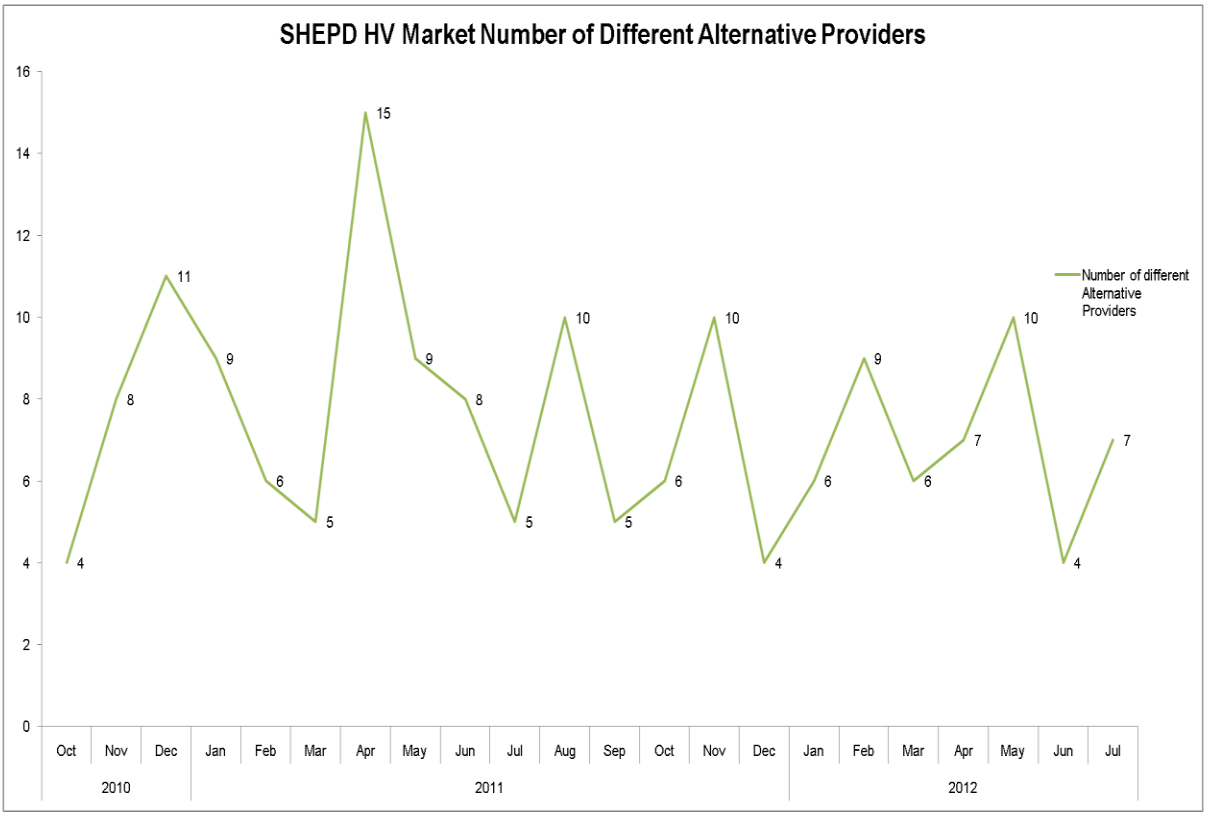


	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
			2010								2011									2012		
Quoted	37	120	159	189	161	167	190	207	160	197	190	217	146	219	236	246	197	173	173	239	176	152
Accepted	5	22	52	61	50	44	66	92	68	76	74	61	71	63	63	74	82	68	68	71	92	39

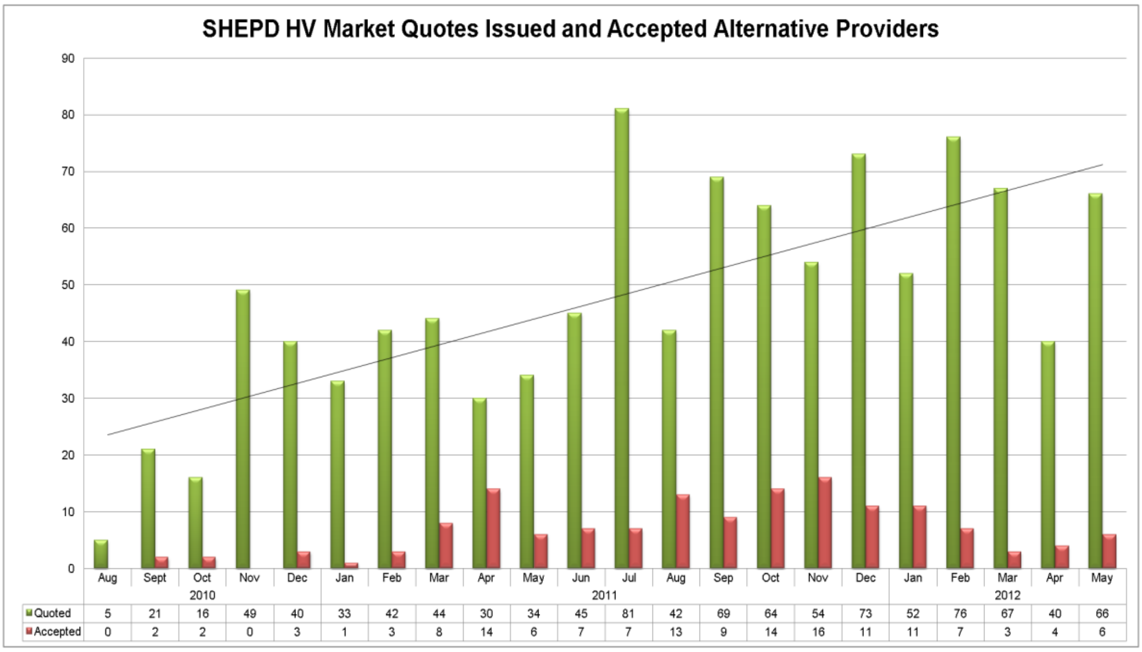
c) The percentage of quotations accepted where SHEPD will carry out all works has increased over time. This shows that in the HV market, SHEPD are carrying out a slightly higher level of projects. This is seen in the graph below.



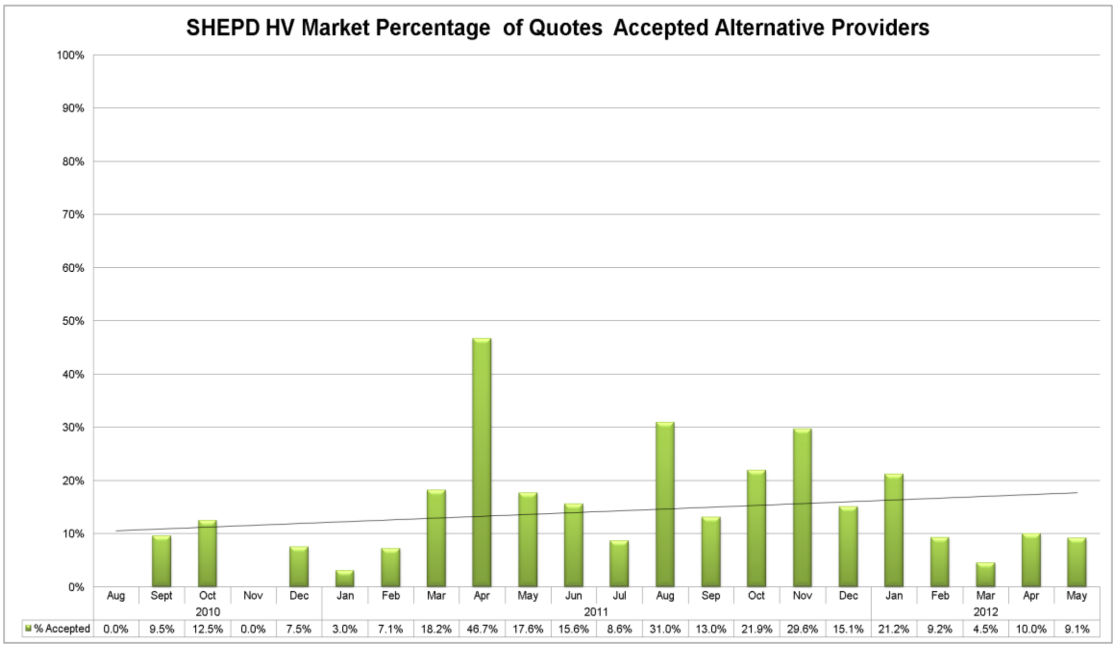
d) The number of different alternative providers has remained steady over the data period, as seen in the graph below. This shows that there are many different participants in the HV market overall, who are requesting quotations and accepting quotations.



e) The percentage of quotations issued to and accepted by alternative providers in SHEPD is seen in the graph below. This shows a rapid, increasing trend in the number of quotations issued to alternative providers in the HV market. This means that alternative providers are quoting more, implying that customers are increasingly considering alternative providers.



f) The percentage of quotations which have been accepted by alternative providers in SHEPD can be seen in the graph below. This shows that there is an increasing percentage of quotations being accepted, and an increasing level of projects being carried out by alternative providers.

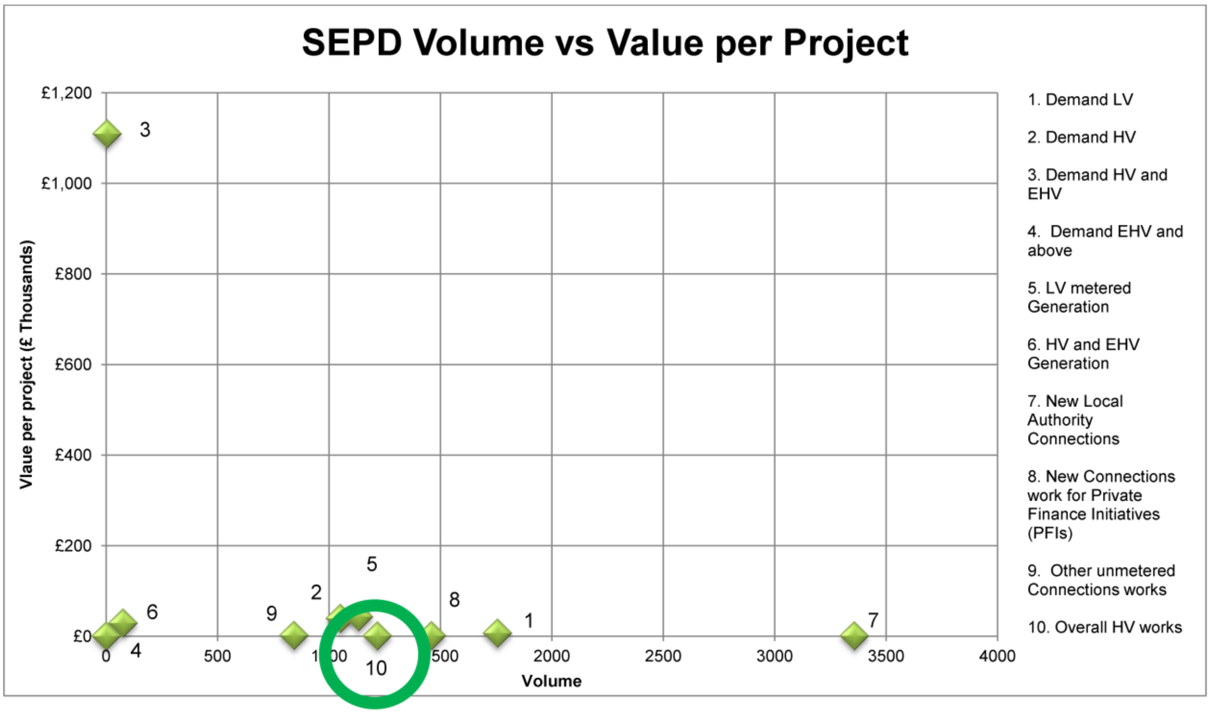


Conclusion

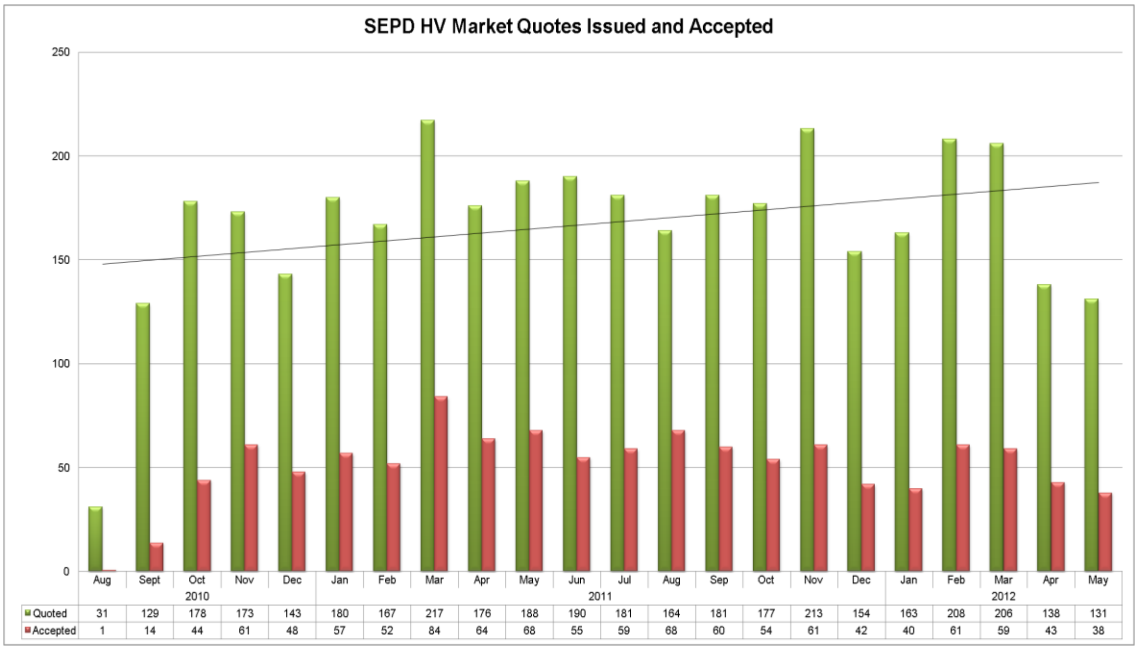
The HV market appears to be growing in that there are an increased number of quotations issued where SHEPD will carry out all works, as well as an increasing number of quotations issued where an alternative provider will carry out part of the project. The percentage of quotations accepted has increased where both an alternative provider will carry out works and SHEPD will carry out all works. Overall, it appears that there is an increasing level of potential projects to be won in SHEPD in the HV market as a whole.

Overall HV in SEPD

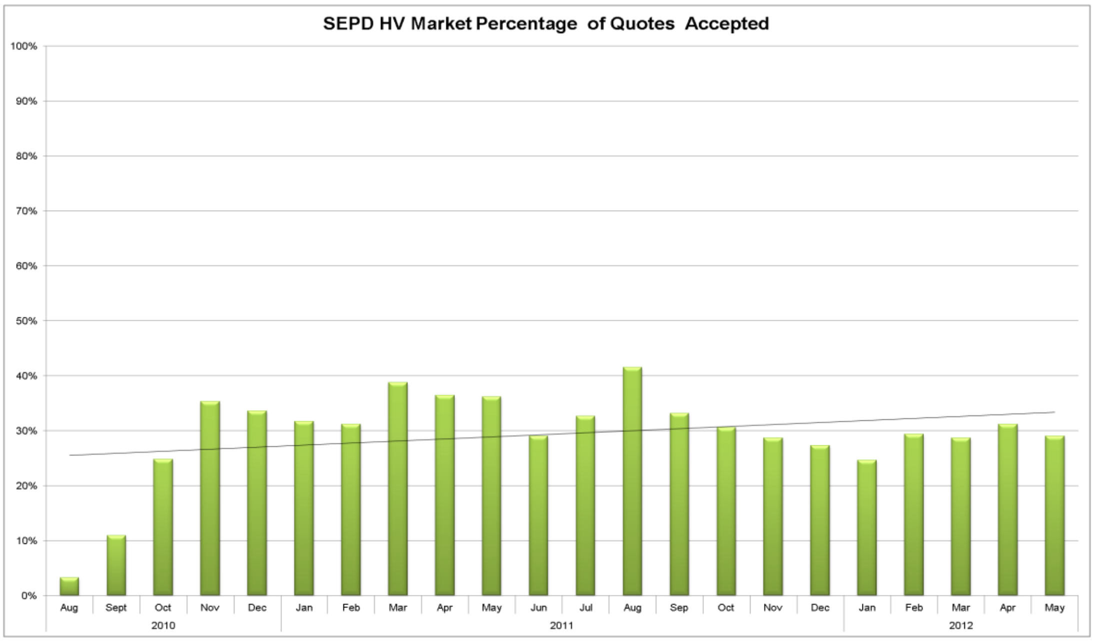
a) The graph below shows that the overall HV market in SEPD is middle of the range in value per project and in terms of volumes available to be won. The value in SEPD is, on average, £43,136 per project where the volume available to be won is 1133.



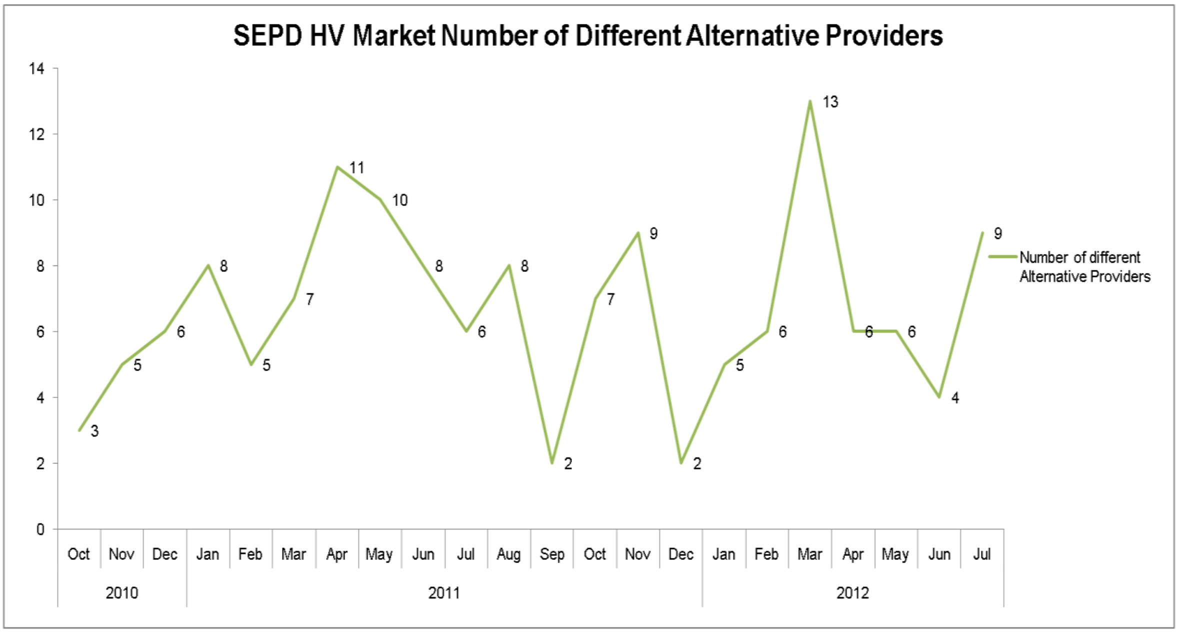
b) The graph below shows how many quotations have been issued and accepted where SEPD will carry out all works. As is seen on the trendline, the number of quotations issued has increased. This shows there are projects available to be won.



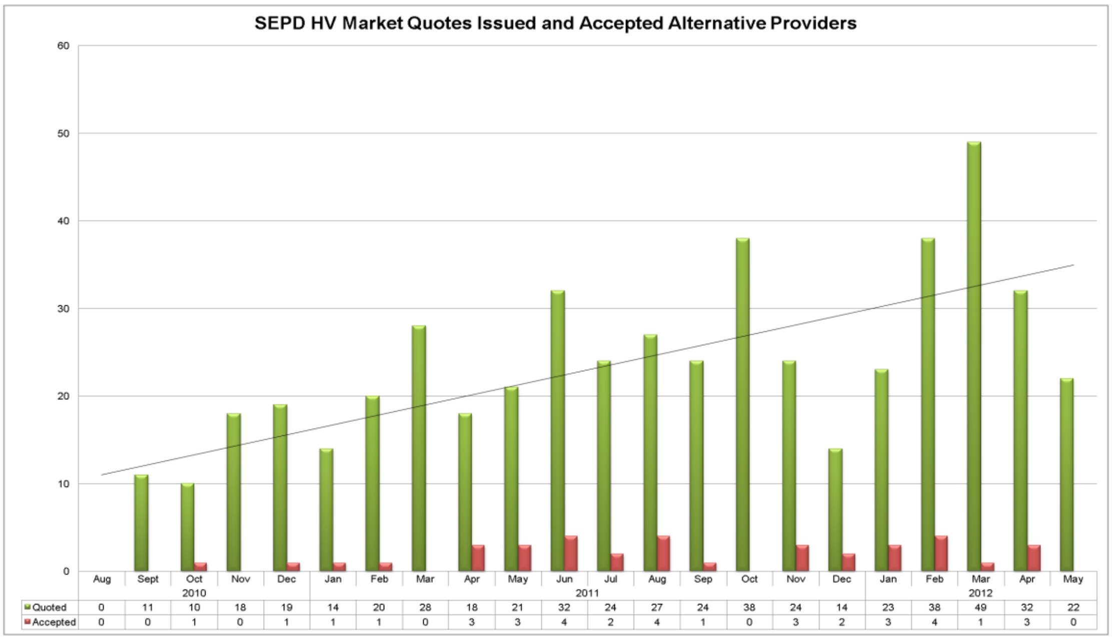
c) The percentage of these quotations issued for all works carried out by SEPD, which have then gone onto be accepted, has decreased. This shows that SEPD are carrying out relatively fewer projects. This is shown in the graph below.



d) The number of different alternative providers has remained steady in the overal HV market, as seen in the graph below. This shows that there is active participation by many different alternative providers.

