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Date

31 July 2014

Dear James,

OFGEM REVIEW OF THE MARKET FOR NEW CONNECTIONS TO THE ELECTRICITY DISTRIBUTION SYSTEM

Western Power Distribution (WPD) welcomes the opportunity to respond to the call for information on the effectiveness of competition in the connection market. Through this continued engagement with Ofgem and the rest of the industry, we will assist Ofgem with the review and will use the information coming out of this process to continue with our initiatives to address the concerns regarding competition in connections (CiC) and to improve connections services.

Since the submissions of our Competition Test Notices we have not stood still, we are already working on initiatives which will improve services and facilitate CiC. We have a workplan in place which has been driven by our engagement with our stakeholders and developed in conjunction with our Connection Customer Steering Group (CCSG). The CCSG Workplan gathers together the actions we are taking throughout the year providing greater transparency of the works we have been doing over the last few years around service improvements and extending contestability in connections activities.

In particular, over the last few years since the start of the economic recovery, we have seen significant increase in the levels of activity in both CiC and competition in networks, with large increases in the volumes of embedded networks connected by Independent Distribution Network Operators (IDNOs). Historically WPD has seen a contrast between the levels of CiC activity in the South West and South Wales regions compared to the East and West Midlands regions. With the processes and services being the same across the regions broadly since 2011 this gives us some insight into the factors affecting the expansion of CiC.

Under the headings below we provide our views and experiences regarding the issues raised in Ofgem's call for information letter. We also explain some of the actions WPD has already taken to address these and other initiatives which are underway to improve the environment for CiC.

The DNO's level of control over the connection process

We believe that it is important to balance the responsibility and Licence obligations we have as the DNO to look after the network, with the need to facilitate independent providers having a more level playing field to access information about the network and operate on the network itself. It is also important that we avoid this becoming overly onerous or obstructive for CiC especially when it comes to equalising the timescales and costs for equivalent activities.

We have to ensure that extensions to the network are not going to cause issues for present and future customers on the network, this is why we have inspection and monitoring (I&M) regimes to monitor the networks we are adopting from independent providers. In our plans for this year we are introducing a new I&M regime which will consolidate the processes from the Midlands and South West and South Wales regions. This improved regime will make it easier for independent providers to move to lower levels of inspection on activities, based on the amount of work they do and any defects found. It will also allow for joint-inspections with independent providers where they request.

Through feedback from Independent Connection Providers (ICPs) on our Live Low Voltage (LV) jointing trial, when we moved from trial to business as usual and made this activity contestable, we also changed our policy to allow ICPs to work under their own Safety Rules and not require a WPD authorisation / accreditation. This removed a perceived barrier to entry which had been identified, particularly for new entrants to the WPD regions. ICPs have carried out 1000's of jointing activities to both unmetered and metered connections through our Live jointing processes and have made positive comments on the simplicity and effectiveness of our processes.

We have also made attempts to extend contestability to High Voltage (HV) jointing on our network along with some associated switching activity in our HV Trial. To date we have not had an ICP carry out a joint on this trial, and until we can demonstrate that the processes are effective we are unable to request confirmation from Ofgem that this work can move from trial to become contestable activity in WPD's regions.

In our CCSG Workplan for this year we have initiatives to implement a trial for ICPs to design their own points of connection (POC) and to improve the availability of network information. Whilst independent providers all receive the same service when requesting a POC offer and design approval from WPD we have prioritised these issues to be on the plan for this year based on the our stakeholders feedback that this will remove a barrier to facilitating competition.

With regards to competition in networks, the issue of DNOs requiring IDNO's to pay for a link box to be installed at the network boundary being a barrier, when compared to the same network being adopted by the DNO, is one that we are looking at.

We believe that under The Distribution Code (specifically under Distribution and Planning Connection Code 6), there is a requirement for a means of disconnection of the User's installation by the DNO, in which Other Authorised Distributors fall under the scope of 'User' to which this applies. We therefore want to retain the link box to clearly identify network ownership but will look to at whether we will fund this rather than require the IDNO to do so. Whilst we have seen embedded networks connected at LV with fewer than ten end users, sometimes for a single end user, the additional cost of the link box could affect the size of scheme an IDNO may compete for.

