Competition in Connections
Call for Information Response
July 2014 – redacted

UK Power Networks
Delivering your electricity

Competition in Connections
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1 Introduction

1.1 Competition in Connections: Competition Test outcome

During 2012 and 2013 UK Power Networks submitted Competition Notices in line with Ofgem's final proposals for the regulatory period 2010-2015 and in accordance with the requirements detailed in Chapter 12 of Charge Restriction Code 12.

In the course of three successive submissions Ofgem determined that the Competition Notices UK Power Networks had submitted provided sufficient evidence of effective competition to allow price regulation to be removed for all three networks in four Relevant Market Segments (RMS):

- Metered demand connections – high voltage and extra high voltage (HVEHV)
- Metered demand connections – extra high voltage and above (EHV & above)
- Distributed Generation: High voltage and extra high voltage (DGHV)
- Unmetered PFI (UMC PFI)

Ofgem also determined that price regulation could be removed for EPN and SPN in one RMS:

- Unmetered Local Authority (UMC LA)

On 24 June 2014 Ofgem published a Call for Information in the form of an open letter, inviting connections stakeholders' views on the state of competition in the connections markets following the end of the Competition Test period.

This report constitutes UK Power Networks' response, in its capacity as a UK Distribution Network Operator (DNO), to that Call for Information.

As this document contains commercially sensitive information, we would request that Ofgem treat our response as confidential. We have provided a redacted version for publication.

1.2 Structure of this document

Following this Introduction, for ease of reference we have structured this document in line with the questionnaires Ofgem issued for customer and competitor responses to the Call for Information. The remainder of this document comprises three broad sections:

- Section 2 provides our observations on the review process.
- Section 3 provides a review of current levels of competition in UK Power Networks in each of the nine Relevant Market Segments.
- Section 4 provides our observations as to the extent to which connections customers are able to benefit from competition in the UK Power Networks areas.
- Sections 5 to 10 consider each of the issues Ofgem set out in Appendix 3 to the Call for Information document.

Unless stated otherwise, where the term 'Competitor' is used in this document it should be taken to include both Independent Connection Providers (ICPs) and Independent Distribution Network Operators (IDNOs). All references to ICPs or IDNOs in Appendix 2 have been anonymised as ICP1, ICP2 etc. We will be pleased to provide details of the relevant independents if Ofgem require them.

2 The review process

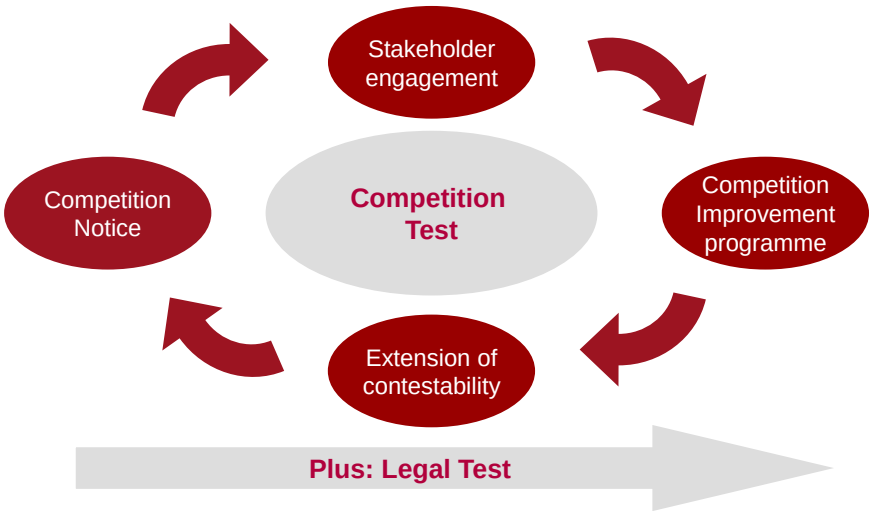
UK Power Networks has been proactive and robust in its support for the industry's efforts to ensure that all our connections customers have access to competition for their connections to our network. We were pleased to note that our performance in the Competition Test was second overall among the DNO companies in terms of the overall number of RMS passed in any DNO area, with 14 out of 27 passes equating to a 52 per cent pass rate. We are confident that our approach to stakeholder engagement as a defining characteristic has been a significant contributor to this achievement. We recognise that, for some customers, competition is not yet as effective as for others, and we welcome Ofgem's review to determine how this can be addressed. We nonetheless have some comments regarding aspects of the scope and nature of the review.

- We recognise that the review seeks to identify and apply best practice industry-wide and as such it is possible that UK Power Networks may be affected by the outcome of the review even in those markets where we have already met Ofgem's Competition Test criteria. Our response will summarise the evidence that formed part of our successful Competition Notice submissions to assist in identifying best practice. It will also explain our plans for further improvements that we have identified in the course of our stakeholder engagement activity.

- We have taken care to ensure from the outset that our competition development activity was shaped by a combination of Ofgem guidance and stakeholder feedback.

    - We believe that our success has been due to a fundamental approach of focussing on the feedback (and subsequent prioritised improvement actions) that we have received from customers/competitors specific to our local markets. Figure 1 gives a reminder of the pivotal role of stakeholder engagement in UK Power Networks' approach to the Competition Test.

Figure 1: Overview of UK Power Networks' approach to the Competition Test



    - We have continued to operate our stakeholder engagement model and develop ongoing improvement actions and opportunities based on stakeholders' feedback. Section 4.4 describes some of these ongoing improvement actions.

- We note that, in addition to itemising issues arising in the course of the Competition Test process, there is also an expectation that new issues will be surfaced during this review. We will of course work with independents to resolve any issues raised, although we would like to have had the opportunity to resolve any such issue sooner. We have identified in Section 10

some ongoing matters that respondents may mention and we will clearly look to address any further issues that are captured in this way.

- We believe that, where respondents raise concerns it is important to understand the wider context, e.g. the volume of SLC15 work successfully delivered in relation to that affected by the issue raised. Figure 2 gives a clear indication of the flourishing competitive markets in UK Power Networks in terms of the proportion of work being won by independents and the numbers of competitors actively operating in our areas. We welcomed Ofgem's clarification at the briefing held on 8 July 2014 that any examples should be DNO and RMS-specific, should be reflective of the respondent's general experience in that DNO/RMS, and should explain how the issue is detrimental to the end customer's ability to benefit from competition.

- We welcome any feedback Ofgem receive that highlights best practice operating in other sectors that we can learn from to improve our own processes. In particular we recognise that there is an expectation that DNOs should be able to create the same competitive conditions as in the gas industry, though we observe that there are some differences between the electricity and gas industries. For instance, in the gas sector the domestic load connection allowance means that small capacity customers do not pay for certain connection costs.

- We acknowledge the process that Ofgem have set out but we would suggest that in addition to that serious consideration should be given to the re-introduction of the Competition Test process as a means to maintain positive incentives for DNOs. We believe that with the passage of time the benefits to customers and competitors of some of the changes we have introduced should be reflected in a more convincing case.

We welcomed the opportunity to attend Ofgem's briefing on 8 July and have attempted to address the areas discussed in this response. We noted Ofgem's encouragement for DNOs to proceed with addressing the concerns raised without delay and to work together in the coming months. We have reviewed the issues raised with a view to making any adjustments required to our ongoing competition development plans to incorporate aspects not already addressed. We have also initiated a discussion with other DNOs as to how we might work together to exchange views and best practice and we will be participating in the meeting being co-ordinated by the MCCG on 1 September to facilitate wider discussions and identify any further opportunities for improvement.

3 Key data for the UK Power Networks markets

As the annual Competition Report that we submitted to Ofgem in June 2014 covered only those Relevant Market Segments where we have passed the Competition Test, we present in this section a summary of equivalent data across all of the nine RMS. Figure 2 shows key data for each RMS in each of our DNO areas in terms of overall volumes and levels of competition.

Figure 2: Summary of Key Data for each RMS for the 12 months to March 2014

Key data and criteria	LV	HV	HVEHV	EHV & above	DGLV	DGHV	UMC LA	UMC PFI	UMC Other
Eastern Power Networks (EPN)									
Market size - value (1)	£24m	£49m	£6m	N/A	<£1m	£167m	£4m	£4m	£1m
Number of projects/tasks	1,311	630	5	3	9	172	7,436	8,275	1,829
Competition - DNO market share	95%	62%	23%	0%	100%	17%	48%	30%	81%
Competition - number of active participants	19	21	15	10	0	10	13	13	13
London Power Networks (LPN)									
Market size - value (1)	£14m	£119m	£35m	£5m	<£1m	N/A	£6m	£4m	£1m
Number of projects/tasks	850	349	13	2	5	4	6,695	5,621	1,073
Competition - DNO market share	90%	58%	88%	100%	29%	0%	65%	40%	93%
Competition - number of active participants	18	23	10	7	6	10	13	13	13
South Eastern Power Networks (SPN)									
Market size - value (1)	£17m	£16m	£4m	£13m	<£1m	£44m	£4m	£15m	£1m
Number of projects/tasks	849	236	4	2	14	86	8,392	24,363	1,040
Competition - DNO market share	89%	63%	64%	11%	100%	35%	44%	36%	87%
Competition - number of active participants	20	23	12	4	2	7	13	13	13

Note 1: Where DNO market share is extremely low, total market value is approximated by reference to average project value in another DNO area. N/A denotes that all work is won by competitors and there is no sound basis on which to estimate the monetary value of the market.

Since the start of the Competition Test period we have seen significant movement in market shares. Figure 3 shows the difference between the current market shares included in Figure 2 and the equivalent data for calendar year 2011. With the exception of the SPN unmetered markets, where early adoption of the PFI model had already generated significant loss of market share in 2011, the overall trend is for a significant shift of work away from DNOs to independents.

Figure 3: Changes in market share since 2011

MARKET SHARE Change in percentage retained, 12m to March 2014 compared to 12m to December 2011									
Relevant Market Segment	**LV**	**HV**	**HVEHV**	**EHV & above**	**DGLV**	**DGHV**	**UMC LA**	**UMC PFI**	**UMC Other**
Eastern Power Networks (EPN)									
12m to December 2011	94%	75%	100%	-	100%	90%	78%	43%	97%
12m to March 2014	95%	62%	23%	0%	100%	17%	48%	30%	81%
Change	**1%**	**-13%**	**-77%**	**N/A**	**0%**	**-73%**	**-30%**	**-13%**	**-16%**
London Power Networks (LPN)									
12m to December 2011	91%	79%	84%	100%	47%	0%	85%	58%	98%
12m to March 2014	90%	58%	88%	100%	29%	0%	65%	40%	93%
Change	**-1%**	**-21%**	**4%**	**0%**	**-18%**	**0%**	**-20%**	**-18%**	**-5%**
South Eastern Power Networks (SPN)									
12m to December 2011	93%	81%	57%	-	95%	76%	77%	19%	99%
12m to March 2014	89%	63%	64%	11%	100%	35%	44%	36%	87%
Change	**-4%**	**-18%**	**7%**	**N/A**	**5%**	**-41%**	**-33%**	**17%**	**-12%**

Note 1: Where there has been no activity in an RMS for a DNO area, the DNO market share is shown as "-".

Figure 4 below shows the same data but at a metered/unmetered level.

Figure 4: Summary of change in DNO market share

Summary of change in DNO market share 12m to March 2014 compared to 12m to December 2011					
	12m to December 2011	12m to March 2014	% decrease		
Eastern Power Networks (EPN)					
Metered RMS	76%	26%	-50%		
Unmetered RMS	57%	44%	-13%		
London Power Networks (LPN)					
Metered RMS	78%	70%	-8%		
Unmetered RMS	85%	58%	-27%		
South Eastern Power Networks (SPN)					
Metered RMS	78%	40%	-38%		
Unmetered RMS	39%	39%	0%		

4 Effectiveness of competition in the UK Power Networks markets

4.1 Our approach to enabling competition

From the outset, our competition development activity has been based on industry-wide guidance and shaped by feedback from extensive and ongoing engagement with our stakeholders. We have listened to all feedback gathered from 14 stakeholder workshops and countless ad-hoc interactions and prioritised those that would benefit the most customers, often involving extensive changes to IT applications. Where technical constraints have meant we could not provide direct online information in the way we were asked to we have made every effort to provide information via our designers. The new systems that are being implemented as part of our Business Transformation Programme over the next six months will enable a further tranche of improvements.

Significant improvements that have improved customers' access to and experience of competition include:

- Establishing a team to focus exclusively on competition development;
- Developing innovative one-off agreements for unmetered customers and independent providers to enable a fully competitive market to operate in those markets;
- Establishing live jointing to LV underground mains and services and final connections to HV mains as business as usual contestable activities;
- Improving our online design standards provision to a level that has been widely recognised by our stakeholders as best-in-class;
- Almost doubling the resource dedicated to competition in connections activity to accommodate the significant increase in the volume of work carried out by competitors;
- Providing extensive quotation breakdown of both contestable and non-contestable charges for competitor and DNO schemes;

- Setting up a Competition Q&A service to respond to any customer or competitor queries not related to a specific scheme;
- Delivering regular competition awareness briefings to employees across UK Power Networks;
- Providing online access to network plans and LV operational diagrams;
- Giving customers online access to ICPs actually operating in our area
- Engaging with independents through regular newsletters and stakeholder events
- Simplifying consents processes for ICP and IDNO land rights;
- Providing a signal injection service to help ICPs with cable identification;
- Providing a 'linking and fusing' service to enable ICPs to carry out live jointing on the interconnected parts of our London network.