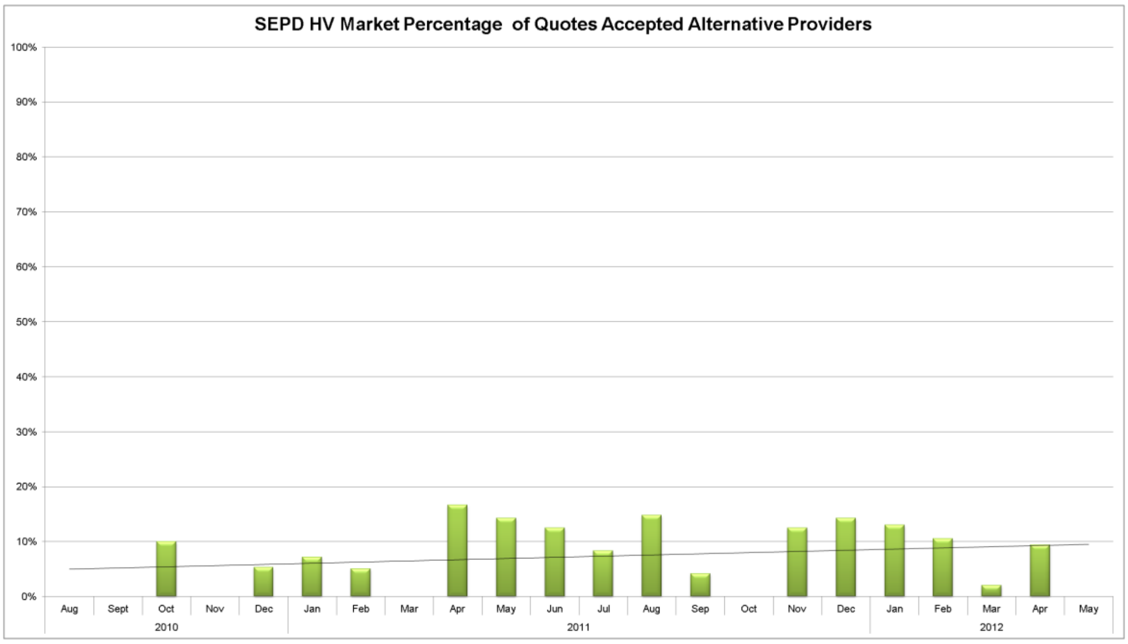


e) The number of quotations issued and accepted where alternative providers will carry out the contestable elements of the project is shown on the graph below. The number of quotations issued has increased rapidly, as indicated by the trendline. This shows that there are many more projects being quoted for where an alternative provider will carry out part of the project.



	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Quoted	0	11	10	18	19	14	20	28	18	21	32	24	27	24	38	24	14	23	38	49	32	22
Accepted	0	0	1	0	1	1	1	0	3	3	4	2	4	1	0	3	2	3	4	1	3	0

f) The percentage of these quotations which have then been accepted is seen in the graph below. There is a steady number of quotations which have gone on to be accepted, as indicated by the trendline. This shows that alternative providers, are being quoted an increasing amount as well as are carrying out consistently increasing level of projects.



Conclusion

Overall, it is clear that within SEPD there are an increasing number of quotations issued to alternative providers, showing that customers are aware of options and are considering alternative providers. Also, the number of quotations which have then gone on to be accepted has increased, showing that alternative providers are carrying out an increasing number of projects.

Section 4.2: Demand HV

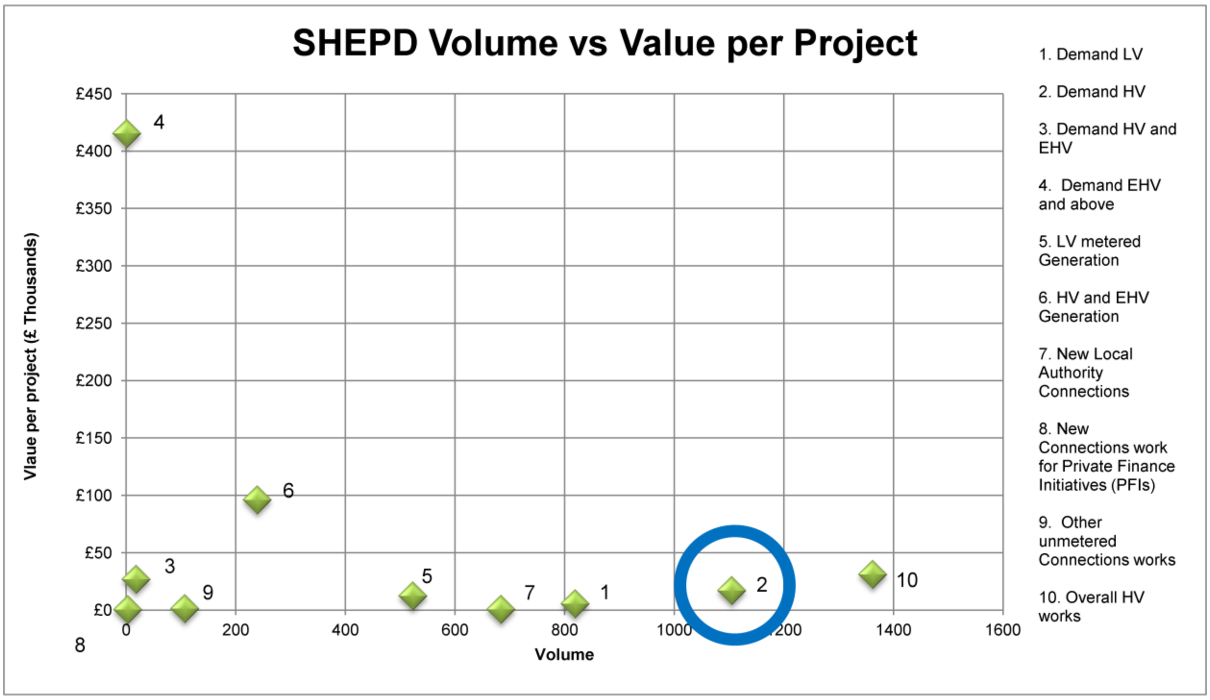
The demand HV segment includes domestic housing, retail, commercial or an industrial project, or any mix of these, with a requirement to do work at HV. This may be because there is no LV network in the area, no capacity available on the local HV/LV transformer or on the local HV network, or may be because the project includes an HV connection.

Within both SHEPD and SEPD there are similar numbers of applications each year; however the average value per project is £39,115 in SEPD and £17,023 in SHEPD. The volume of acceptances in SEPD is 1068 and in SHEPD is 1127. The percentage of projects with both a quotation from an alternative provider and SSEPD is 4.15% in SHEPD and 12.12% in SEPD. This shows that customers are aware of competition and are looking into options before accepting a quotation. We have seen 22 out of 1127 projects won by competitors in SHEPD which equates to 1.95% won. The equivalent at SEPD is 16 projects won by alternative providers, equivalent to 1.49% provided by alternative providers.

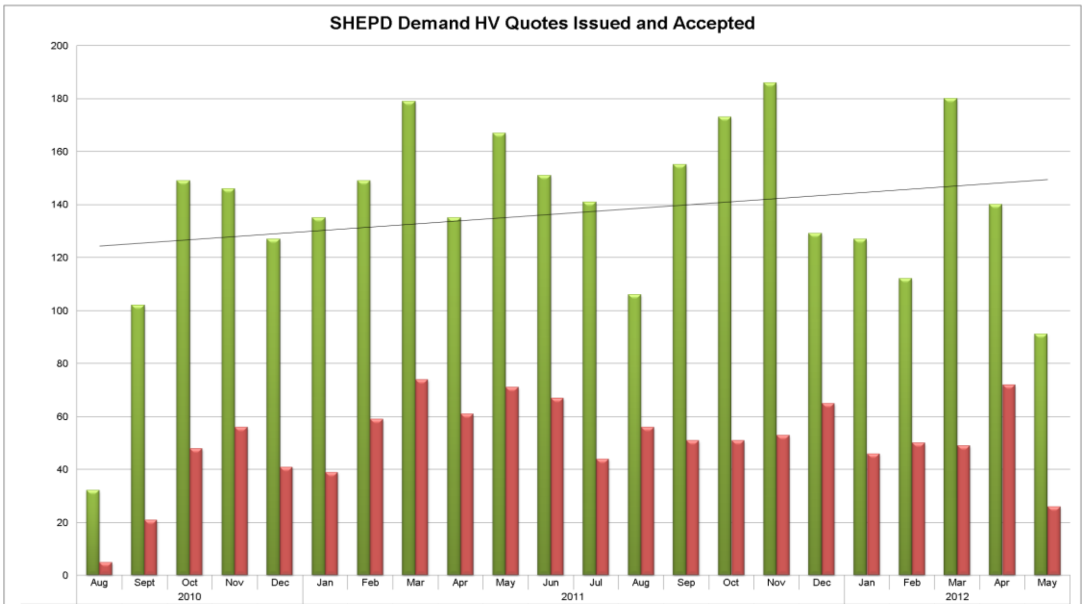
As part of our market research, we asked alternative providers who are currently participating in SHEPD and/or SEPD in one or more market segments, which segments they currently participate in. Of the different alternative providers asked, 61% were currently participating in the demand HV segment. When asked which segments they are intending on expanding into, 46% said they are intending to expand further into the demand HV market. Also, 46% of inactive alternative providers not yet active in SSEPD's area, said they are intending to enter the demand HV market in SSEPD's area.

Demand HV in SHEPD

a) As can be seen on the graph below, the demand HV segment shows the highest volume and middle of the range in terms of value per project.

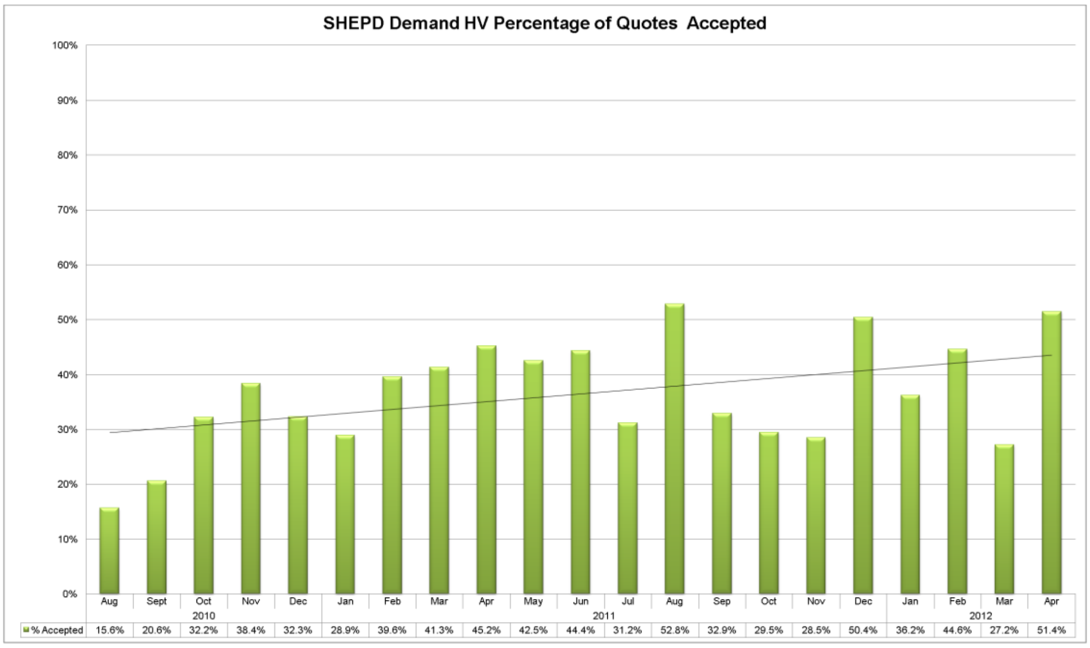


b) The graph below shows the number of quotations issued to, and accepted by customers where SHEPD will carry out all works. The number of quotations issued has increased, showing that there are projects available. This reflects the increasing level of opportunities in terms of projects to be won by alternative providers.

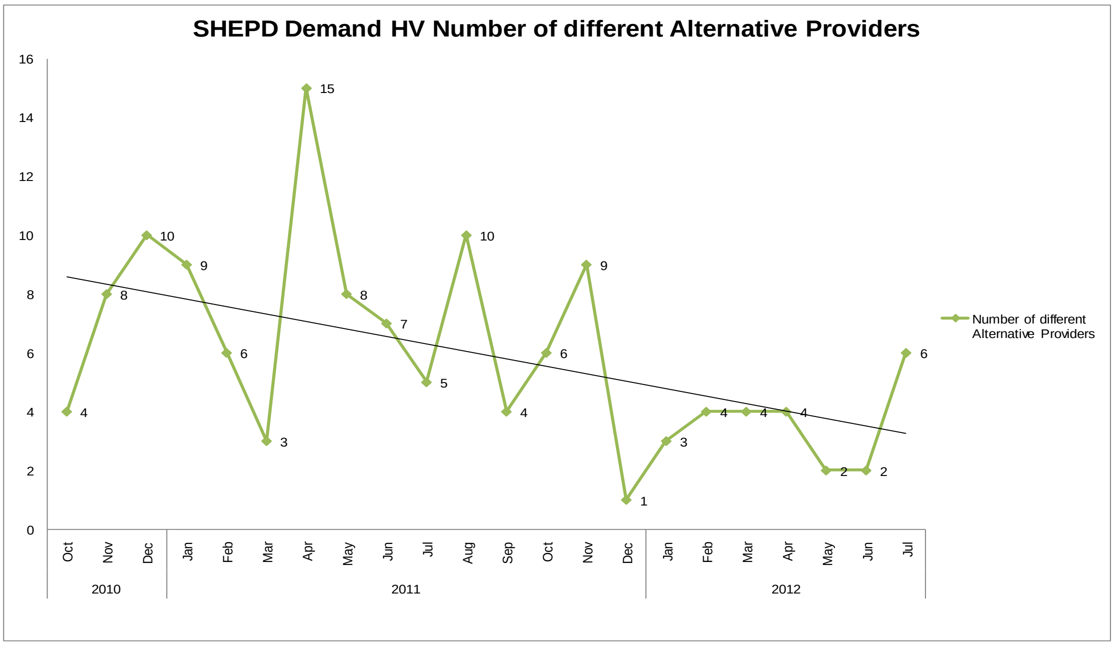


	Aug 2010	Sept 2010	Oct 2010	Nov 2010	Dec 2010	Jan 2011	Feb 2011	Mar 2011	Apr 2011	May 2011	Jun 2011	Jul 2011	Aug 2011	Sep 2011	Oct 2011	Nov 2011	Dec 2011	Jan 2012	Feb 2012	Mar 2012	Apr 2012	May 2012
Quoted	32	102	149	146	127	135	149	179	135	167	151	141	106	155	173	186	129	127	112	180	140	91
Accepted	5	21	48	56	41	39	59	74	61	71	67	44	56	51	51	53	65	46	50	49	72	26

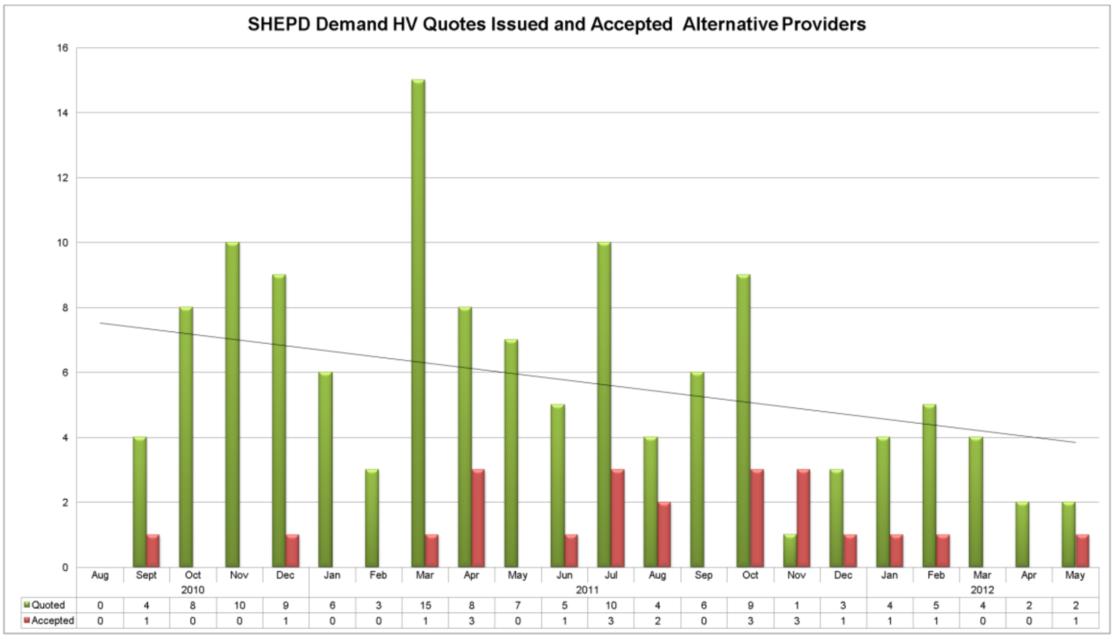
c) The graph below shows the percentage of quotations which have been accepted by customers where SHEPD will provide both contestable and non-contestable works, has increased slightly. Overall, this implies that there are projects available to be won in the area.



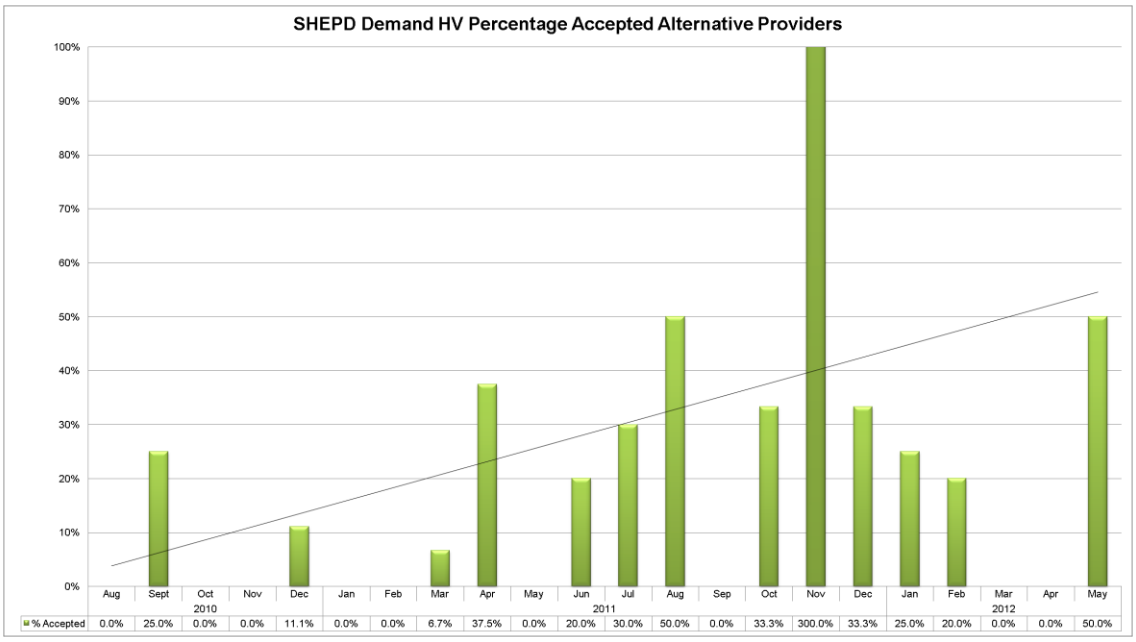
d) Considering the competition in the area, it is clear by the graph below that there are many different participants in the market in SHEPD. Although the number of different alternative providers participating in the demand HV segment in SHEPD has decreased slightly, towards the end of the period it increases. Overall, having up to 15 different providers in SHEPD, in this segment, for one month alone shows that alternative providers are participating in this market.



e) As detailed in the graph below, the number of quotations issued to alternative providers has decreased. These quotations are issued with the intention that an alternative provider will ‘price’ a project for a customer.



f) The graph below shows the percentage of the quotations issued which have gone on to be accepted by the customer where the alternative provider will carry out the contestable element of the works. This has increased rapidly over the period as indicated by the trendline. Therefore, it is clear that alternative providers are carrying out an increasing percentage of projects.

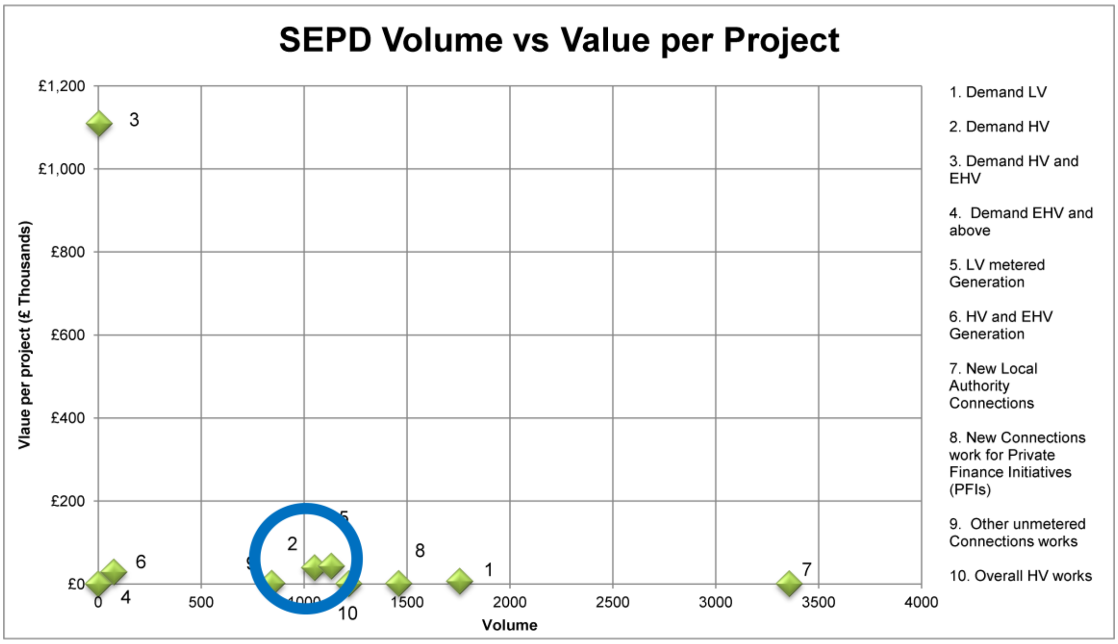


Conclusion

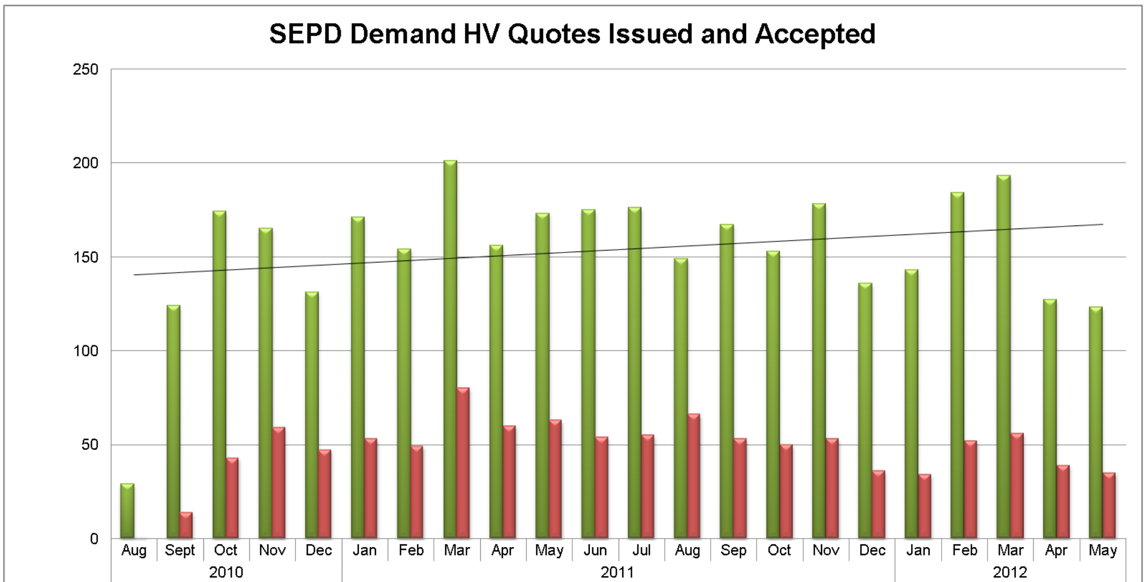
To conclude, the HV segment is competitive in the SHEPD area. Having quoted 4.15% and won 1.95% of projects in SHEPD, alternative providers are active in the SHEPD area. Further to this there have been a large number of different providers which shows that there are many market participants. With 4.15% of projects having a quotation from both SHEPD and an alternative provider, options are being considered, so the demand HV segment is open and competitive in SHEPD.

Demand HV in SEPD

a) Within SEPD, demand HV is middle of the range in terms of the number of applications each year and the value per project. The value per project is £39,115 which is double that of SHEPD's value per project. Also, 12.12% of projects quoted for in this segment have a quotation from both alternative providers and SEPD.

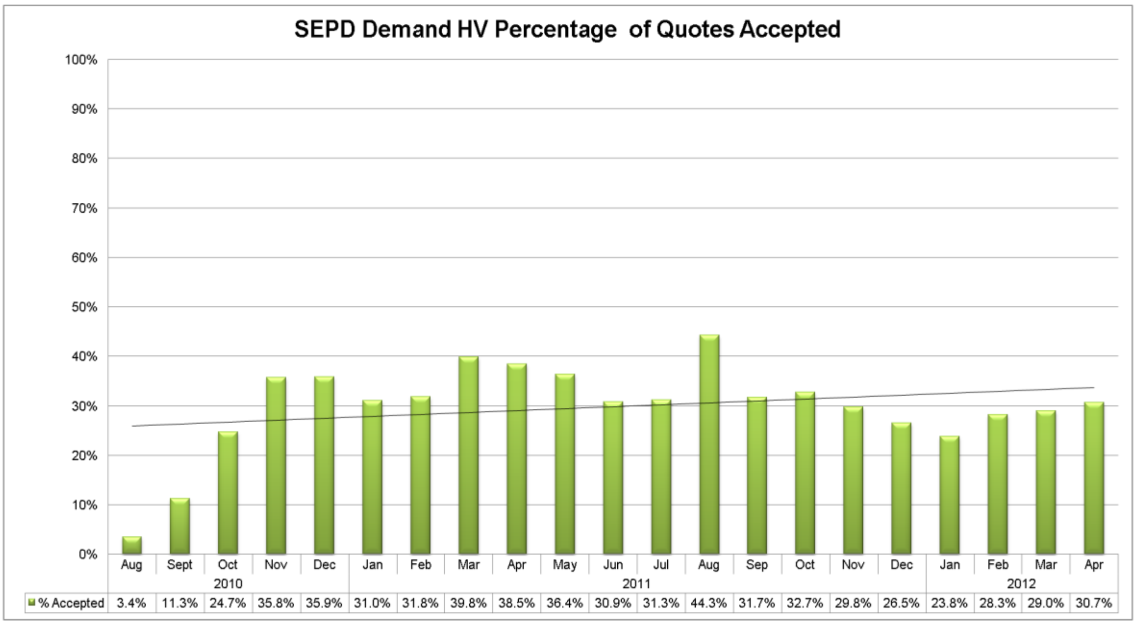


b) The graph below shows the number of quotations issued to and accepted by customers where SEPD will carry out all works. The number of quotations issued has increased slightly over the period which shows that there is a consistent level of projects available within SEPD in the demand HV segment, demonstrating that there are potential projects available.

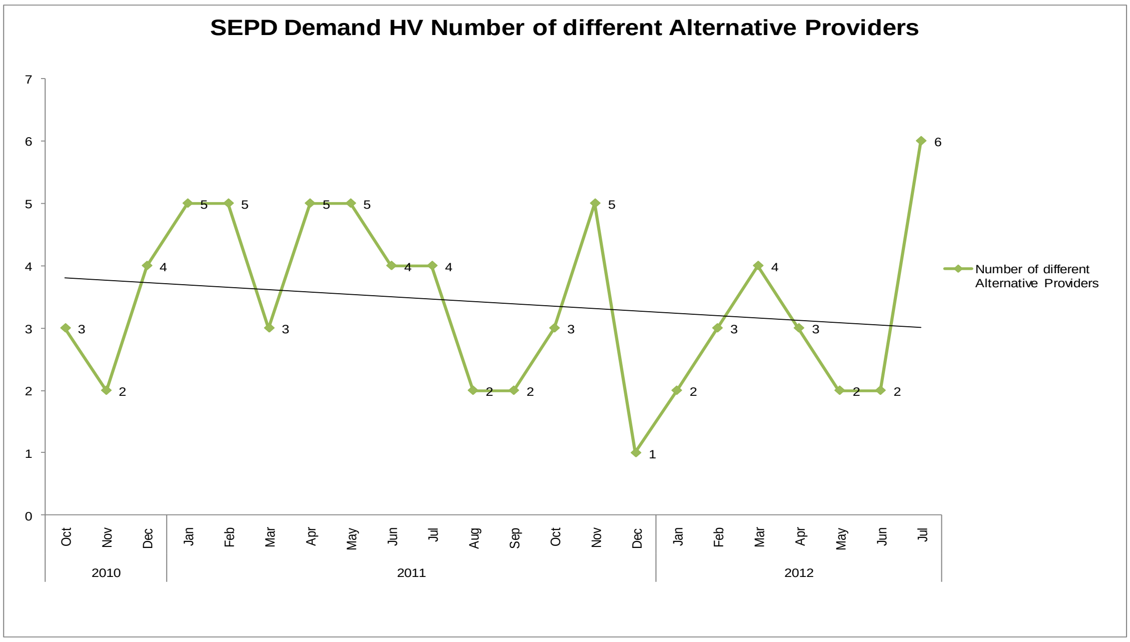


	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
	2010					2011												2012				
Quoted	29	124	174	165	131	171	154	201	156	173	175	176	149	167	153	178	136	143	184	193	127	123
Accepted	1	14	43	59	47	53	49	80	60	63	54	55	66	53	50	53	36	34	52	56	39	35

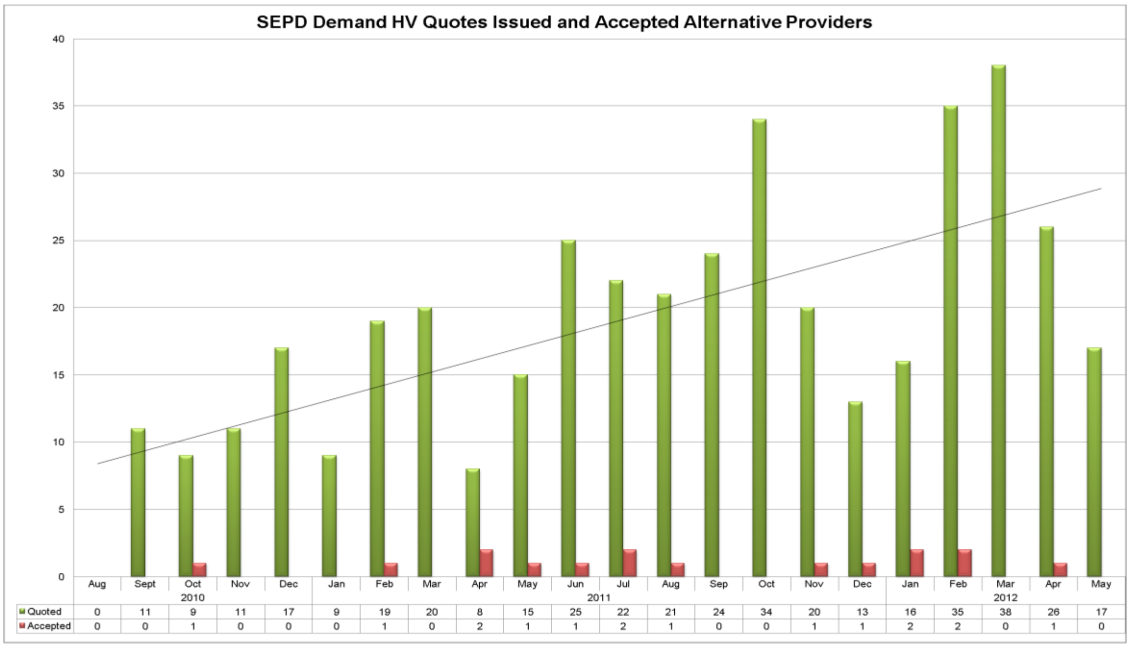
c) As detailed in the graph below, the percentage of SEPD quotations accepted, relative to the number quoted, has increased slightly over this period. This shows that the number of quotations accepted by customers where SEPD will carry out both contestable and non-contestable elements of the project has increased.



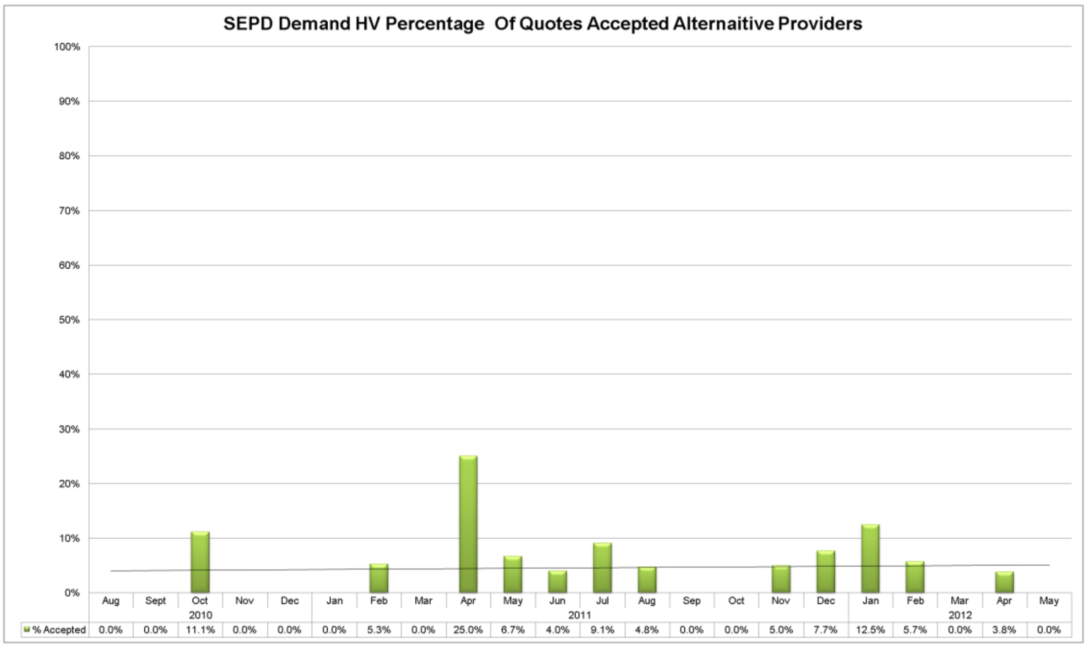
d) The graph below shows the number of different alternative providers participating each month in SEPD within the demand HV RMS. The level has remained consistently positive over our data set. This shows the number of different providers participating in the market each month has generally remained consistent. However, towards the end of the data set there is an increase of up to six different alternative providers in one month alone.



e) This information can also be split to show how many quotations have been issued to alternative providers, as seen in the graph below. There has been a large and rapid increase in the number of quotations issued to alternative providers, implying that customers are considering alternative providers and alternative providers are requesting quotations from SEPD to carry out projects.



f)Although there has been an increase in the number of quotations being issued to alternative providers, as indicated in the graph above, they appear to have been accepting a consistent amount over the period. The graph below details the percentage of quotations which have been accepted by alternative providers. This level has remained consistent over the period, showing that there is a steady level of projects being won by alternative providers.



Conclusion

To conclude, in SEPD the demand HV segment has attracted an increasing number of different alternative providers. The number of quotations being issued to alternative providers has increased showing that there are more potential opportunities. Overall, there is effective competition as demonstrated by the 12.12% quoted and 1.49% won by alternative providers.

Section 4.3: HV and EHV Generation

This segment is made up of all projects including a generator and requiring any work at HV or EHV. Common examples would be a new wind farm, hydro scheme or photovoltaic farm.

In terms of the HV and EHV generation segment there are different characteristics across both our areas and yet there has been active competition in both areas. In SHEPD, alternative providers won 122 out of 361 projects which equates to 33.8%. The equivalent figure in SEPD shows 21 out of 97 projects won by alternative providers, showing 21.6% were won by alternative providers. HV and EHV generation is a high value segment in SHEPD, worth £95,956 per project, with 361 projects available. In SEPD, the volume is lower at 97 projects available and HV and EHV generation is worth £28,645 per project.

Within the HV and EHV Generation segment, 100% of projects had quotations from both an alternative provider and SHEPD. In SEPD, 31.23% of all projects had a quotation from both an alternative provider and SEPD. This shows that customers are aware of options and many are considering alternative providers.

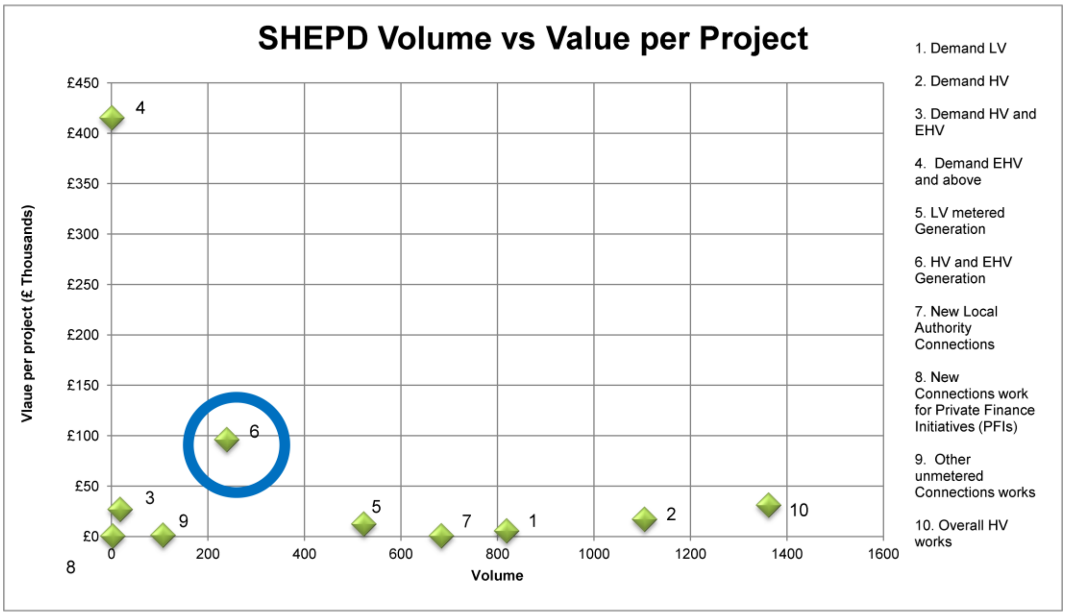
Additionally, within this segment projects are often linked with major engineering works onsite therefore projects are attractive to those with skills being used on other parts of the project.

As part of our market research, we asked alternative providers who were participating in one or more segment within SHEPD and/or SEPD which segments they were currently active in. 64% said they were currently active in the HV and EHV Generation segment. When asked if they are intending to expand into any other segment, 59% of respondents said they were intending to expand into HV and EHV Generation.

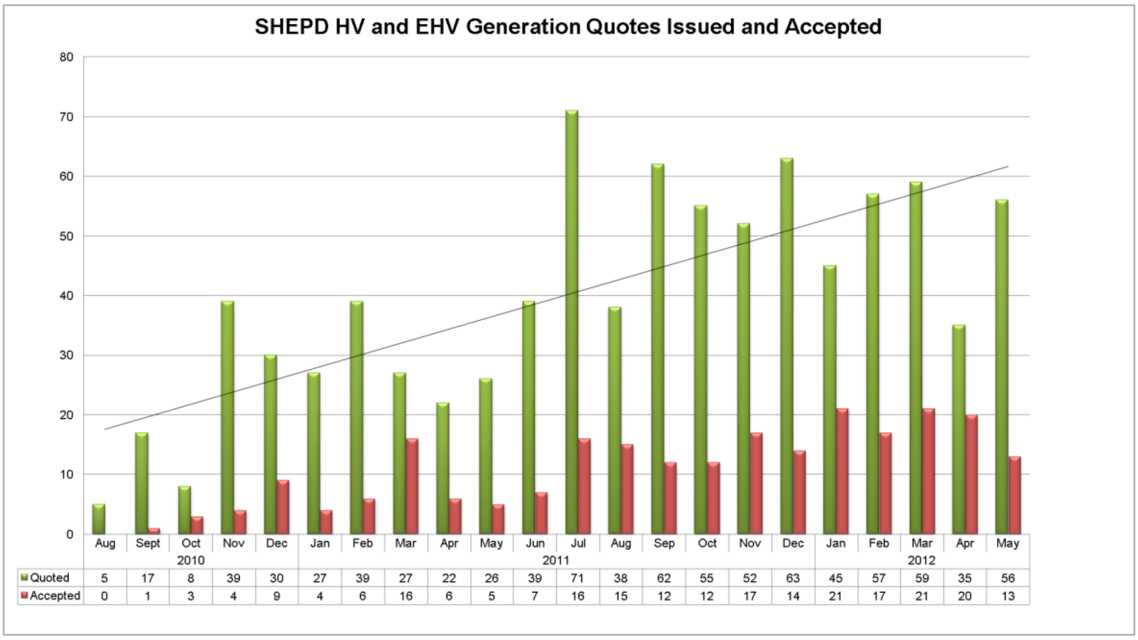
We also asked those who are not currently active in our area. 36% responded by saying they are intending to expand into HV and EHV Generation in SSEPD’s area.

HV and EHV Generation in SHEPD

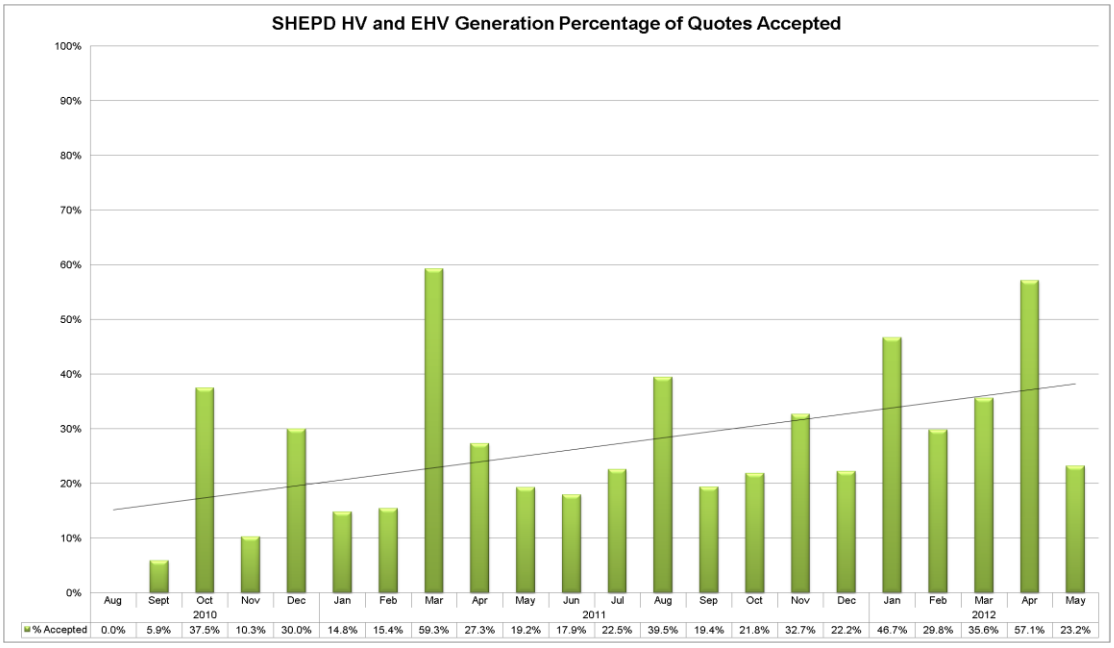
a) The graph below shows this segment is closest to the ideal in terms of volume and value as it shows adequate volume and the cost per project is adequate for competition to develop. This graph shows the value per project which alternative providers are able to make, alongside the volume of the projects available



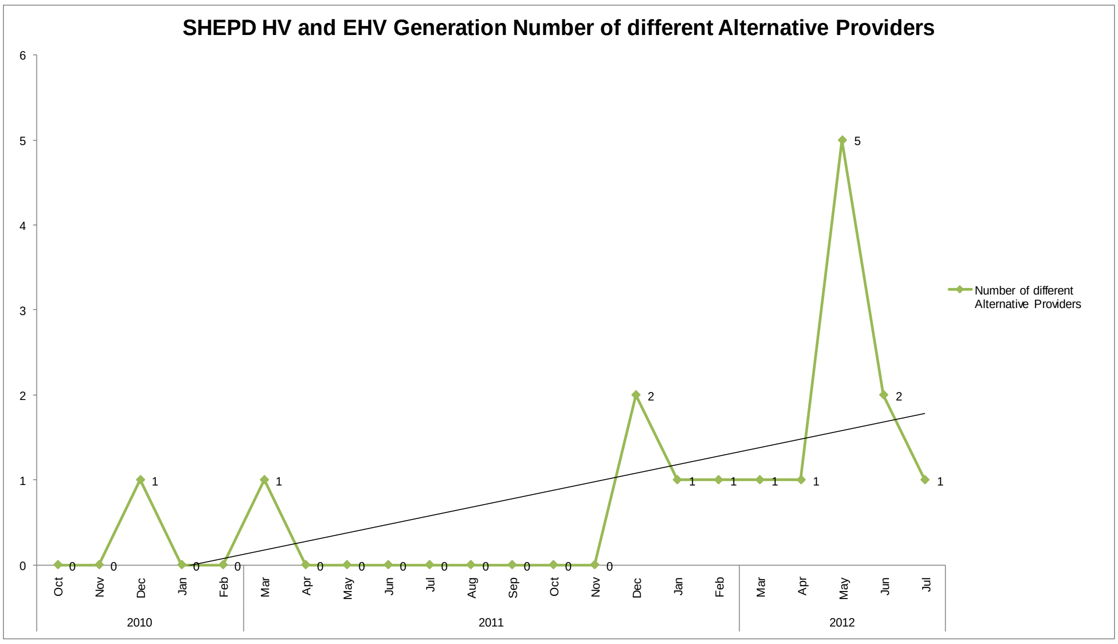
b) The number of quotations issued and accepted has also increased rapidly over time, as seen in the graph below. This shows within the HV and EHV Generation segment there have been an increasing number of quotations issued to customers where SHEPD will carry out all works. This shows there are an increasing number of projects available to be won.



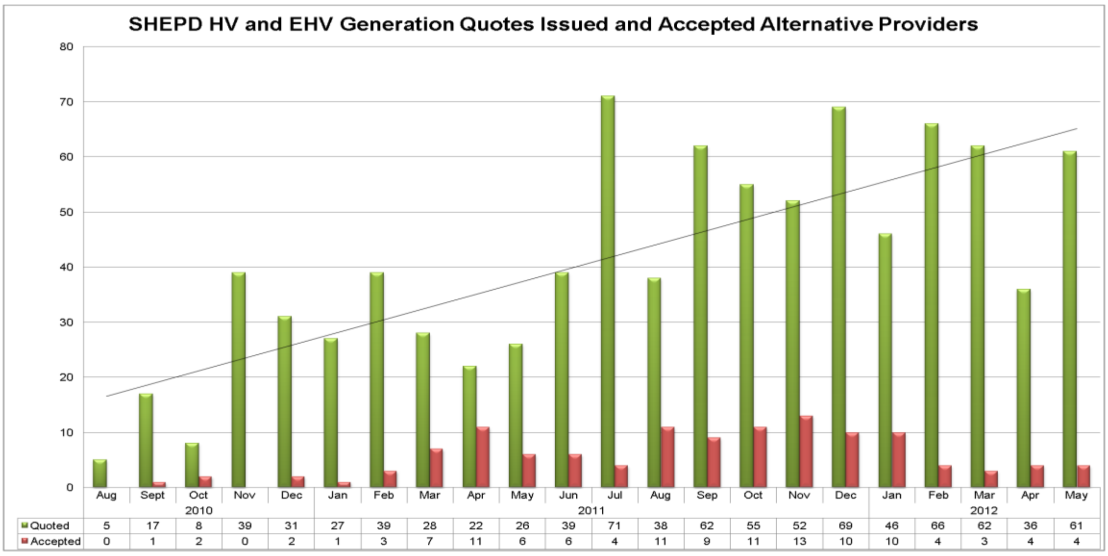
c) The percentage of these quotations issued which have then been accepted has increased over time, as shown in the graph below. This shows that SHEPD are carrying out more projects, therefore there are more potential opportunities for alternative providers entering the market.



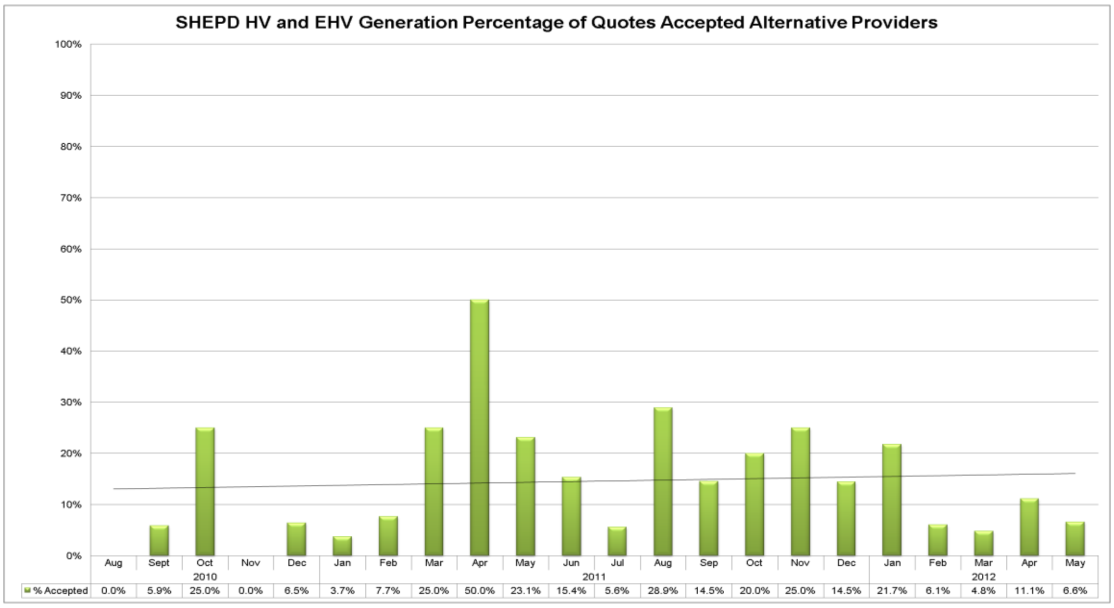
d) There are a number of different competitors within this segment, as seen in the graph below, and this figure has increased over our data set. This shows there is participation in this segment and there are numerous different alternative providers participating each month.



e) The number of quotations issued directly to alternative providers has also increased rapidly over our data set, as shown in the graph below. Additionally, as all quotations are issued with an option available to an alternative provider, this means that alternative providers are directly requesting and indirectly receiving a large number of quotations, implying that they are then providing quotations to customers for carrying out projects within the HV and EHV Generation segment in SHEPD. This shows that the market for alternative providers carrying out projects, is increasing.



f) The number of quotations which have then been accepted has remained consistent, as indicated in the graph below. This shows that alternative providers are winning a consistent percentage of projects. However, throughout the data set, alternative providers have won 33.8% of total projects available, therefore this slight decrease in the percentage accepted still represents a high level of projects carried out by alternative providers.

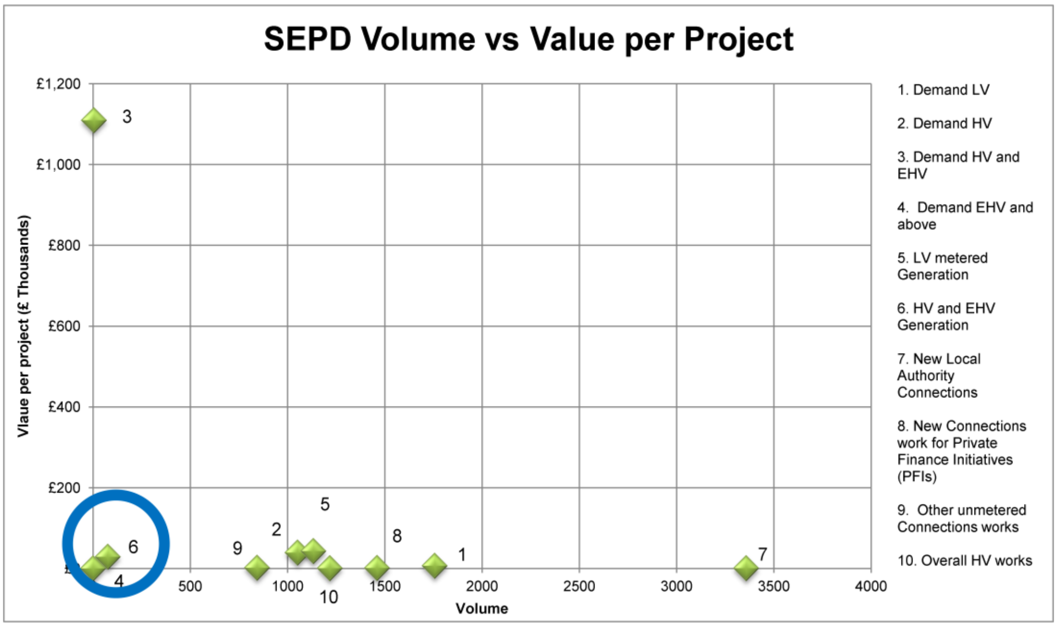


Conculsion

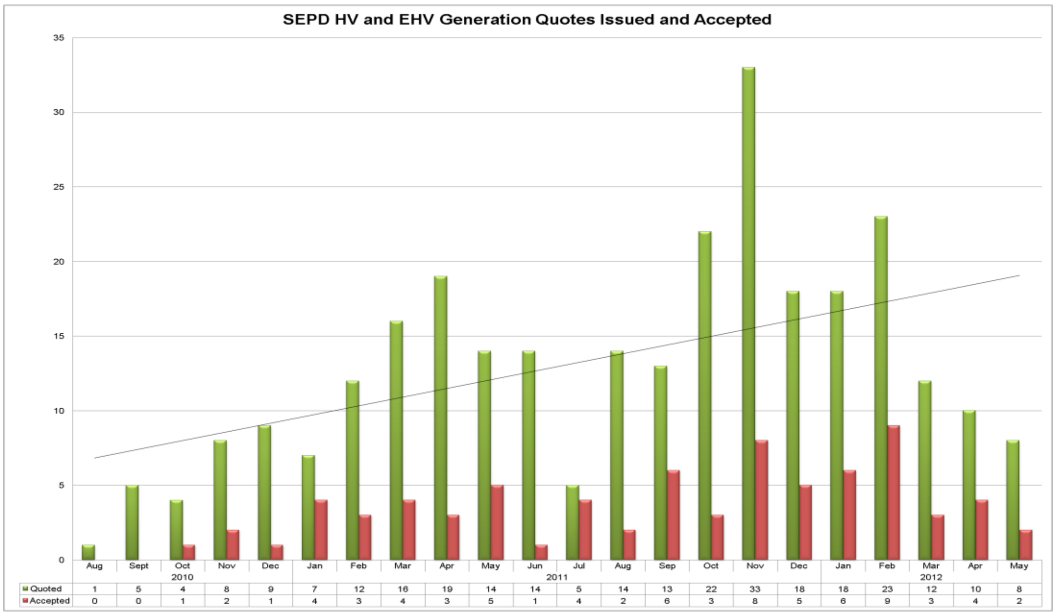
To conclude, in SHEPD, there have been many active participants in the market who have collectively won 33.8% of all prjoects available in this segment. Moreover, 100% of projects had both a quotation from an alternative provider as well as SHEPD. Therefore, this segment is open and competitive in SHEPD.

HV and EHV generation in SEPD

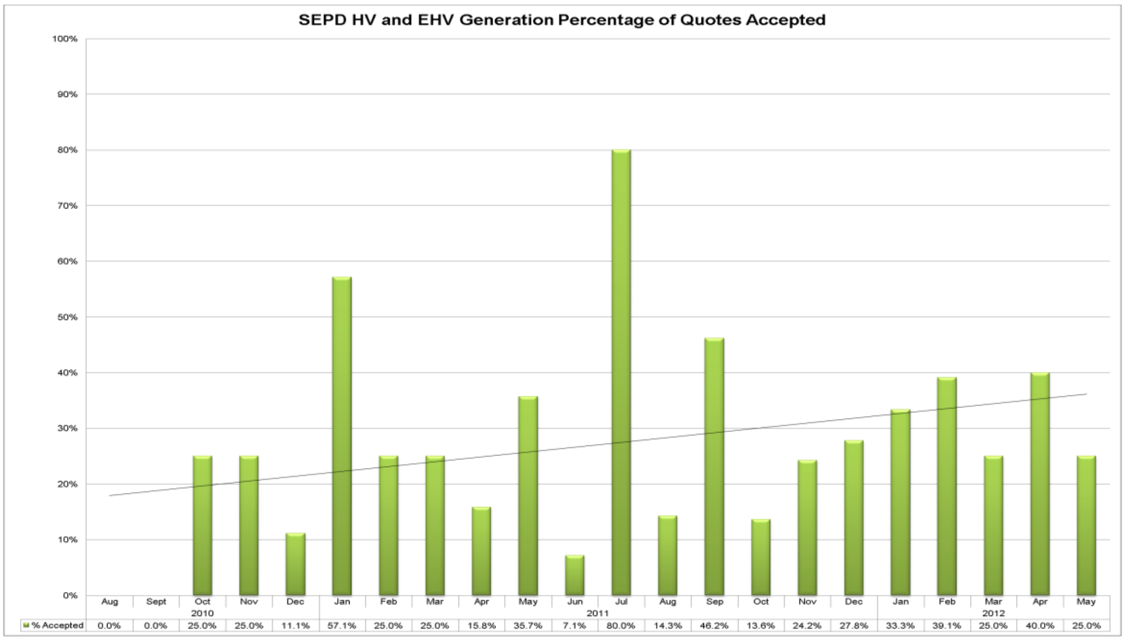
a) Within the SEPD area the figures are very different to SHEPD, although there is still a large amount of competition. The value of works is about £28,645 per project which is significantly less than the equivalent segment in SHEPD. It also has much less volume (97 jobs compared to SHEPD 361). However, we have seen that 21.6% of projects have been won by alternative providers. Within SEPD, 31.23% of projects have a quotation from alternative providers as well as from SEPD, showing that customers are aware of competition and are considering alternative providers.



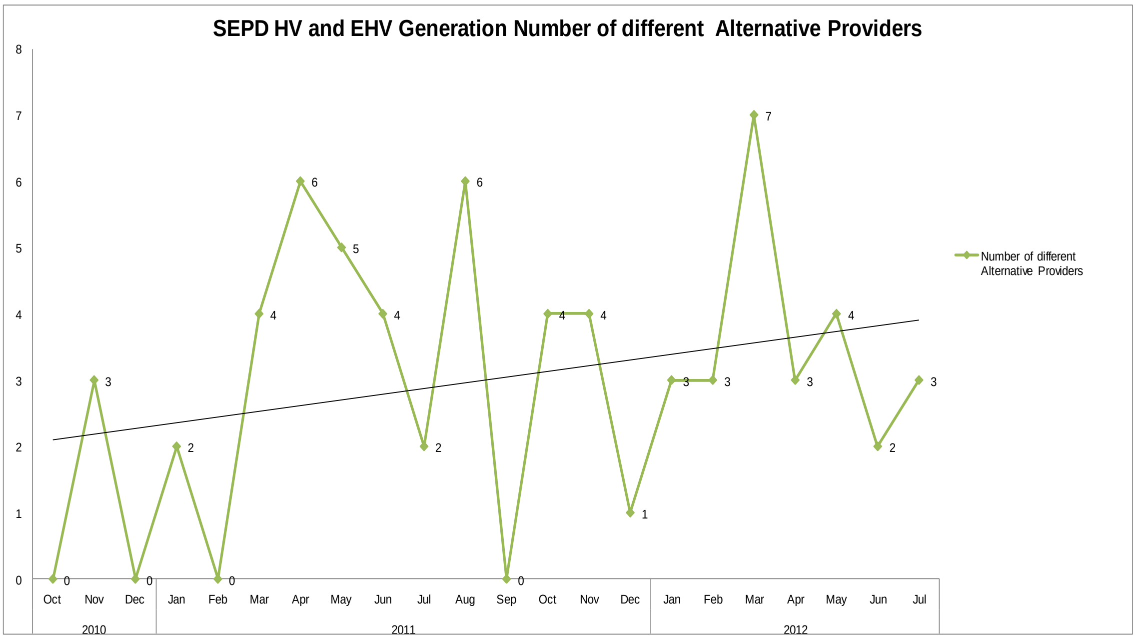
b) The number of quotations issued where SEPD will carry out all works has increased as shown in the graph below. This demonstrates the increase in potential projects to be won by alternative providers so shows that there is the market for competition.



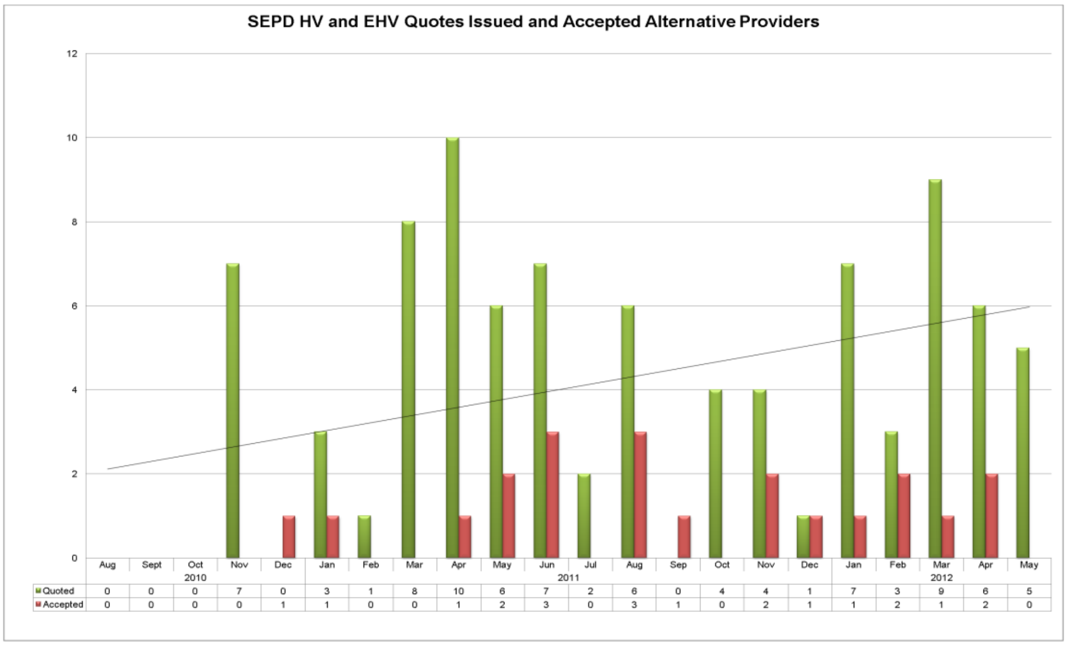
c) The percentage which has then been accepted has also increased as shown in the graph below. This shows that SEPD are carrying out more projects in SEPD within the HV and EHV generation segment.



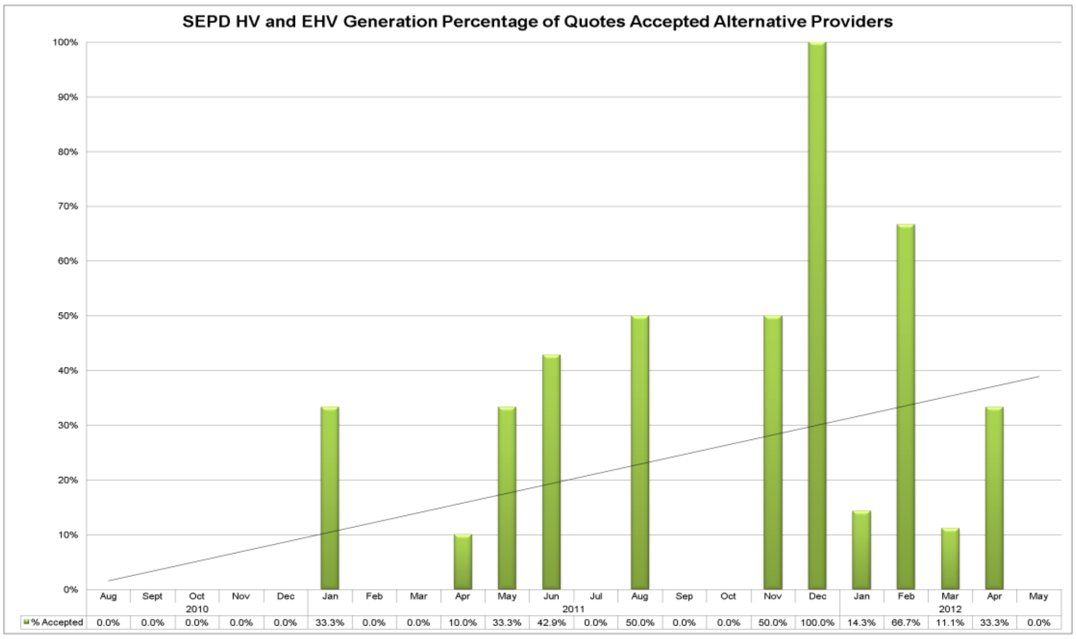
d) In SEPD there has been an increasing amount of participation in the HV and EHV generation market from alternative providers. This is shown in the graph below. The trendline indicates an increase in the number of different alternative providers, showing that there is an increase in participation in the market by alternative providers.



e) The number of quotations issued to alternative providers has rapidly increased over the data set, as seen in the graph below. This shows that alternative providers are requesting an increasing number of quotations implying that they are then issuing quotations to customers for potential projects. As this has increased over time, it appears that the market for alternative providers carrying out projects has also increased.



f) The percentage of quotations issued to alternative providers, which have then gone on to be accepted, has also rapidly increased. This shows that alternative providers are accepting an increasing number of quotations each month, therefore showing they are winning more projects in the HV and EHV Generation segment. This is seen in the graph below.



Conclusion

Overall, it is clear that in the HV and EHV Generation segment within the SEPD area, there are an increasing number of active participants and alternative providers, overall as a group, are carrying out an increasing number of HV and EHV Generation projects. This shows that the segment is competitive, with 21.6% of projects having been won by alternative providers.

Section 4.4: Demand HV and EHV

The Demand HV and EHV segment reflects a domestic housing, retail, commercial or industrial project or any mix of these, but which also includes a requirement to do work at EHV although the connections themselves will be either at LV or HV. The reinforcement or extension to the EHV network may be because there is no HV network in the area, or no capacity available on the local EHV/HV transformer or on the local EHV network. This may include a project to connect a single large site (such as an industrial unit or factory) commonly in excess of 3MW, or a number of connections totalling this.

Demand HV and EHV connections are different in our two licensed areas. In SHEPD, the volume accepted where SHEPD would carry out all works totalled 18 jobs, worth about £26,651 per project. The equivalent in SEPD was less than half the amount at 5 jobs, but the value was considerably more, at £1,109,429 per project. This shows that the volumes were quite similar, yet the value per connection was completely different in each area.

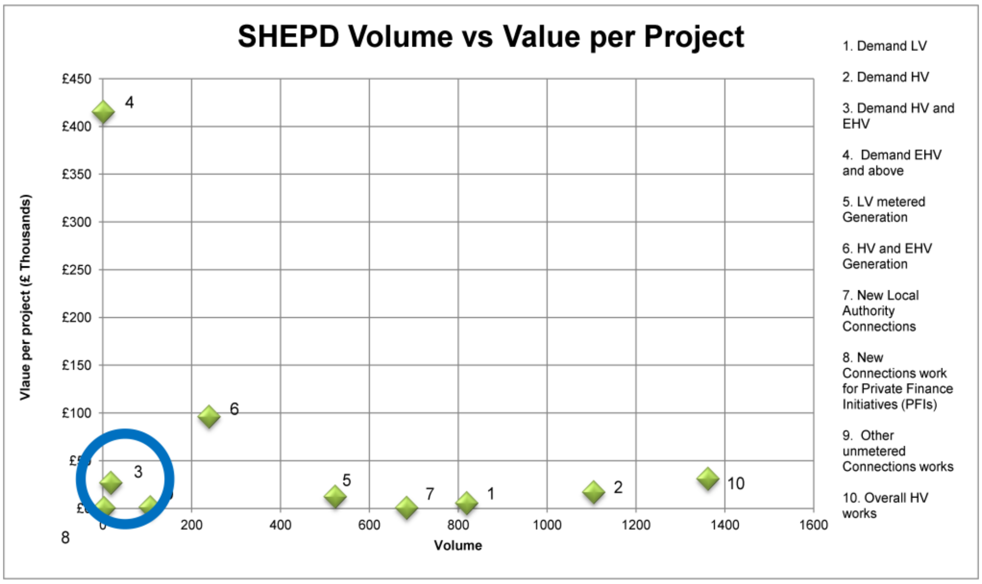
Within SHEPD, alternative providers won 3 out of 21 jobs which totalled 14.3% won by alternative providers. 28.36% of projects had a quotation from both alternative providers and SHEPD.

There were only 5 jobs available overall in SEPD. Although SEPD won the 5 projects, 33.33% of projects had a quotation from both alternative providers and SEPD.

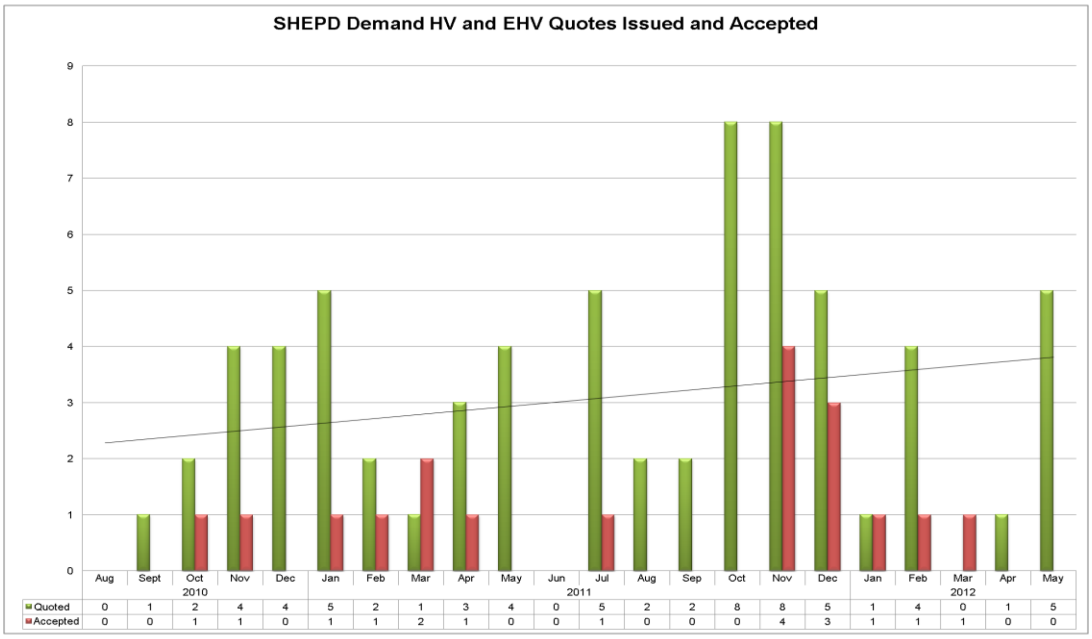
As part of our market research, we asked alternative providers who are active in SHEPD and/or SEPD which segments they are currently active in. 27% were currently active in demand HV and EHV. When asked if they intend to expand into any other segments, 19% said they are intending to expand into demand HV and EHV. We posed the same question to those who are not yet active in SHEPD and SEPD, where 27% said they are intending to expand into this segment in SSEPD’s area.

Demand HV and EHV in SHEPD

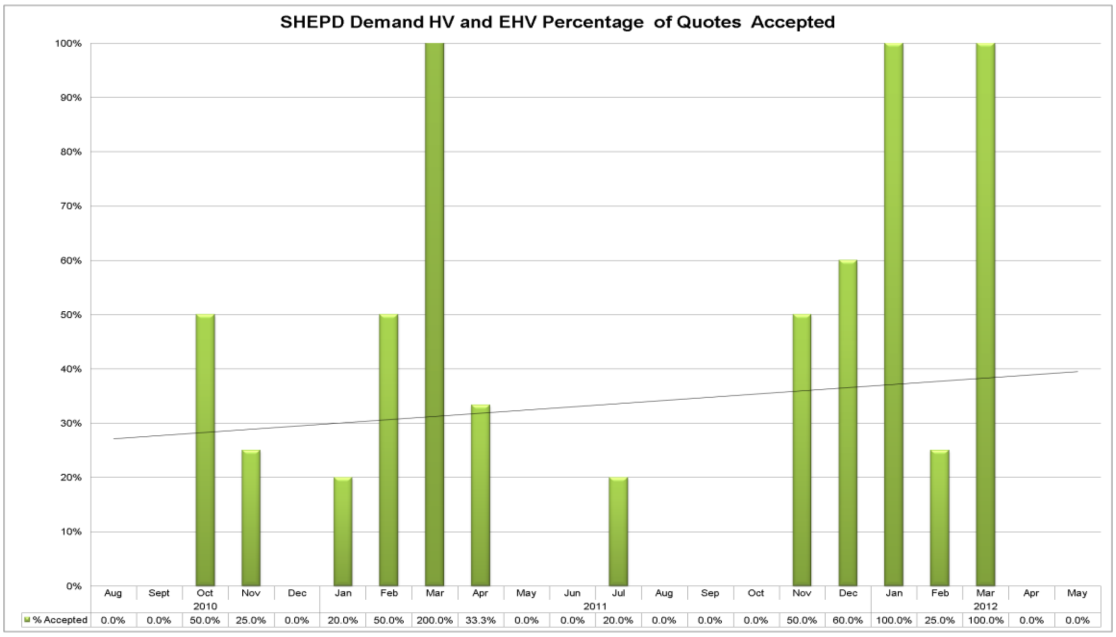
a) As seen in the graph below, the demand HV and EHV segment is low value and low volume within SHEPD. However, there were 14.3% of projects won by alternative providers where 18 projects carried out by SSEPD with an average value of about £26,651 which shows there are opportunities for projects to be carried out by alternative providers. Within this segment 28.36% of projects receive both an SSEPD quotation and alternative provider quotation, showing that customers are aware of competition and are considering options.



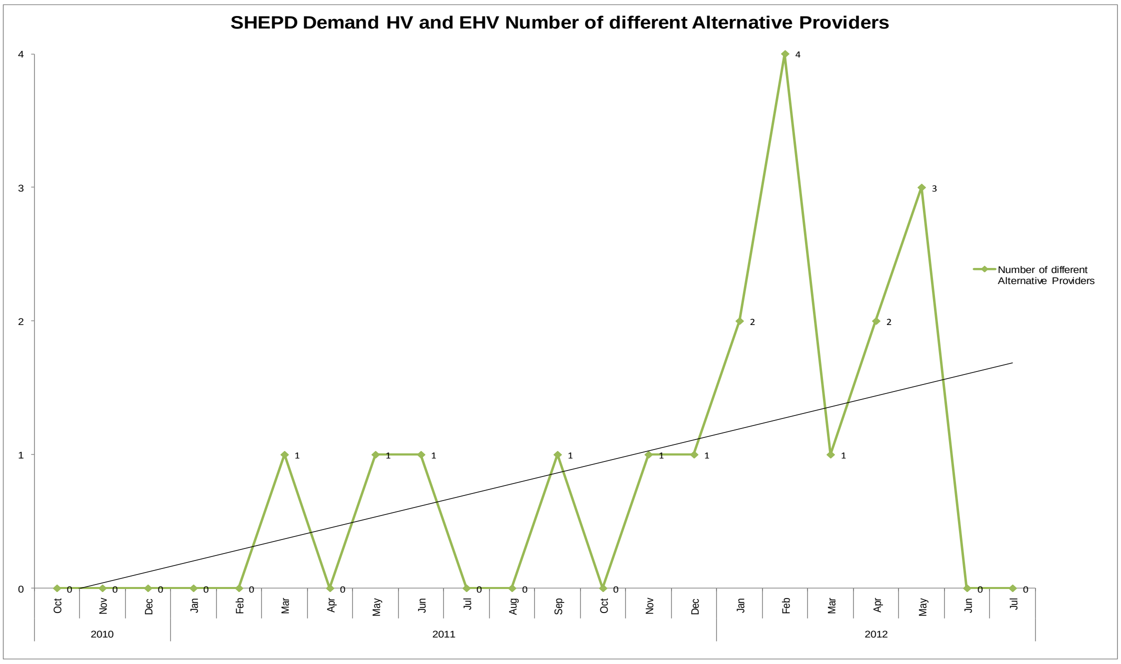
b) The number of quotations issued where SHEPD will carry out all works, has increased over the period, as shown by the graph below, showing that this is a stable market and there are potential projects to win.



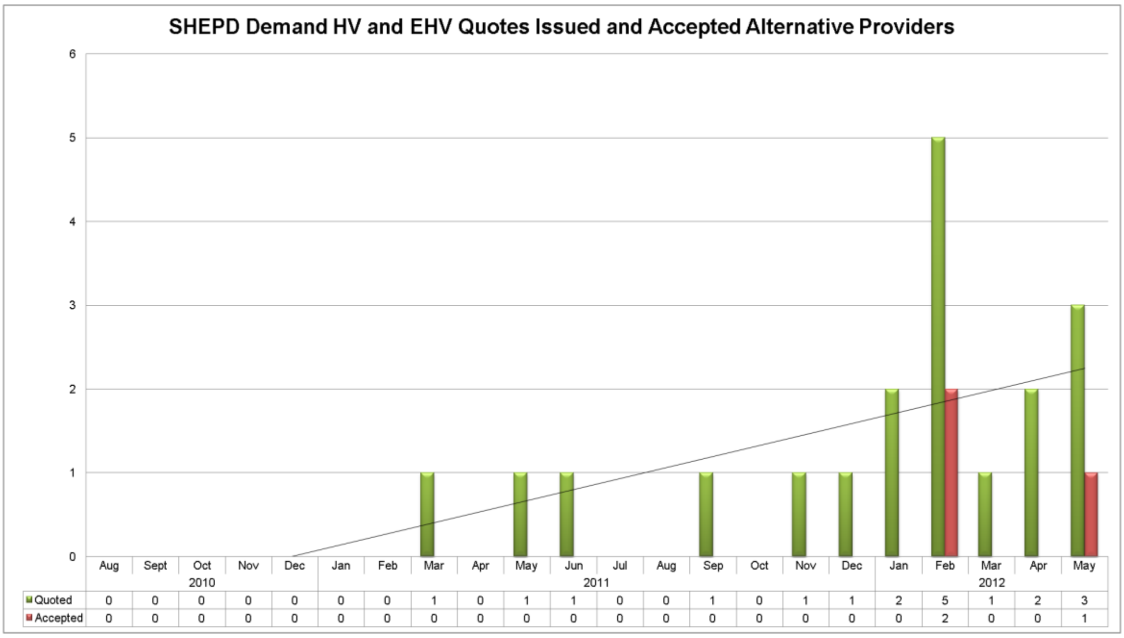
c) The percentage of projects carried out by SHEPD has increased slightly over the period, as seen in the graph below. This shows that in SHEPD there are potential projects available..



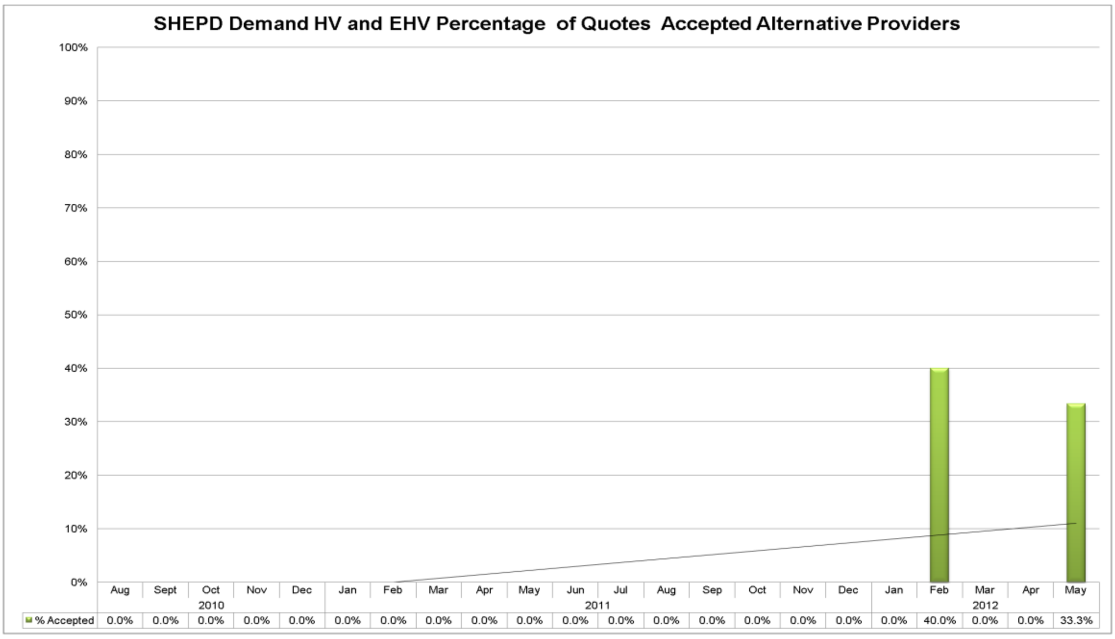
d) The number of different alternative providers has increased over time, as detailed in the graph below. The number of participants in the market has risen in a relatively short period of time.



e) There has been an increase in the number of quotations issued to alternative providers, as seen in the graph below. Considering that during February 2012 there were only 4 quotations issued by SHEPD directly to customers where SHEPD would carry out all works, yet there were 5 quotations issued to alternative providers, it is clear that alternative providers are being considered. Moreover, in this month alternative providers won more projects than SHEPD.



f) The percentage of quotations accepted by alternative providers can be seen in the graph below. This shows that, although the occurrences are smaller, alternative providers are accepting a percentage of quotations over time.

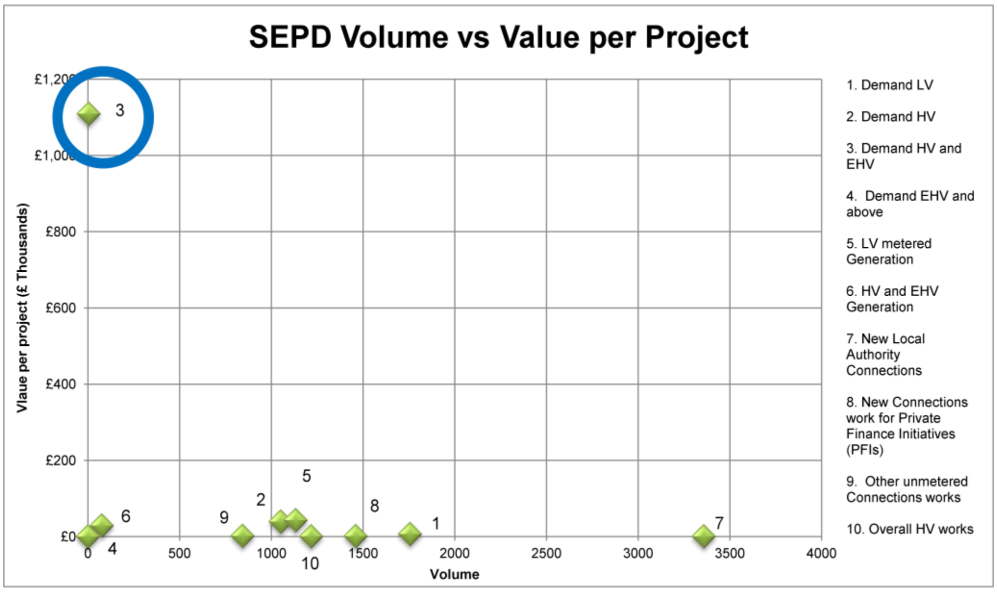


Conclusion

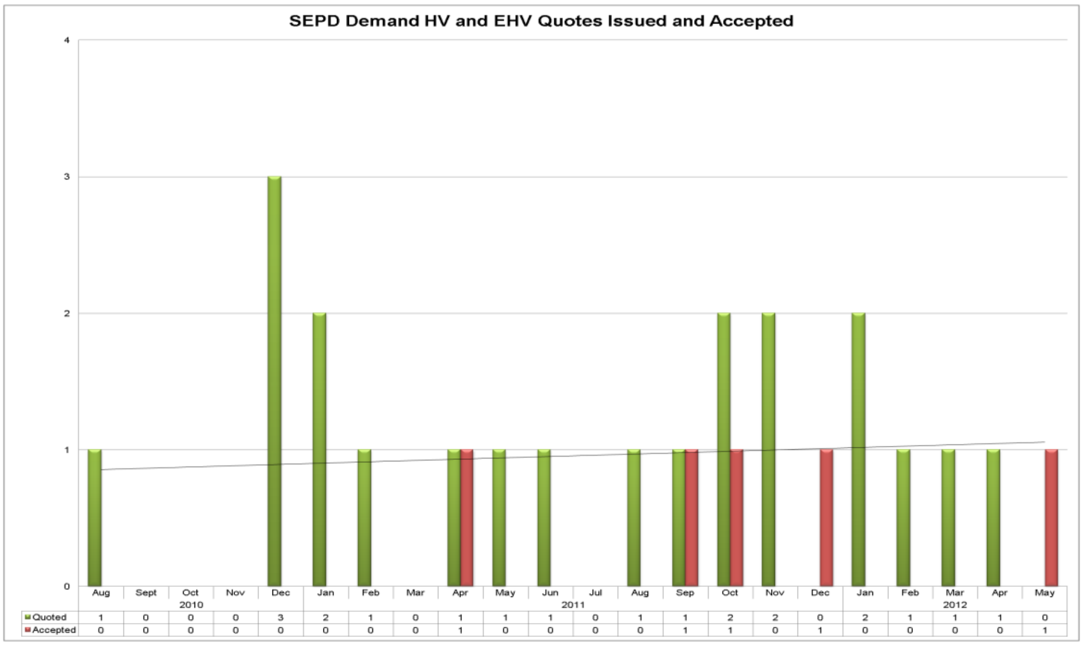
To conclude, it appears as though competition for demand HV and EHV connections in SHEPD began developing in the second half of 2011. Since then, alternative providers have been requesting a similar number of quotations to the number SHEPD has issued to customers directly. This implies that there is more potential work for alternative providers which they are bidding for. Coupled with the data showing that alternative providers are accepting a large proportion of these quotations and both SHEPD and alternative providers have carried out exactly the same number of connections since the start of 2012, shows that there is effective competition in this segment. This is also demonstrated through the fact that 14.3% of projects were won by alternative providers.

Demand HV and EHV in SEPD

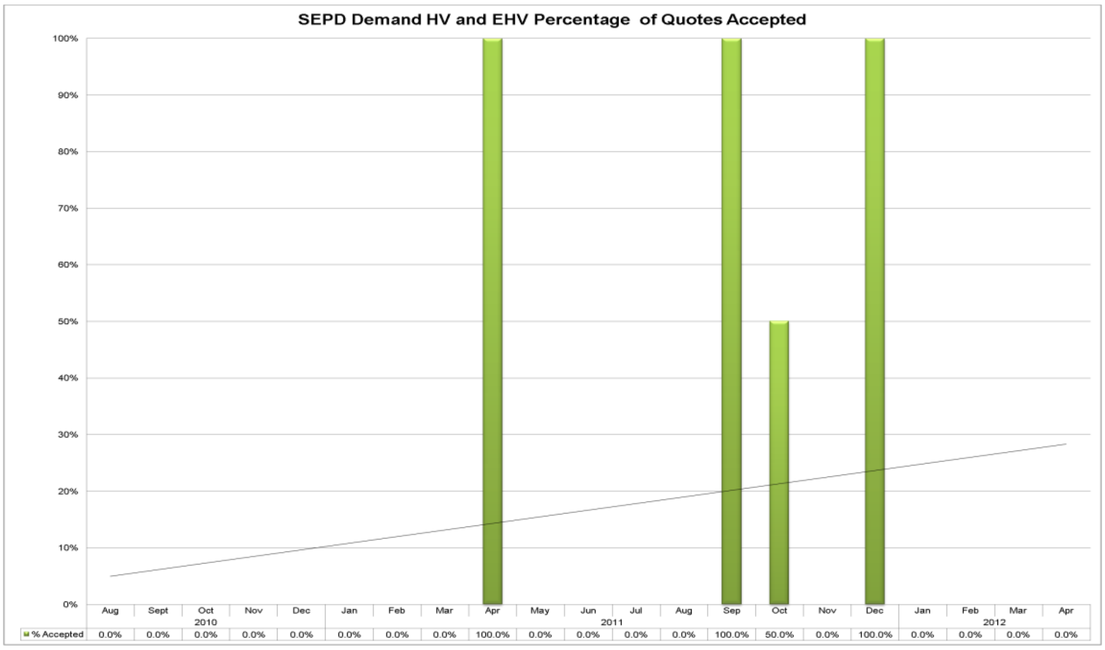
a) This graph shows that the demand HV and EHV segment is a high value and low volume segment. There were 5 projects carried out by SSEPD worth about £1,109,429 per project.
33.33% of projects in this segment have both a quotation from SEPD and from an alternative provider. This shows that many customers are considering alternative options although there are not yet many projects accepted overall.



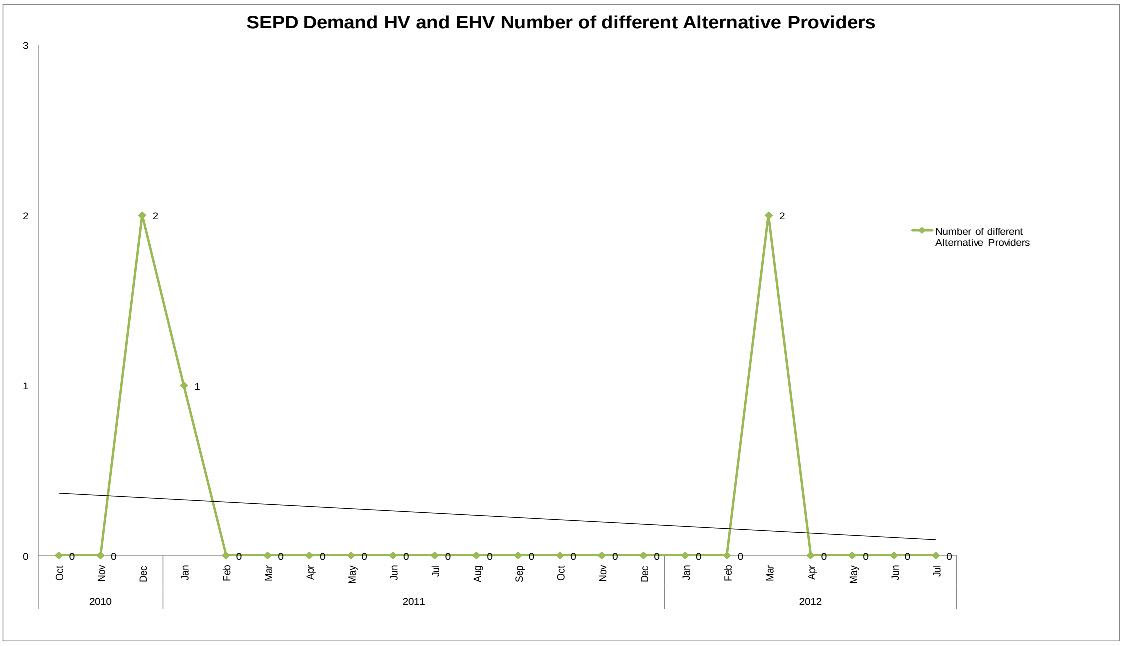
b) Within SEPD there have not been many projects available overall, as seen in the graph below which details the number of quotations issued and accepted where SEPD will carry out all works. Throughout the whole data set there were 21 demand HV and EHV connection quotations issued to customers on behalf of SEPD. Of this, only five were accepted.



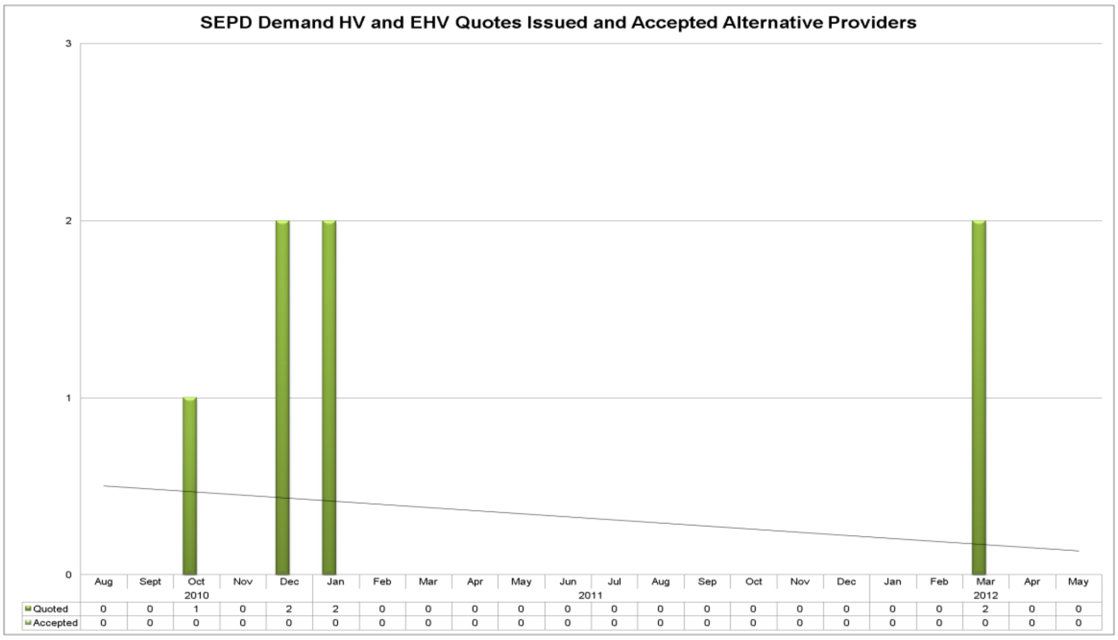
c) With regards to the percentage accepted, there has been an increase in the number of quotations accepted where SEPD will carry out all works, as seen in the graph below. The number of these accepted quotations has particularly risen towards the end of the data set, showing that there are more projects being carried out by SEPD over time.



d) The number of different alternative providers has been steady, showing that there are different alternative providers which are present in the market. This can be seen in the graph below.



e) Although there have been no quotations accepted by alternative providers as detailed in the graph below, having seven quotations issued to alternative providers, where there were only 21 issued in the view that SSEPD will carry out all works, is very positive. This demonstrates that this is a growing market and although showing small figures, is just as competitive and open as the equivalent in SHEPD.



Conclusion

To conclude, the demand HV and EHV market in SEPD is fairly small with few jobs available. However, the value of the jobs is significant. There have been a number of quotations issued to alternative providers, showing that there are opportunities. With 33.33% of projects having a quotation from both SEPD and an alternative provider, it is clear that options are being considered.

Section 5: Market Research

Summary

SSEPD is committed to facilitating competition in connections and undertaking all the necessary actions to support this. However, considering the market in the SHEPD and SEPD DNO areas, we understand that there may be barriers to entry which we are unaware of. Therefore, we feel it is very important to engage with alternative providers and find out their thoughts on potential and actual barriers. We commissioned Lorien Connect, a market research company, to undertake independent research into actual and potential barriers experienced by ICPs and IDNOs who are both active and not yet active in SEPD and SHEPD. Lorien Connect attempted to contact every alternative provider on the Lloyd's Register via telephone and carried out qualitative and quantitative interviews. Lorien Connect's report has been published with this Notice on our website.

From Lorien Connect's research, the key findings of the report are shown below:

- Overall Satisfaction with SSEPD is 7.4 out of 10.
- SSEPD are closer to the ideal in terms of level of service an alternative provider would like than other DNOs that ICPs work with in:
  - 11 of the 12 attributes when obtaining a quotation, and
  - All 13 attributes when obtaining a connection.
- 23% of ICPs active in SSEPD's area see no Barriers to Competition.
- 80% of ICPs active and 92% of ICPs not yet active intend to expand their work in SSEPDs area in the next two years.

Key purpose of commissioning the market research was to enable us to address barriers as soon as possible, which involved focusing on the issue and providing an improvement. For example the biggest barrier made aware to us by 55% of respondents, was the quotation validity period. Respondents said our period of 30 days was too short compared to other DNOs, so we have already implemented a change of re-validation and extension programmes. As this report demonstrates, we have taken action to address all barriers identified in the market research. This is described in the 'What SSEPD has done in Response' section below.

Who Lorien Connect contacted

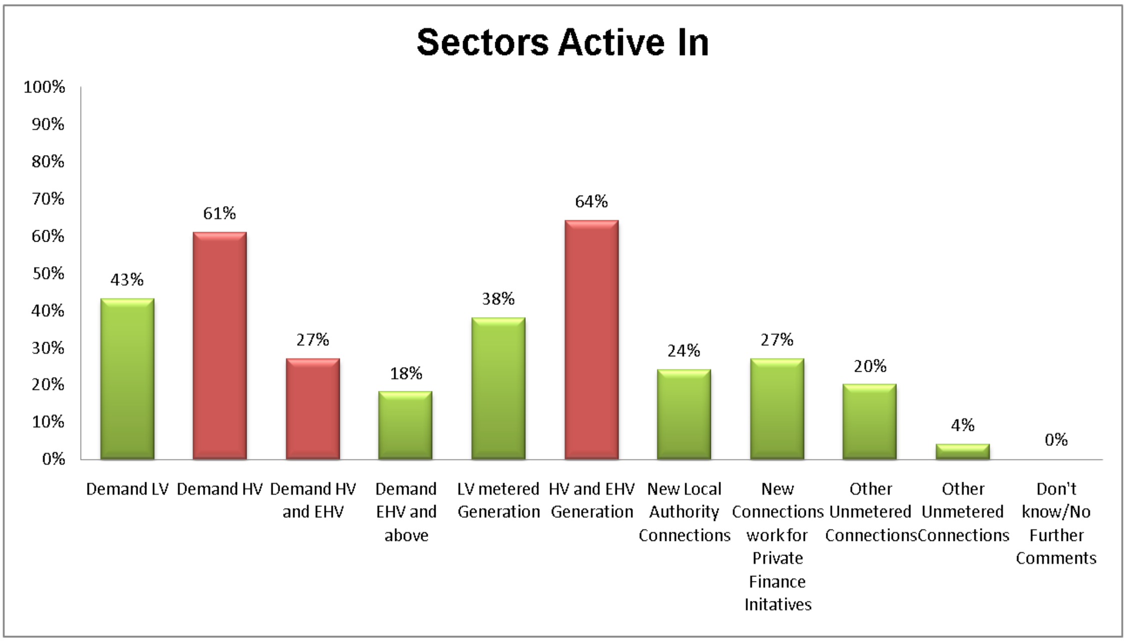
Lorien Connect attempted to contact every alternative provider on the Lloyd's Register via telephone and carried out qualitative and quantitative interviews. The qualitative interviews involved 4 different IDNOs and 4 different ICPs, each contacted individually. The quantitative interviews involved 20 different alternative providers active in either of SEPD and/or SEPD areas, where 30 interviews were conducted. There were also 12 different alternative providers which responded who were not active in either of SHEPD or SEPD areas.

Respondents could opt in or out of the survey, and as all alternative providers were contacted, alternative providers selected themselves rather than Lorien Connect, or SSEPD, selecting who should be contacted. All interviews were anonymous.

Overall, respondents came from a wide range of backgrounds in terms of location, their reasons for being accredited and how long they have worked with SSEPD, among other differences. Also, the RMSs which respondents worked in varied, as well as their intentions to expand into other RMSs, so there are a wide range of perspectives have been taken into account. Therefore the sample used is representative of alternative providers.

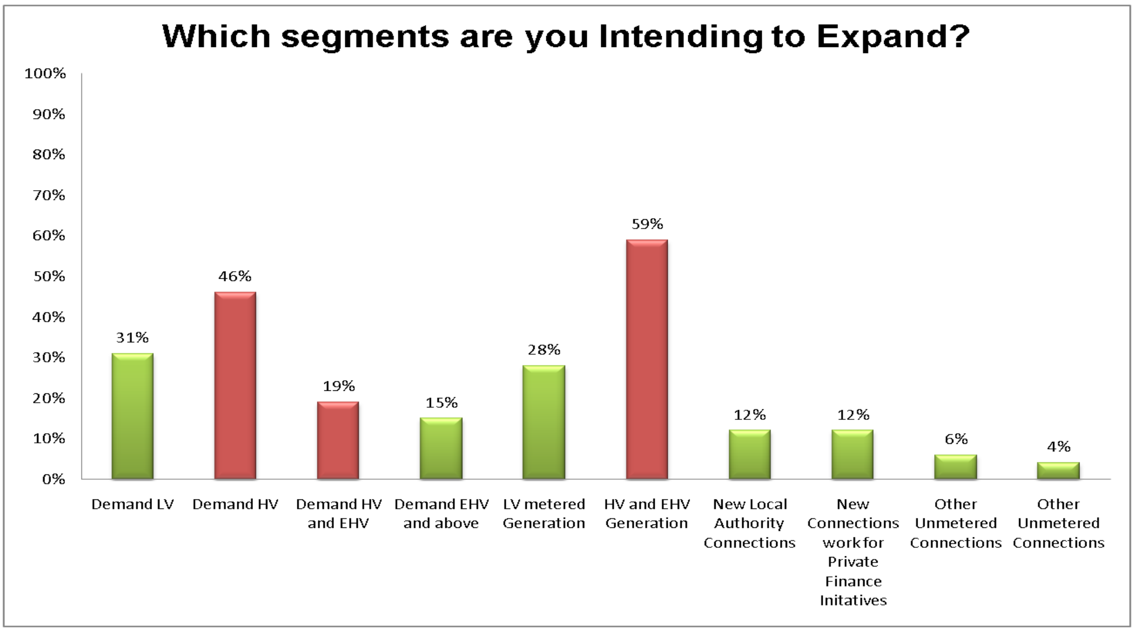
Results: Participation in the market

The respondents who were active in SHEPD and/or SEPD were asked about which segments they currently active in. The results are seen in the table below:

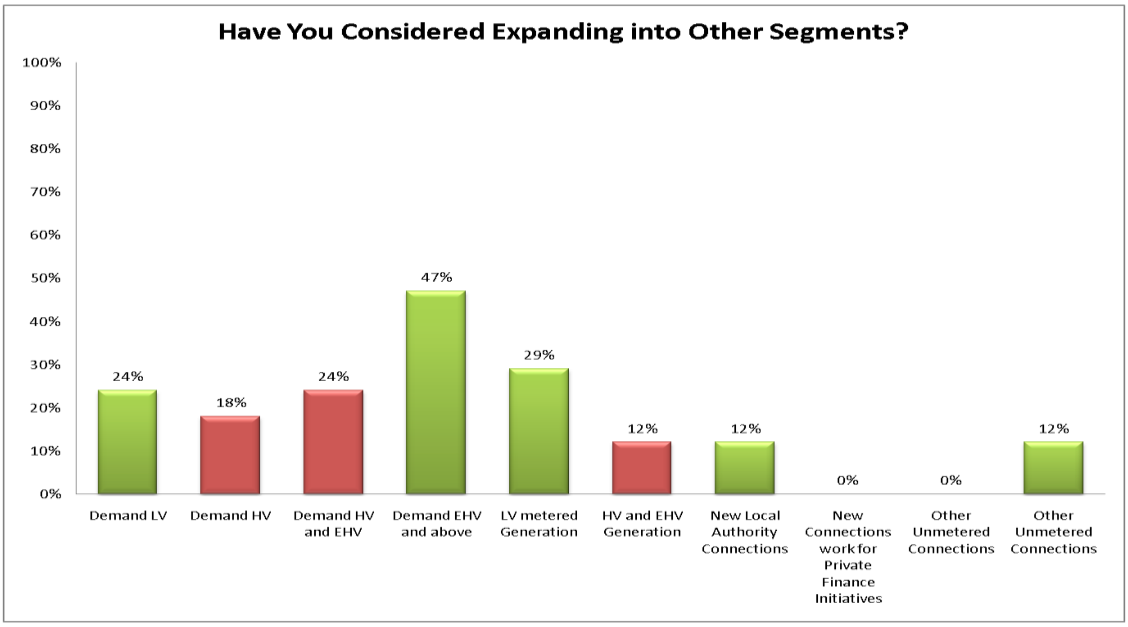


The graph above shows there is a high participation level in all three of the RMSs for which this Notice applies.

Further to this, the respondents were asked about which segments they were intending to expand into. The results are shown below. This demonstrates that alternative providers are planning to expand into other areas, which reflects the idea that there is a growing competitive market.



Moreover, respondents who are active in SHEPD and/or SEPD were also asked about which segments, if any, they would consider expanding into. Most segments were highlighted as being considered which shows that there may be a further increase in participation in these segments over time.

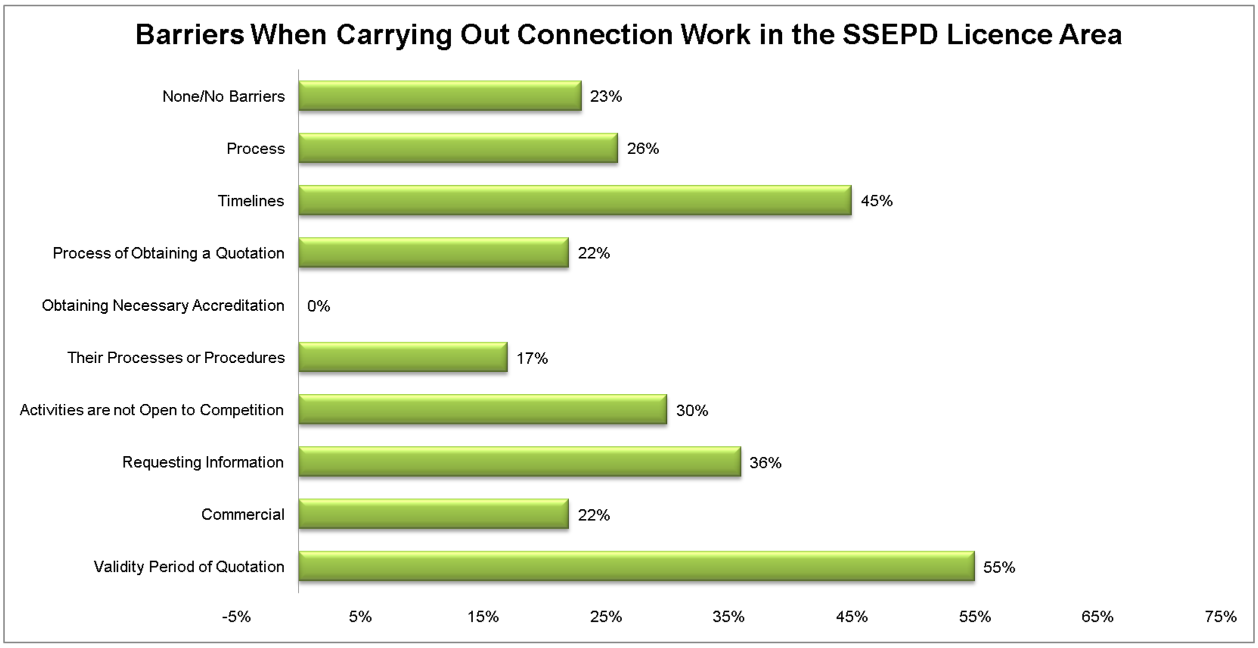


With many respondents who are active in SHEPD and/or SEPD advising that they either intend to, or have an interest in expanding into other segments, this shows that the overall market for alternative providers is growing and appears that it will continue to grow.

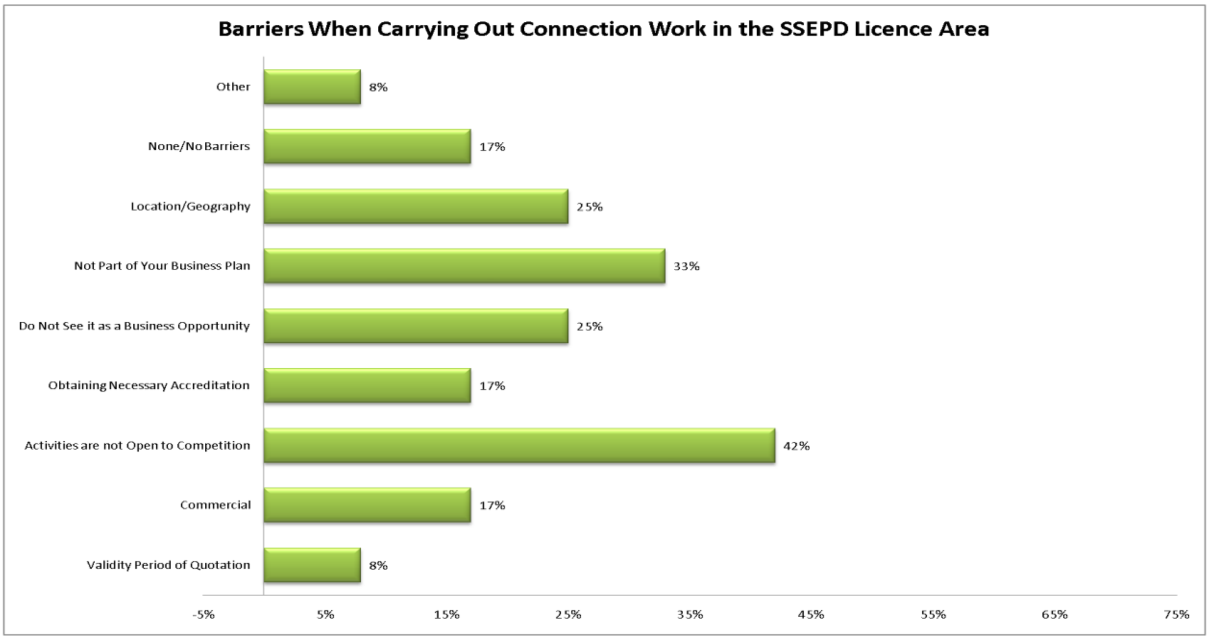
Results: Barriers to market entry in SEPD or SHEPD areas

Overall, 23% of respondents who were active in SHEPD and/or SEPD, and 17% of those who are not active in SHEPD or SEPD, thought that there were no barriers to entry at all. When asked, this question was posed as either there are no barriers, or there are some. Of the latter option, respondents could then select which barriers they thought were present in the market where there was no limit on the number of barriers that respondents could select. There were different options for active and inactive alternative providers.

The graphs below demonstrate the barriers which alternative providers selected. The first graph shows the barriers selected by alternative providers who are active in SHEPD and/or SEPD, whereas the second graph shows those selected by alternative providers not active in SHEPD or SEPD.



Participants who are active in SHEPD and/or SEPD described two main barriers, as seen in the graph above: ‘Quotation validity period’ and ‘timelines’. 55% of these respondents referred to the ‘quotation validity period’ as a barrier and 45% selected ‘timelines’ as a barrier. Our responses, to each barrier, are addressed in the ‘What SSEPD has done in Response’ section.

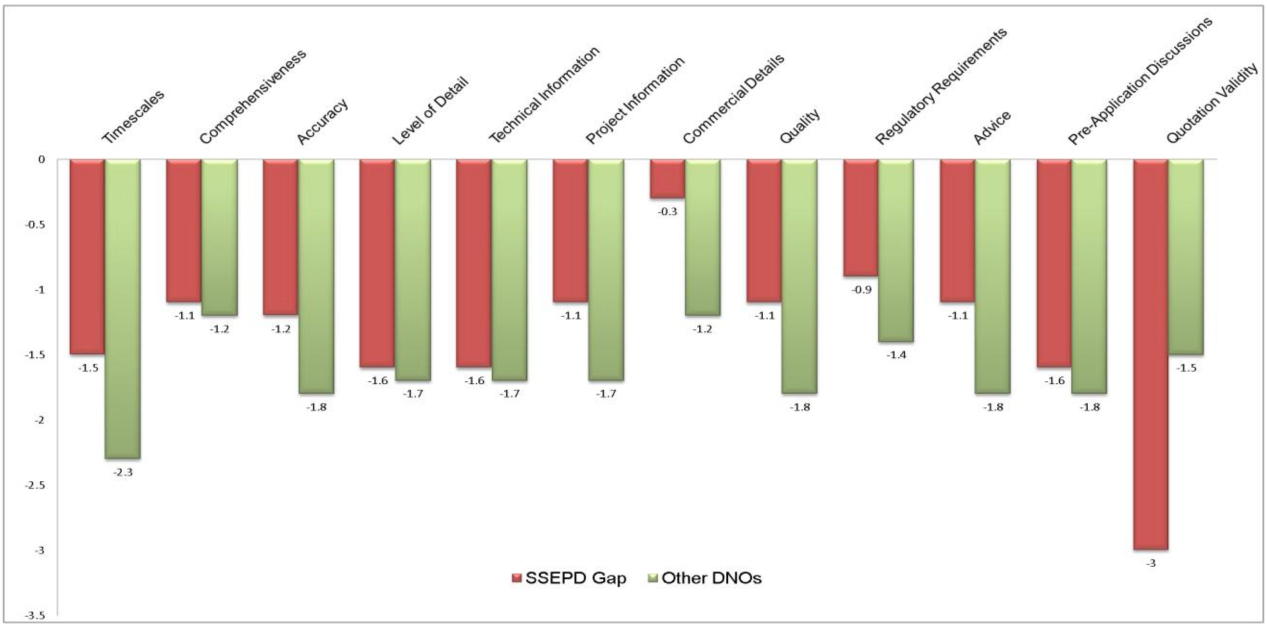


Alternative providers who are not active in SHEPD or SEPD said that the biggest barrier was ‘activities are not open to competition’, as seen in the graph above. 42% said this, and 33% said the next biggest barrier was it was ‘not part of their business plan’. This was then followed closely with 25% saying the ‘location/ geography’ was a barrier and a further 25% said they ‘do not see it as a business opportunity’. We have tried to tackle these issues through providing a direct solution where possible. For example, with regards to ‘activities are not open to competition’, we have carried out extensive work in order to increase the amount of activities open to competition, which is described in section 3.

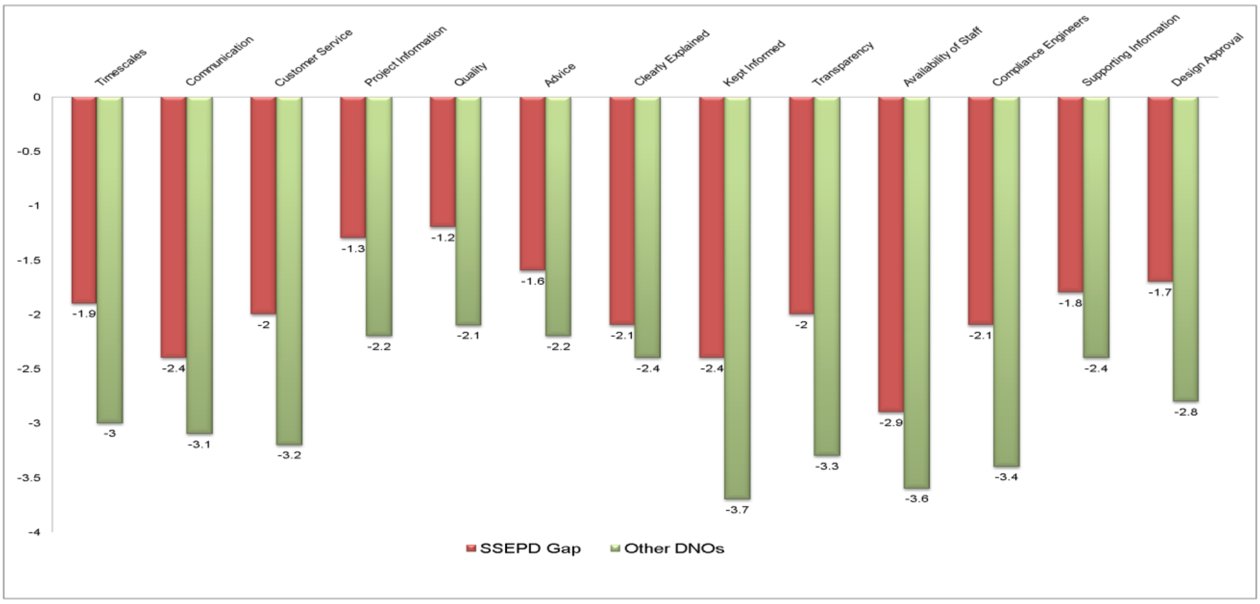
Results: Service provided by DNOs

Further to this, respondents which are active in our area were also asked about their ideal levels of service as well as the service they receive from other DNOs. We were then able to not only compare ourselves to other DNOs, but understand what alternative providers are looking for overall. This gives us a clear indication of areas where we need to improve and it can be used to judge the level of service given industry wide.

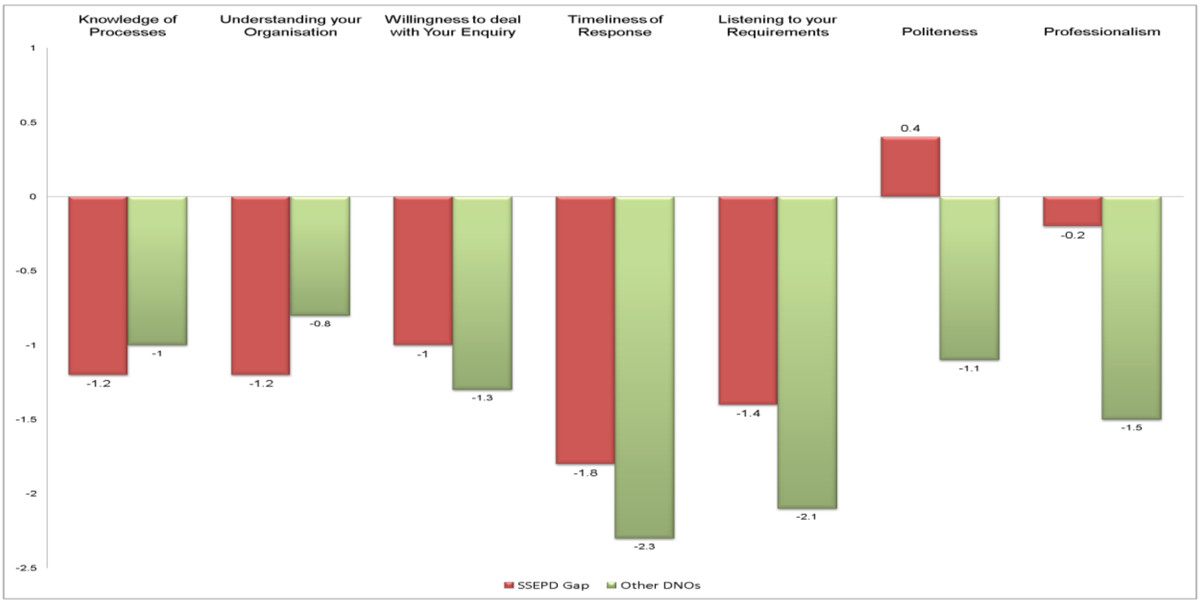
The graph below shows respondent’s opinions on the process of delivering a quotation. It shows zero as the level which respondents have deemed the ideal position. Respondents have then answered questions about other DNOs, and the result of this can be seen below in green. This is in order to compare other DNOs but also compare against an ideal position. It is clear that as a whole, DNOs are not yet meeting respondents’ expectations on service levels. However, in all but the quotation validity period section of obtaining a quotation, SSEPD have been closer to the ideal than other DNOs.



Respondent’s ratings of the process of delivering a connection can be seen below. The same format has been used, where the ideal position is at zero. Respondents have then been asked about other DNOs where the results are marked in green. As seen below, again the industry is not meeting respondents’ expectations. However, SSEPD score closer to the ideal than competitors in all categories when being compared on the process of delivering a connection.



When respondents were asked about staff behaviours, again there was a generally weak performance from the DNOs. Yet there was one instance of SSEPD out-performing what would be the ideal position. This is seen on the graph below. However, there were two areas which showed SSEPD as performing worse than other DNOs. These areas are ‘knowledge of processes’ and ‘understanding your organisation’. We address these concerns in the ‘What SSEPD has done in response’ section.



While this is useful to see where SSEPD compare against other DNOs, we are mainly interested in analysing the industry overall, and finding out ways of improving the overall experience for an alternative provider. As is clear in the above graphs, there is the opportunity to improve in a lot of areas.

This is also targeted in the section below, where information from both the quantitative and qualitative interviews have been addressed.

What SSEPD have done in response

This section explains what SSEPD have done in response to the comments received as a result of the market research. Comments have been grouped under similar topics including 'quotation validity period' and 'timelines'. The following format is used per topic:

a) Firstly there is an explanation of the comment, describing what the barrier is
b) There are some example comments which have been taken directly from respondents.
c) Next, we discuss what has been done to address the issue
d) Lastly, we present a conclusion.

This format is used throughout this section.

Comment Received: 'Quotation validity period'

Many respondents mentioned our quotation validity period as a barrier to entry. They said our quotations were valid for a short period of time compared with other DNOs: where ours is 30 days and other DNOs are up to 90 days.

Most comments on this subject can be represented by one respondent who said *'they could allow a longer validity period of quotation. Most DNOs have 60-90 days validity period, whereas SSE have 30 days. We do not have enough time to get back to our client and it is a long process to re-apply'*

Our primary reason for setting this period at 30 days is a result of constraints on capacity, in particular in the North of Scotland. We must guarantee the capacity as specified on the quotation for the duration of the time that quotation is valid for. If any other customer is quoted for the same capacity, the two quotations will become interactive: meaning only one may be accepted. If a quotation is valid for 3 months, this situation is much more likely to occur. The process becomes more complex the longer the quotation validity period is for this reason.

Actions to Address

To avoid the complex process, yet offer an extended period of quotation validity where required, thereby addressing these concerns, we have introduced a re-validation process. This is where a customer, whose quotation has expired, can call back and ask for their quotation to be re-validated, currently at no additional cost. A quotation can be re-validated where the original quotation was issued in the same financial year, no other quotation has been accepted onto the common network in the interim and no elements of the application have changed. The quotation can be revalidated up to three times.

As well as the re-validation, we now also offer an extension of 10 working days where the quotation has not expired and the offer has not already been extended. We believe that offering two options of extending the quotation period addresses this common concern of respondents and is a better solution than a 90 day validity period. This is because (i) the same quotation can be valid for up to a year and (ii) there is more flexibility around the validity period. We will discuss with customers to identify if this proves successful and if it proves not to be as successful as we expect, we will re-evaluate the method and look for further solutions.

To conclude, having found that the quotation validity period of 30 days was a major barrier to entry, it was necessary to address this directly. We believe our solutions offer a better and more flexible alternative than simply extending the quotation validity period for all. Therefore, we now offer two solutions to this issue in terms of a re-validation of a quotation, or an extension to a quotation. In both circumstances this means that the quotation can be valid for a longer period than 30 days, and in the case of the re-validation option, the quotation can be valid for up to 12 months.

Comment Received: 'Timelines'

There was a common perception that customer's expectations of our timescales were not met regularly. When asked to select barriers out of a given list, 'timelines' were selected by 45% of respondents who are active in SHEPD and/or SEPD. Comments about this topic included '*they could improve timescales*', '*we are unable to commit to timescales to clients as they [SSEPD] do not adhere to timescales*' and '*they could have quicker response times in terms of technical queries*'.

Actions to Address

Although this may be a perception, the table below shows the actual average time SSEPD take to quote for each of the three RMSs, alongside the standard licence condition 15 timescales. This shows that on average, we deliver well within the guaranteed standard of performance timeframe.

RMS	Average time to Quote	SLC15 Standards[6]
Demand HV	12.28	20 working days
HV and EHV Generation	35.05	50 working days
Demand HV and EHV	23.46	65 working days

SEPD	2010/11				2011/12				2012/13	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
HV demand POC quotations	31	26	37	49	48	71	70	90	79	120
failed	0	0	0	0	0	0	0	0	0	0
HV and EHV generation POC quotations	2	2	10	9	18	7	7	13	17	15
failed	0	0	0	0	0	0	0	0	1	1
All other POC quotations	0	1	2	0	0	0	0	0	1	11
failed	0	0	0	0	0	0	0	0	0	0
SHEPD	2010/11				2011/12				2011/12	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
HV demand POC quotations	29	15	26	24	20	20	13	13	10	8
failed	0	0	0	0	0	0	0	0	0	0
HV and EHV generation POC quotations	0	0	1	1	0	0	5	9	8	10
failed	0	0	0	0	0	0	0	0	0	0
All other POC quotations	0	0	0	0	0	0	0	0	0	1
failed	0	0	0	0	0	0	0	0	0	0

The table above shows our performance under standard licence condition 15 in issuing quotations to alternative providers over the last 30 months. Should we issue a quotation outwith this timescale, it is shown under the 'failed' row. As seen in the table, although we have seen a steady growth in quotations issued, we very seldom fail these. We are committed to ensuring we do not fail as it is important for all customers to receive a timely service. Our ongoing process improvements such as the update of the SSEPD website[7], improves the amount of information available so customers have more and better access to information for the procedures required before SSEPD can issue a quotation.

6 http://epr.ofgem.gov.uk/EPRFiles/Electricity%20Distribution%20Consolidated%20Standard%20Licence%20Conditions%20-%20Current%20Version.pdf

7 http://www.ssepd.co.uk/Home/

Overall, we regularly review our timescales to ensure we quote and connect on time, if not before. As part of the market research feedback, we have ensured that we consider the timeliness of the overall process. We have therefore also considered the earlier stages of the process including the provision of information and responding to enquiries. From improving the website in terms of the information provided and navigation to correct information, to developing booklets to advise on the process[8] and some ‘frequently asked questions’, we ensure that timescales are met.

Comment Received: ‘Activities are not open to competition’

Many respondents voiced opinions regarding activities not being open to competition. 30% of alternative providers who are active in SHEPD and/or SEPD and 42% of alternative providers who are not active in either SHEPD or SEPD, said this was a barrier to entry.

One respondent stated ‘[*we are] restricted to what we can do, so more competition is required*’ while another suggested that SSEPD can add more value to connection services ‘*if they open their connections to ICPs*’.

Actions to Address

Having listened to this feedback, we have researched into our approach to the opening up of contestability in order to open more activities to competition. Some of these approaches are described below.

Final connections, self-identified point of common coupling and part funded reinforcement

Final connections

In March 2011 we extended an open invitation to all alternative providers to enter into a trial to allow others to make the final connection to our network. Through the Metered Connections Customer Group (MCCG) and Un-Metered Connections Customer Group (UCCG) membership, we received twelve initial responses which, after further discussion, developed into four candidates for the trial. Having carried out these trials, we now have in place as business as usual, the opportunity for an alternative provider to carry out the final connection to the LV or HV network within SHEPD and/or SEPD[9].

This helps encourage competition as alternative providers can now carry out more of the project themselves. That is, we have extended the contestability of projects, therefore opening up more areas to competition. We are committed to the opening of competition of many areas, and encourage competition in those contestable elements of any project.

Self-identification of POCC

[8] http://www.ssepd.co.uk/Connections/UsefulDocuments/
[9] Page 88 of our CCCMS:
http://www.ssepd.co.uk/uploadedFiles/Controls/Lists/Resources/SEPD_2012_-_2013_Charging_statements/SEPD_CCCM_CS_October2012.pdf

Further to this, we have extended access to our network records via online GIS to all alternative providers and consultants. This provides more information to those who wish to use it through a common source, which makes it easier to use.

We have also trialled a process where an ICP identifies their point of common coupling (POCC). However, in general there was limited interest in self point of common coupling.

Part-funded reinforcement

We are also committed to opening up competition in the provision of part funded connections reinforcement work and have taken an active and positive approach to the Ofgem proposal. We believe the only major outstanding issues are contractual and financial. Once guidelines are agreed by the industry on these matters, we expect to be engaging in trials on this front.

To conclude, we have listened to alternative provider feedback and addressed concerns regarding the opening up of competition. We are committed to extending contestability so alternative providers can participate in more elements of projects. Also, we are committed to encouraging more participants through the increased provision of information and other improvements as detailed in this section.

Comment Received: 'Requesting information'

Throughout our research we have discovered 36% of alternative providers who are active in SHEPD or SEPD found that requesting information is a barrier to entry. This question was not an option for alternative providers who are not active in SHEPD and/or SEPD as it is only applicable to those in contact with SSEPD regarding connection activities.

Of the respondents who commented on this topic, there was a consistent theme of a suggestion of an increase in the provision of information. One respondent suggested SSEPD should '*provide more information upfront',* while another respondent advised to provide '*better visibility of information*'. There were suggestions that SSEPD '*could provide more information as it would make it easier for us to build assets for them to adopt*' and '*they should give us more access to their information sources*'.

Moreover, many respondents raised the suggestion of a free desktop study or informal discussions and advice about their designs. We have developed booklets[10] which advise of the process and information required by customers at different stages of the process. To supplement this, we will hold workshops to discuss the process, in order to add further clarity on procedures.

Actions to Address

With respect to the provision of information, we allow alternative providers access to our GIS maps on line. These maps are the same maps SSEPD use internally, so are of the same standard and quality. This gives alternative providers the direct source which SSEPD use, and as they are on the SSEPD website, make the maps easy to access. As part of the new SSEPD

[10] http://www.ssepd.co.uk/Connections/UsefulDocuments/

website as seen in the 'Communication' section below, we have provided information in easy to find places therefore providing better visibility of information.

To conclude, we have listened to and taken action on enquiries about information in general, whether the enquiry relates to the availability or quality of information we provide. We aim to make it easier for alternative providers to find the information they need, where part of that has been the introduction of a new website which can be seen under the 'communication' section.

Comment Received: 'Processes' and 'procedures'

Encompasses 'commercial', 'their process or procedures', 'process of obtaining a quotation' and 'process'

When respondents were asked about processes, they were asked about processes in general including external requirements but also internal, SSEPD processes. 26% of alternative providers who are active in SHEPD and/or SEPD said they felt the overall process was a barrier. 17% said that SSEPD internal process were a barrier. Some of these barriers are addressed below.

One respondent said that other DNOs '*allow a section 16 quote to be ported to an ICP*' and suggests SSEPD adapt internal processes to also carry this out. Another respondent, when asked the same question said that '*they could have an application online*' while a further respondent said that SSEPD could use '*a more electronic based quotation system and more use of emails*'.

With respect to overall processes, one respondent replied that '*certain processes that have to be followed can slow progress down*' when asked about barriers.

There were also many comments regarding the breakdown of our quotations and that we didn't have application forms.

Actions to Address

Firstly addressing the response that SSEPD could improve by allowing section 16 quotes to be ported to an ICP, we have acknowledged this and now offer this at the point of quotation for all segments subject of this competition notice. That is, we offer both a quotation for all works and solely for the non-contestable element only, on all RMSs included in this competition notice, allowing the customer to either accept only the non-contestable offer or then appoint an alternative provider to carry out the contestable element, or to accept the offering that all works be carried out by SSEPD.

Having listened to the feedback given in August 2012, we have also created a new, online, common application form as well as a comprehensive breakdown of quotations. These address both the issue of the application form directly, but also relates to the suggestion of a more electronic based quotation. We have addressed these issues and have already implemented solutions to both concerns.

When considering the overall processes which must be followed as common industry practice, it was clear that these might be seen as a barrier; however SSEPD, like other DNOs, can't fail to follow these. An example of such a process could be the information required in order to produce a quotation.

Generally, the responses regarding processes apply to different stages from initial application to the connection of the project. The other information throughout this section also covers improvements in processes, for example the Quotation Validity period. However, regarding the application procedures and the connection of projects, we have reviewed the provision of a common application form, the accessibility of this form and more detailed quotations, alongside other process improvements.

Comment Received: 'Communication' and 'ease of contact'

There were many comments which were borne from communication. Some of these comments included the idea that our coverage was smaller than other DNOs, contacts were hard to get in touch with and there were a lack of jobs in our area. These responses made it clear that we had to increase our communication with alternative providers to bring awareness to the projects available in our areas and ensure that they have the contacts they need in order to carry out projects.

Examples of these types of responses include '*the communication needs to improve*' with a suggestion of '*making another contact more available*'. Other respondents said '*they could be easier to contact*'. Another respondent said that there was a '*lack of jobs*' in SHEPD and/or SEPD.

Actions to Address

In order to increase communication, we have created a new website[11] which details much more information. We upload information onto the site including any stakeholder engagement or maps. This will include the market research we have carried out for this report.

Our market research found that 90% of alternative providers who are currently active in our area communicate with SSEPD via email. Therefore, we believe that using the internet as a main method for communication is in line with what alternative providers currently use.

Moreover, we have developed connection guides for the domestic and small commercial supply which have been distributed at different stages[12]. For example when a customer enquires about a connection, the first booklet is delivered to the customer. This describes the connection process in terms of what information the customer would require, contact details of where to find an application form and who to contact, and information about the location details such as the site layout plan. Presenting the information in a short and concise booklet could help customers identify what information is required at each stage of the process and where to find it. On the back page of the first booklet there is a flowchart of the process, which is colour coded to indicate when SSEPD action is

[11] http://www.ssepd.co.uk/Home/
[12] http://www.ssepd.co.uk/Connections/UsefulDocuments/

required, when customer action is required or when the customer's supplier needs to carry out a task. The second booklet is delivered when a quotation has been issued and the third once the quotation has been accepted. In the same vein, we have produced a leaflet explaining the different types and process around gaining a Generation Connection. We are in the process of extending this to booklets to cover Distributed Generation in more detail as well as other segments.

Moreover, we are carrying out internal training in both our areas to further encourage stakeholder engagement and ensure staff are confident about our processes. This is being carried out in November and so far the results have been positive in terms of staff responses and understanding.

Comment Received: 'Price'

There have been mixed responses on our overall charges regarding connections in the RMSs, with some respondents advising that SSEPD is too expensive, yet other organisations stating that '*SSE are far more competitive than other companies*'.

Actions to Address

Our prices are relatively low compared to other DNOs as of August 2012. This can be seen in the table below, which compared prices for the 3 RMSs included in this Notice, where the source of the information came directly from each DNO's Common Charging Methodology Statement.

	SHEPD	SEPD	All DNO	SHEPD	SEPD
RMS	£ Average	£ Average	£ Average	% of Average	% of Average
Demand HV - LV and/or HV end Connections that involve HV works	£5,775	£5,651	£5,988	96%	94%
Demand HV and EHV - LV and/or HV end connections involving EHV works	£103,543	£263,573	£322,918	69%	82%

HV and EHV Generation – Generation with works above LV	£103,543	£263,573	£322,918	69%	82%

We are required under our licence to publish a Charging Methodology Statement providing price and transparency in connections to our customers. This document remains a primary tool for keeping our customers informed. It was recently brought together as a Common Charging Methodology Statement (CCMS), with a structure, format and many elements of the information provided common to all DNOs.

We publish a detailed and accurate account of our prices online, so customers are aware in their initial research what the likely cost per project will be. By being transparent and open, customers and alternative providers have access to up to date and accurate information.

Comment Received: ‘Geography/location’

Throughout the research, the idea that there are few projects available came up a number of times. 25% of alternative providers which do not participate in SHEPD nor SEPD, advised that ‘geography/location’ was a barrier to entry. Moreover the geography and location of our Scottish area, SHEPD, was often cited as an instant barrier. Many respondents felt that it was too far away and the overheads were too much to warrant entering the market.

One respondent said that ‘*the geographical location and commercial capital costs invested is a barrier*’. Another respondent raised the issue that ‘*it’s too far away, high overheads, we can’t compete*’ while another respondent said they have not participated in SHEPD ‘*purely because of the nature of SSE’s area. Geographically there are lots of islands so it is a barrier physically*’.

Actions to Address

When considering the market share data between SHEPD and SEPD, it is clear that in general there are more projects available and overall the value is higher in the SEPD area. Although these are issues that SSEPD can’t directly change, we are hoping that by encouraging competition in our area, there will be more exposure to projects and alternative providers will become more active. We believe that submitting a successful competition notice for the three RMSs we have included will encourage entries to these markets going forward as it will provide evidence to those considering entry that there is an open competitive market.

Comment Received: ‘Not part of the business plan’

33% of alternative providers, which had not been active in SHEPD nor SEPD, cited that one of the barriers to entry was that entering into the market was ‘*not part of their business plan*’. One respondent explained that ‘*commercially we would have to set up in another region and it is not in our business plan at the moment*’.

Actions to Address

Like the above issue of ‘geography/location’, this is an issue that SSEPD can’t directly change. However, we are hoping that by facilitating the development of competition in the area, more alternative providers will be encouraged to participate in the market. Again we believe that submitting a successful competition notice for the 3 RMSs we have included will encourage entries to these markets going forward as it will provide evidence to those considering entry that there is an open competitive market.

Comment Received: ‘Obtaining necessary accreditation’

17% of alternative providers who are not yet active in SHEPD or SEPD advised that they found obtaining necessary accreditation was a barrier. The reasons we, and the industry, adopt accreditation practices are due to reliability, safety and security of networks.

Actions to Address

We only insist on NERS accreditation, with no additional requirement for any other form of ‘trade testing’. On our website, we provide a link to the Lloyd’s Register which details further information about the accreditation process[13].

[13] http://www.ssepd.co.uk/Connections/CompetitionDevelopers/

Conclusion

SSEPD continues to support competition in connections and is working to achieve it in all of the Relevant Market Segments. We welcome an open market approach which ultimately ensures that customers have choice and value for money. We recognise our role in ensuring that the market environment is free from any barriers to entry.

This competition notice demonstrates that there is active competition in three RMSs: Demand HV, HV and EHV generation and Demand HV and EHV. In all of these segments, which together are an HV market, there is a good awareness of competitive alternatives (demonstrated by quotations issued) and an increasing number of participants. Across the three segments, SSEPD is winning a decreasing share of business with 9.74% of projects in SHEPD won by alternative providers, and 3.16% of projects in SEPD won by alternative providers.

Market data is supported by market research evidence from active and potential alternative providers. 23% of active alternative providers report no barriers to entry and 17% of potential alternative providers also report no barriers to entry. The main barrier raised by active alternative providers was ‘the quotation validity period’, where 55% said this was a barrier. We have already acted on this and have implemented a solution. The main barrier for those not yet active was that ‘activities are not open to competition’ where 42% said this. We have undertaken various activities to solve this. Overall, we have acted on feedback as part of our commitment to listening and ongoing improvement.

We believe that this competition notice reflects SSEPD’s long term approach to supporting competition with clear visibility of an enduring, continuously improving and evolving service to electricity connections customers across Great Britain.

Glossary

Alternative provider	NERS accredited independent connections provider or independent distribution network operator
Connection	Installation of an electricity supply
Contestable	This is the part of the connection which is open to competition, that is, an alternative provider can carry out this element of some connections.
DPCR5	This refers to Distribution Price Control Review 5, which was our last price control. It covers the period 1st April 2010 until 31st March 2015, where a new price control begins.
Independent connections provider (ICP)	NERS accredited connections provider who can carry out the contestable element of some connections. NERS accredited means they can work throughout the UK and are not restricted to one area or region.
Independent distribution network operator (IDNO)	Licensed entities who can own and operate electricity distribution networks
Non-contestable	This is the part of the connection which the host DNO must carry out, that is, it is not open to competition at present.
RMS	Relevant Market Segment. The overall connections market have been split into different segments, as defined in Ofgem's DPCR5 Final Proposals.

Appendix A: About us

SSEPD is the owner of two licensed distribution network operators (DNOs): Scottish Hydro Electric Power Distribution (SHEPD) and Southern Electric Power Distribution (SEPD).

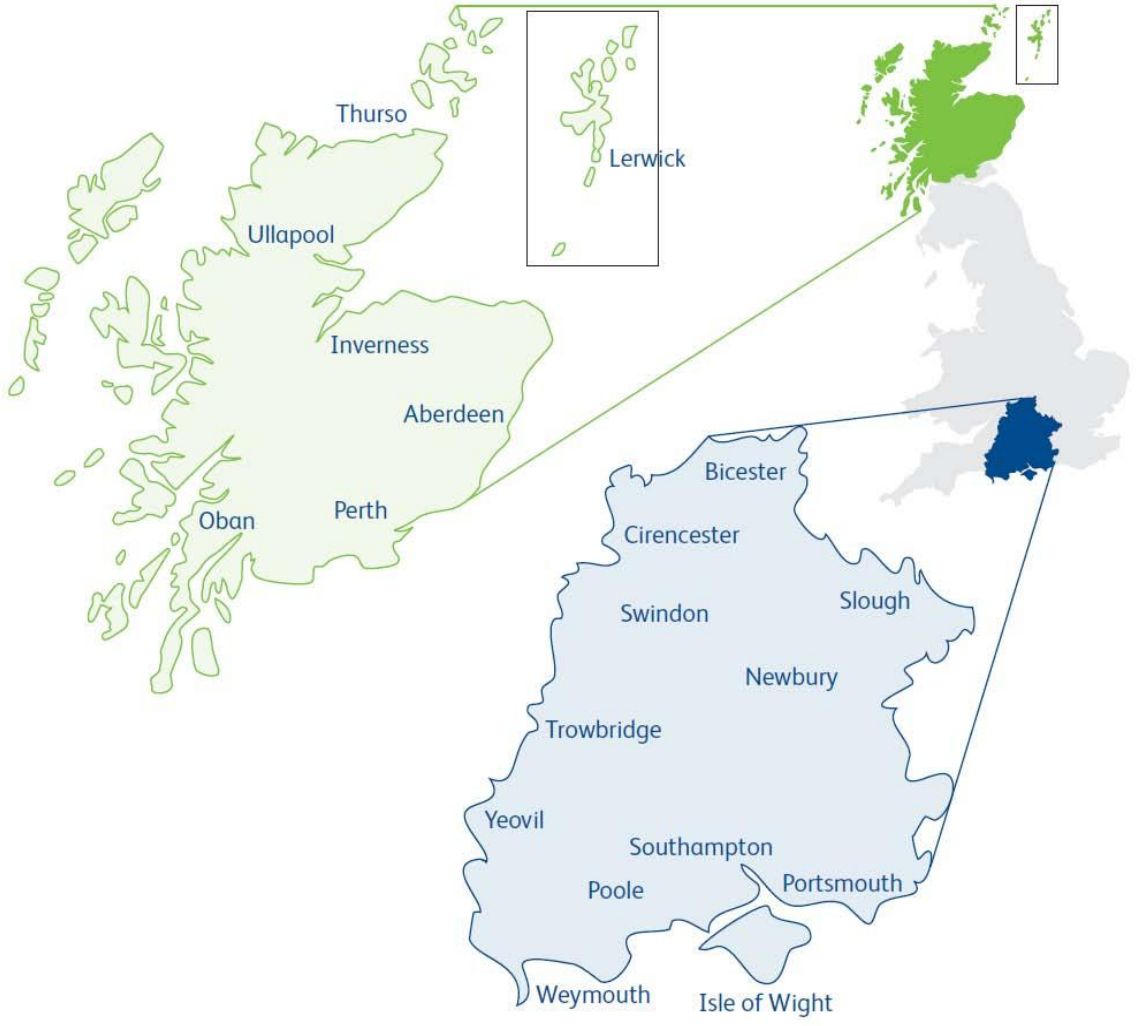


Figure A1: Map of SHEPD and SEPD regions

SEPD covers the most populated area of our two distribution regions and delivers safe, reliable electricity to around 3 million customers across central southern England. Our network is over 76,000km long and ranges from rural communities in Wiltshire, and Gloucestershire for example, to towns and cities including Bournemouth, Oxford, Reading, and Slough among other areas. We also distribute electricity to and across the Isle of Wight.

SHEPD, at the other end of the country, delivers an equally safe and reliable electricity supply to some 740,000 customers in the north of Scotland. Our SHEPD network is over 46,000km long and covers a quarter of Great Britain’s landmass which attracts unique challenges both in terms of distance and location. As well as the major towns and cities of Aberdeen, Dundee, Inverness and Perth, we connect to most Scottish islands with over 100 subsea cable links, including the Inner and Outer Hebrides, Arran and the Orkney Islands. We also serve the Shetland Islands, which presently has no interconnection with the mainland and runs a separate electrical system.

Appendix B: About competition in connections

The figure below shows the six licensed distribution network operators (DNOs) which operate in different regions in the UK. Historically, the distribution of electricity in Great Britain has been a service carried out by these DNOs and so it was their responsibility to provide connections to, maintain, repair and improve the network in 14 discreet licensed areas.

As this is a licensed activity, the charges that a DNO can make are closely monitored and controlled by the Regulator, Ofgem. Electricity distribution businesses have regular price control reviews, where the levels of income and investment are analysed and set by Ofgem for the control period.

Figure B1: Map of DNO Licensed areas

Historically, if a customer wanted a connection they approached their local distribution network operator. Following the introduction of competition in connections, electricity customers in Great

Britain now have the option for their new connection to be provided and operated by service providers independent of the DNO. The works involved that can be provided and operated by others are termed contestable works, with those works that must still be provided and operated by the DNO termed non-contestable. A simple example of the type of work that is contestable or non-contestable is given below.

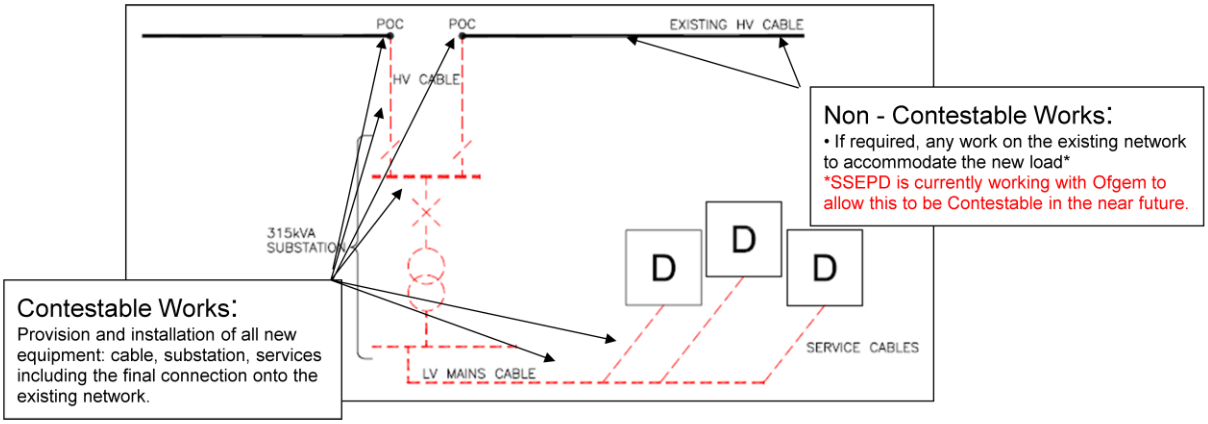


Figure B2: Simple example of contestable /non- contestable works split

The service providers independent of a DNO who can provide these contestable works are called independent connection providers (ICPs) where the ICP will quote, build and connect. The service providers independent of a DNO who can operate the subsequent connections are called independent distribution network operators (IDNOs). IDNOs can own and operate a network. To do this, they need to have a licence and relative price control.

With the advent of competition in connections any customer in Great Britain has the option to have the contestable elements of their new connection constructed either by the local DNO or by an alternative provider. They may also choose for the subsequent connection, once constructed, to be adopted and operated either by an IDNO or the local DNO.

Appendix C: Lorien Connect presentation

This appendix is attached to this document and can also be seen on our website. Lorien Connect, the market research company who we commissioned to carry out research investigated and analysed barriers to entry and the service SSEPD provide alternative providers. The results have been fed throughout our competition notice and are presented in a presentation format.