Complexity for customers

To assist customers and connection providers in understanding our connection offers, we have improved our offer letters and charge breakdowns over the last two years, we also have an initiative in our CCSG workplan to improve the information within the offers and their consistency. We believe that our connection charge breakdown is one of the most detailed available and although we are not able to view the offers ICPs make to their customers, we believe the customer should be able to compare the costs in the WPD offer with those from other providers.

To reduce the complexity in customers choosing between a competitive and non-competitive connection route, we have introduced Dual Offers which have the option of choosing to accept either the full works to be completed by WPD or only the non-contestable works. These are provided for customers and ICPs requesting them for a Distributed Generation (DG) connection.

Customer appetite for competition

We continue to increase the awareness of CiC with customers through channels such as our website, offer letters, leaflets and stakeholder groups. Both our Desktop and mobile website have an easily accessible CiC area with crosslinks from other connections areas, whilst both our offer letter and leaflet we send with each one highlight the option for works to be provided by an independent provider.

In our experience awareness of competitive alternatives is growing and this was demonstrated in the year on year increase in our DG Customer survey where awareness of competitive connection providers being able to quote for the work rose from 83 – 90% across the four WPD regions from 2012 to 2013 (we are currently running the 2014 survey).

As described further up in this letter, we are working to reduce the perceived barriers to competition which may impact on a customer's decision to choose to use an independent provider for their scheme. However the quality and value of service provided by us also has an impact on a customer's decision to choose WPD for their connections work

The impact of regulatory regimes and requirements

We are currently developing a trial to facilitate competition in Part Funded Reinforcement (PFR) connection works for ICPs to be able to undertake some of this activity on their connections schemes. The current regulatory cost reporting arrangements and charging methodologies do not facilitate this but we are looking to develop through a trial initially, before approaching Ofgem to request changes to these.

The PFR trial above looks to remove another perceived barrier in terms of control over the connection works and their cost by the ICP. We also welcome the review by DECC of the Electricity Connection Charge Regulations (ECCR) which may also facilitate competition if the perceived risk of a customer choosing an ICP for their works is lowered should the ability to refund the customer under ECCR be applied to ICP works.

To facilitate competition in networks, WPD has offered emergency response service for IDNOs in the South West for a number of years. We have been requested by some IDNOs to offer this service in the other WPD regions and will be discussing our potential offer with them later this year.

Little Evidence of competition for certain types of connection

In our experience the individual value of schemes or the density and volume of schemes has been the key driver in the development of competition in a certain market segment or geographic region. Two key examples of this are in unmetered connections and large DG connections.

For unmetered connections the arrival of PFI schemes drove a huge increase in unmetered connection activity (particularly in the Midlands). This attracted numerous ICPs into the market segment who also drove the CiC agenda with DNOs for LV live jointing and improved processes. WPD's Live jointing process has facilitated almost all of this activity to now be carried out by ICPs in the Midlands (100% in West Midlands and 71% in East Midlands with the remaining 29% under rent-a-jointer type activity). This concentration of activity has also lead to the ICPs expanding into the other unmetered segments, in particular street lighting for Local Authorities.

With large DG projects we have seen a rapid growth in market volume and value closely followed by paralleled growth in the activity and number of ICPs competing for and successfully winning work in this market segment. This has been especially significant in the South West, where historically ICP activity was low but is now high in this particular market segment where the volume value and density of projects has risen sharply.

We believe there will always be segments with schemes which will be unattractive to most if not all ICPs. This could be due to the schemes in those segments being low value, high risk due to difficulties or in remote locations.

We would be happy to discuss any of these issues further and we look forward to seeing the views of other stakeholders in their responses to this call for information.

For any queries or further information please contact Richard Allcock on 01332 827503 or email rallcock@westernpower.co.uk

Yours sincerely



ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager