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Submitted via email to: [Connections@Ofgem.gov.uk](mailto:Connections@Ofgem.gov.uk)

Swindon, 18<sup>th</sup> March 2013

**RE: Consultation on SSEPD's Competition Notice**

Dear James,

RWE n-power renewables appreciates the opportunity to respond to this consultation regarding SSEPD's Competition Notice. RWE npower renewables is one of the UK's largest renewable energy developers and operators. As a customer within SSEPD's area of operation in Scotland we have an interest in the outcomes of this consultation. We have successfully built a number of wind farms and hydro schemes with SSEPD. We want to have access to high quality good value connection services for our Distributed Generation projects which connect to the High/ Extra High Voltage network.

We agree with Ofgem's view that open competition can deliver what customers need in terms of connections more effectively than regulation. We are pleased to see in Ofgem annual report on distribution that overall national market penetration by IDNOs and ICPs is on a gradual increase. How to time deregulation is a very critical, challenging question. We are generally unable to support the removal of the price control measures from any DNO because we feel that the evidence presented is insufficient at this moment in time. The evidence presented by SSEPD suggests that competition has increased in their area but some further details would be needed to convince us that price control regulation of the HV-EHV DG connections should be lifted at this time. Our response also notes some factors that we think prevail in acting as a barrier to the further expansion of competition.

The completed response table is appended below.

Best Regards,

Fruzina

Fruzina Kemenes  
Regulation & Policy Manager

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

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

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

RMS	SHEPD DSA (North Scotland)	SEPD DSA (South England)
2. Metered high voltage work (HV)	<input type="checkbox"/>	<input type="checkbox"/>
3. Metered HV and Extra High Voltage (EHV) work	<input type="checkbox"/>	<input type="checkbox"/>
6. Distributed Generation (DG) HV and EHV work	<input checked="" type="checkbox"/>	<input type="checkbox"/>

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

## **Chapter Two**

Question	RMS(s)	DSA(s)	Response
<b>One:</b> Are customers aware that competitive alternatives exist?	Metered HV <input type="checkbox"/>	SHEPD <input checked="" type="checkbox"/>	Yes we are aware of available options via the Lloyds register.
	Metered HV/EHV <input type="checkbox"/>	SEPD <input type="checkbox"/>	
	DG HV/EHV <input checked="" type="checkbox"/>		
<b>Two:</b> Do customers have effective choice (ie are customers easily able to seek alternative quotations)?	Metered HV <input type="checkbox"/>	SHEPD <input checked="" type="checkbox"/>	Yes we can and do seek alternative quotations for connections work and in the case of SSEPD we have accepted a competitor quote for one of our projects.
	Metered HV/EHV <input type="checkbox"/>	SEPD <input type="checkbox"/>	
	DG HV/EHV <input checked="" type="checkbox"/>		SSEPD is showcasing best practice amongst the DNOs in terms of enabling access to competitive quotes by

Question	RMS(s)	DSA(s)	Response
			<p>issuing two offers in every case, an “all works quotation” together with a “non-contestable works” only quotation. This means that developers are given a real choice to accept a non-contestable only quotation and then appoint the alternative provider themselves without having to reapply for an offer. However, the validity period for the offer in the SSEPD area is very short and obtaining a competitor quote, comparing it and taking it through board decision for the customer is therefore very challenging.</p> <p>There are still certain factors that mean that we don’t feel we have an effective choice as a DG customer (particularly for larger more complex projects).</p> <p>The availability of competition is not the only factor that a developer will consider when deciding whether to use an ICP. Based on our broad experience across the UK there are a range of factors which may deter DG developers from choosing to use an ICP.</p> <p>I) DNOs have deemed planning permission for performing works/wayleaving rights which an ICP would not have. These rights significantly reduce risk to the developer.</p> <p>II) The hassle and expense of having to manage two parties rather than one. This is particularly important where we need to make technical or timing changes (e.g. as a result of planning constraints).*</p> <p>III) The competency of the potential ICPs in relation to the scale and type of connection for the project in question as well as their experience of working with the incumbent DNO would be equally important. ICPs are still an unknown quantity for many customers, DNOs have a natural advantage of being familiar.</p>

