



Interested parties

*Promoting choice and value for
all gas and electricity customers*

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Dear stakeholder

Publication of UK Power Network's application to have price regulation lifted on competitive connection activities in six market segments.

The application

On 19 April 2013 UK Power Networks (UKPN) submitted to Ofgem a document containing Competition Notices in respect of its three licensed distribution networks – Eastern Power Networks plc (EPN), London Power Networks (LPN) and South Eastern Power Networks (SPN). The Competition Notices serve as applications by UKPN to have price regulation lifted on competitive connection activities in six of the Relevant Market Segments set out in Charge Restriction Condition 12 (CRC 12) of the Electricity Distribution Licence.¹

Having received these applications, we must make separate decisions whether or not to lift price regulation on competitive connection activities, in respect of each Relevant Market Segment and each licensee area.

Background

We consider that, where it is possible, competition can deliver benefits to customers that are difficult to achieve through regulation, such as innovation in the type of services on offer and a focus from providers on meeting customer needs.

In Distribution Price Control Review 5 (DPCR5) we introduced a new approach to facilitating competition in connections to electricity distribution networks.² Since 1 October 2010, Distribution Network Operators (DNOs) have been allowed to earn a regulated margin (fixed at 4 per cent above cost)³ on contestable connection activities in nine Relevant Market Segments where we consider competition to be viable. The purpose of the headroom created by this regulated margin is to attract new market entrants.

In addition, our DPCR5 proposals also made provision for DNOs to submit a Competition Notice to have price regulation lifted on competitive connection activities in the Relevant Market Segments⁴. This opportunity to earn an unregulated margin was designed to encourage a change of mindset by DNOs with regard to competition and stimulate the

¹ These are: metered demand high voltage (HV) work; metered demand HV/Extra High Voltage (EHV) work; metered demand EHV and above work; distributed generation LV work; unmetered local authority (LA) work; and unmetered other work.

² Please refer to DPCR5 Final Proposals - Incentives and Obligations for further information: <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=348&refer=Networks/ElecDist/PriceCtrls/DPCR5>. The detail of the obligations on DNOs are set out in CRC 12 of their licences.

³ Previously under DNO approved connection charging methodologies their connection charges were limited to recovery of reasonable costs.

⁴ See footnote one.

removal of potential barriers to competition.⁵ We also set out that any DNO that failed to demonstrate competition, or put forward a case by December 2013, would be reviewed by Ofgem and could subsequently be referred to the Competition Commission.

Next steps – deciding whether to lift price regulation

The process for assessing a Competition Notice submitted by a DNO is set out in CRC 12 and the DPCR5 Final Proposals document.

Ultimately, in assessing a Competition Notice we will be looking at whether we can rely on real competition or the threat of competition to protect consumer interests rather than regulating prices charged by the DNO. We will conduct a separate analysis of each market segment for each of UK Power Networks' licensed areas and we will only lift price regulation where we consider that effective competition exists.⁶

Before we make a decision on UK Power Networks' Competition Notices we will consult with parties that we believe have an interest in the Notice. We intend to publish a consultation on UK Power Networks' Competition Notice in mid May 2013. Our consultation will highlight the particular issues on which we would welcome respondents' views and evidence. In the meantime, we are publishing a copy of UK Power Networks' Competition Notice on our website.⁷ This is intended to allow interested parties the opportunity to consider UK Power Networks' application ahead of our formal consultation.

Interested parties should make their comments known to us through the formal consultation process in due course. However, if you have any questions about this letter or any other aspects of the Competition Notice process please contact connections@ofgem.gov.uk.

Yours sincerely

James Veaney
Head of Distribution Policy

⁵ To date we have issued decisions on four DNOs' Competition Notices - Electricity North West Limited (ENWL) on 21 November 2011; Northern Powergrid on 26 October 2012; UK Power Networks (UKPN) on 29 October 2012 and Western PowerGrid (WPD) on 26 February 2013. Details of our decisions can be found on our website at: <http://www.ofgem.gov.uk/Networks/Connectns/CompinConn/Pages/CompinCnnctns.aspx>

⁶ Price regulation will be lifted where DNOs demonstrate that they have passed both a Legal Requirements Test and a Competition Test, both set out in CRC 12 and the DPCR5 Final Proposals document. <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=348&refer=Networks/ElecDist/PriceCtrls/DPCR5>

⁷ As an associated document to this letter:

<http://www.ofgem.gov.uk/Networks/Connectns/CompinConn/Pages/CompinCnnctns.aspx>