



Making a positive difference  
for energy consumers

All those with an interest in competition in the market for new connections to electricity distribution networks

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## **Completion of the Competition Test Process**

Last week, we published our final decisions on applications made by distribution network operators (DNOs) to pass a 'Competition Test' – an assessment of whether effective competition exists in the market for new connections. This letter marks the end of that process and explains the work we will now undertake to review the state of competition in new electricity distribution connections.

### **Background**

Independent network companies can compete with DNOs to give customers a choice over their connections provider. Effective competition should help improve the quality of service customers receive and reduce the cost of connection. Competition can also encourage innovation in the type of services on offer.

As part of Distribution Price Control Review 5 (DPCR5), we implemented measures to facilitate competition. These included –

- The creation of the 'competition test' assessment process, whereby DNOs have been able to apply to us to have price regulation lifted if they can demonstrate that competition is sufficiently effective to constrain prices in its absence. DNOs had until the end of 2013 to apply to pass the competition test.
- For the purpose of the competition test, we defined the contestable connections market into nine 'relevant market segments' (RMSs).<sup>1</sup> Separate competition test applications were required for each segment.
- Finally, we said that where effective competition had not developed by the end of the competition test process, we would review the market and consider whether to take any further action.

### **Outcome of the Competition Test Process**

We announced our final competition test decision on the 23 April 2014. In total, through the four year competition test process, we received applications for price regulation to be lifted in 113 of the 126 RMSs. In 42 RMSs we were satisfied that effective competition exists.

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<sup>1</sup> A policy decision was made at DPCR5 to establish the RMSs after consideration was given to the different types of connection (ie by size, type and customer base) for the purposes of this test.

In general, we consider that the competition test process has improved the state of competition in the market. DNOs have acted to address some of the barriers previously identified in the market and stakeholders report improvement in some areas. The process has also been successful in highlighting differences in the state of competition across different parts of the market. Nevertheless we remain concerned that, in the majority of market segments, we have still not seen enough evidence of effective competition.

### **Next Steps**

Having published our final Competition Test decisions we will now consider what steps to take to ensure customers are best served by competition in the connections market. To do this we will listen to feedback from stakeholders – including customers, competitors and DNOs, as well as reflecting on the information that we have already gathered.

We expect to be able to set out in more detail our next steps in June 2014. This could include setting the scope for a review of competition in these markets. Before then, if you wish to discuss your views on the state of competition in the connections market please contact James Veaney at [James.Veaney@ofgem.gov.uk](mailto:James.Veaney@ofgem.gov.uk).



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