Question	RMS(s)	DSA(s)	Response
<b>Three:</b> Does SSEPD take appropriate measures to ensure that customers are aware of the competitive alternatives available to them?	Metered HV <input type="checkbox"/> Metered HV/EHV <input type="checkbox"/> DG HV/EHV <input type="checkbox"/>	SHEPD <input type="checkbox"/> SEPD <input type="checkbox"/>	<p>Yes the SSEPD website is clear and user-friendly. The competition in connections page is easy to find and the information in there is clear.</p> <p>Issuing Connection Offers in two parts also makes it very clear to customers that they have a choice to request quotes and work from third parties.</p>
<b>Four:</b> Are quotations provided by SSEPD clear and transparent? Do they enable customers to make informed decisions whether to accept or reject a quote?	Metered HV <input type="checkbox"/> Metered HV/EHV <input type="checkbox"/> DG HV/EHV <input type="checkbox"/>	SHEPD <input type="checkbox"/> SEPD <input type="checkbox"/>	<p>SSEPD is showcasing best practice amongst the DNOs in terms of easing access to competitive quotes by issuing two in every case, an "all works quotation" together with a "non-contestable works" only quotation. This means that developers are given a real choice to accept a non-contestable only quotation and then appoint the alternative provider themselves without having to reapply for an offer. However, the validity period for the offer in the SSEPD area is very short though and obtaining a competitor quote, comparing it and taking it through board approval for the customer is still very challenging. The 'revalidation period' policy has not been in place for long enough for us to say whether it can help – on the face of it does not extend the amount of time for consideration by very much.</p>
<b>Five:</b> Have customers benefited from competition? Have they seen improvements in SSEPD's price or service quality or have they been able to source a superior service or better price from SSEPD's competitors?	Metered HV <input type="checkbox"/> Metered HV/EHV <input type="checkbox"/> DG HV/EHV <input type="checkbox"/>	SHEPD <input type="checkbox"/> SEPD <input type="checkbox"/>	<p>We have opted to use an ICP for one of our projects so for this project there has been a benefit.</p> <p>However, regarding the bigger picture, the infrequency of getting new connections and the lack of historical data looking at competition levels acts as a barrier to observing whether competition is effectively developing for large scale DG connections. This is true not just for SSEPD but all DNO areas.</p>

### Chapter Three

Question	RMS(S)	DSA(S)	Response
<b>One:</b> Does the level of competitive activity in the RMSs show that there is the potential for further competition to develop?	Metered HV <input type="checkbox"/> Metered HV/EHV <input type="checkbox"/> DG HV/EHV <input type="checkbox"/>	SHEPD <input type="checkbox"/> SEPD <input type="checkbox"/>	From a customer perspective: Even once the competition test is passed Ofgem needs to monitor and ensure that competition increases over time. If competition does not deliver better value and services Ofgem needs to be prepared to rethink its policy.
<b>Two:</b> Consider the organisational structure of SSEPD's business and its procedures and processes –  <b>(a)</b> how do they compare to those you encounter elsewhere in the gas and electricity markets or other industries? Do they reflect best practice?  <b>(b)</b> do they enable competitors to compete with the timescales for connection (from quote to energisation) offered by SSEPD? Or do they offer SSEPD any inherent advantage over its competitors or prevent existing competitors from competing with them effectively?  <b>(c)</b> do they assist, obstruct	Metered HV <input type="checkbox"/> Metered HV/EHV <input type="checkbox"/> DG HV/EHV <input type="checkbox"/>	SHEPD <input type="checkbox"/> SEPD <input type="checkbox"/>	No Comment

Question	RMS(S)	DSA(S)	Response
or delay connections providers entering the RMSs?			
<b>Three:</b> Are the non-contestable charges levied by SSEPD for statutory connections in the RMSs consistent with those levied for competitive quotations? Are they easily comparable with competitive quotations?	Metered HV <input type="checkbox"/> Metered HV/EHV <input type="checkbox"/> DG HV/EHV <input type="checkbox"/>	SHEPD <input type="checkbox"/> SEPD <input type="checkbox"/>	No Comment
<b>Four:</b> What factors are key influences on development of competition in the RMSs? In particular, if you are an existing/potential competitor  <b>(a)</b> what is the potential for you to enter new RMSs, or grow your share of an RMS you already operate in?  <b>(b)</b> are there any types of connection in any of the RMSs, or geographic locations in SSEPD's DSAs, that by their nature, are not attractive to competition? Please explain your response.	Metered HV <input type="checkbox"/> Metered HV/EHV <input type="checkbox"/> DG HV/EHV <input type="checkbox"/>	SHEPD <input type="checkbox"/> SEPD <input type="checkbox"/>	No Comment

## Chapter Four

Question	RMS(S)	DSA(S)	Response
<b>One:</b> Do you agree with the methods used by SSEPD to analyse the level of competition in each of the RMSs covered by its application? In particular, do you consider that SSEPD gives a clear indication of the current level of competitive activity?	Metered HV <input type="checkbox"/>	SHEPD <input type="checkbox"/>	<p>SSEPD's approach of presenting quantitative data on competition and the results of a customer survey presents quite a clear picture on the levels of competition in their area. It is also helpful that SSEPD have provided analysis for a period longer than a year (May 2010-August 2012). The longer the period of the study, the better indication we can obtain for assessing changes in their patch.</p> <p>The statistics in Table 4.1 show that there is significant competitor activity both in the offer of quotes and the acceptance. It is higher than what we have seen in the evidence base provided by other DNOs. However, in addition to the data presented it would be useful to see statistics on market share by value (other DNOs have provided this). In our experience, the contestable works have been much lower in value than the non-contestable works in the SHEPD area.</p> <p>- We note that no benchmark is provided for before the introduction of the regulated margin. Ofgem should have data from before the 4% regulated margin was first introduced under DPCR5. Even if the specific way of categorising connections by RMS did not exist, is there no proxy/ way of collecting historical data from the ICPs themselves? Where can we view such evidence? It would be useful to see whether this policy could be directly linked to the differences observed. That way it would be easier to comment on whether it is still needed.</p>
	Metered HV/EHV <input type="checkbox"/>	SEPD <input type="checkbox"/>	
	DG HV/EHV <input type="checkbox"/>		

<b>Two:</b> Do you consider that competitive activity is at a level that in itself indicates that effective competition exists?	Metered HV	<input type="checkbox"/>	SHEPD	<input type="checkbox"/>	Potentially yes – but market share by value would be needed to fully assess competitive activity and some measures to overcome the barrier presented by wayleaving rights in particular should be considered.
	Metered HV/EHV	<input type="checkbox"/>	SEPD	<input type="checkbox"/>	
	DG HV/EHV	<input type="checkbox"/>			

### **Chapter Six**

Question	RMS(S)		DSA(S)		Response
<b>One:</b> Do you consider customers have an effective choice of connections provider? In particular, do you feel that levels of choice, value and service will be protected and will improve if the restriction on SSEPD's ability to earn a margin is removed?	Metered HV	<input type="checkbox"/>	SHEPD	<input type="checkbox"/>	See our response to Chapter 2 Question 2.
	Metered HV/EHV	<input type="checkbox"/>	SEPD	<input type="checkbox"/>	It is also unclear to us what action would be taken to monitor barriers to competition developing further on an ongoing basis if the price control measures were removed. Over the period that the price control measure (4% margin) was introduced, competition does appear to have developed successfully. As an incumbent, SSEPD would have an advantage over other market players and this advantage does not seem to be addressed by accepting the removal of price regulation of connection activities.  In other sectors, e.g. telecommunications, British Telecom has ongoing obligations to offer local loop unbundling in its telephone exchanges under a regulated framework. It then competes for services such as ADSL in the same way as other service providers to end consumers. It would seem appropriate that similar arrangements should apply to DNOs if price regulation of connection activities were removed.
	DG HV/EHV	<input type="checkbox"/>			
<b>Two:</b> Do you consider that there is scope for competitors to grow their market share (for example,	Metered HV	<input type="checkbox"/>	SHEPD	<input type="checkbox"/>	Yes it can be assumed that if SSEPD's quality dropped or if prices increased unfairly there is potentially scope for competitors to grow provided that the barriers highlighted by Electricity
	Metered HV/EHV	<input type="checkbox"/>	SEPD	<input type="checkbox"/>	



Question	RMS(S)	DSA(S)	Response
if SSEPD put up its prices or if its quality dropped), or are there factors constraining this?	DG HV/EHV <input type="checkbox"/>		<p>Connections Steering Group are overcome.</p> <p>Across the UK, we have experience of a number of such barriers which could prevent growth and deter DG developers from going with ICPs. (These comments are not specific to SSEPD).</p> <p>I) DNOs have deemed planning permission for performing works/wayleaving rights which an ICP would not have. These rights significantly reduce risk to the developer.</p> <p>II) The hassle and expense of having to manage two parties rather than one. This is particularly important where we need to make technical or timing changes (e.g. as a result of planning constraints).</p>
<b>Three:</b> Do you consider that there is scope/appetite for new participants to enter the market? Do you consider that new entrants would be able to provide similar or better services than existing participants or are there factors constraining this?	Metered HV <input type="checkbox"/> Metered HV/EHV <input type="checkbox"/> DG HV/EHV <input type="checkbox"/>	SHEPD <input type="checkbox"/> SEPD <input type="checkbox"/>	Competitors can enter the market but they often seem to lack the required level of expertise. As a developer this means that the project will be exposed to more risk during this period and we would incur additional costs in managing additional interfaces.
<b>Four:</b> Given your overall view of SSEPD, do you consider that we can have confidence in them to operate appropriately in the event that price regulation is lifted?	Metered HV <input type="checkbox"/> Metered HV/EHV <input type="checkbox"/> DG HV/EHV <input type="checkbox"/>	SHEPD <input type="checkbox"/> SEPD <input type="checkbox"/>	No comment
<b>Five:</b> Do you consider that there are factors not addressed in this consultation that should be	Metered HV <input type="checkbox"/> Metered HV/EHV <input type="checkbox"/>	SHEPD <input type="checkbox"/> SEPD <input type="checkbox"/>	Ofgem's ongoing role in monitoring whether competition is effective in both market segments that have passed the CT and those that have not should be considered somewhere.

Question	RMS(S)	DSA(S)	Response
taken into consideration in determining whether price regulation should be lifted?	DG HV/EHV <input data-bbox="869 225 902 252" type="checkbox"/>		