4.2 The effectiveness of those improvements

A primary indicator of the effectiveness of our competition provisions is the proportion of customers' work being delivered by independents. Figure 2 shows details of the market share in each RMS in each of our DNO areas.

Looking at a summarised view across all the metered RMS, some 61 per cent of the total capacity for which quotes were accepted during 2013/14 was to be delivered by independents (65 per cent excluding LV). Within this total, the aggregate independent market share was 40 per cent for the HV RMS, 96 per cent for the EHV & above RMS and 76 per cent for DGHV, but only averaged 8 per cent for the LV RMS.

We have consistently used capacity as the primary metric to determine market share. We do not know the price a customer pays to an independent, and we believe capacity is the closest proxy to price.

In terms of numbers of schemes, using the same approach 16 per cent of schemes were associated with independents; if we exclude the distorting effect of the high-volume/low value LV RMS this percentage rises to 32 per cent. The discrepancy between the capacity and job count measures is an indication of the extent to which independents are tending to target large demand and generation schemes.

In the unmetered markets the overall value of work carried out by independents over the same period was 55 per cent, with the highest level of independent activity occurring in the UMC PFI RMS, where 65 per cent of tasks were completed by independents.

For many IDNOs, the success of DNO groups' efforts to facilitate competition is measured in terms of two checklists that were included in a presentation delivered to DNOs at Ofgem's offices in July 2011 by the Competitive Networks Association (CNA). Appendix 3 presents our view of UK Power Networks' status against both sets of criteria.

4.3 Our view of the Competition Test outcome

Although in relative terms we were pleased to learn that UK Power Networks ranked second out of the six DNO groups in terms of RMS passed, there were some areas where we were disappointed that the outcome did not reflect what we felt were compelling arguments for passing the test. This was particularly the case with the HV RMS, where what we felt was a strong case for effective competition was not assessed due to the rejection of our request to split the RMS, which we had taken after some deliberation based upon Ofgem's previous observations as to an imbalance between the scale of schemes won by ourselves and our competitors. We believe the state of competition in this RMS, which remains at around 40 per cent, is at least as, if not more, effective as some other DNOs that have passed the test for this RMS and we would value the opportunity to represent our case. For

reference we have included an updated view of the part of our most recent Competition Notice relating to the HV RMS as Appendix 2 to this response.

Similarly we have made extensive efforts to create equivalent conditions for independents in London as exist in our Eastern and South Eastern areas, where we have passed the Competition Test and the fact that we have lost 38 per cent of work in the UMC LA RMS in London in the first quarter of 2014 supports this.

We recognise that decisions can only be made based upon the information available. We believe that the step-change in the ease of operating with an independent in recent years has led to customers being sufficiently satisfied with market conditions not to feel the need to respond to Ofgem's consultations.

Throughout the Competition Test process it was clear that the process suffered from the absence of any substantial volume of direct customer feedback. We believe this made it difficult to gauge customer satisfaction in the course of the Competition Test and we believe it is crucial that Ofgem is able to directly engage with customers in the course of this review to ensure a balanced view that includes feedback directly from the parties that competition is intended to benefit.

4.4 Ongoing and future improvements

In Sections 5 to 10 we refer to improvement actions we have planned or underway that seek to address the concerns referenced by Ofgem under each of those headings. This section highlights some of our current improvement activities.

4.4.1 Improvements arising from our Business Transformation Programme (BTP)

- Many of the improvements we have made in recent years have been constrained by the scope to modify existing IT systems. The new, consolidated systems and processes that are being delivered by the BTP enable us to deliver a further step-change in the service we provide to independents and other connections customers. Rollout of the following improvements is currently planned to commence in the last quarter of 2014. Independents and other customers will be able to:
  - Provide information only once, as we will store all such customer data centrally
  - Specify their preferred means of communication
  - Complete and submit enquiries and other forms electronically
  - Request a fully itemised quotation that is capable of acceptance either as a DNO scheme or as a non-contestable quotation, with simplified terms and conditions i.e. a "convertible quote"
  - Use a customer portal to view the current status of each of their projects, removing the need for routine email or telephone enquiries
  - Make payments online
  - View network diagrams that include visibility of other schemes at or near to the site relating to their enquiry
- In parallel with building this functionality we are planning our engagement with stakeholders to ensure they are able to gain the intended benefit from this raft of improvements.

4.4.2 G81 design standards

We continue to make improvements to independents' and customers' ability not only to access our design standards but also to be involved in developing those standards.

- In March 2014 we aligned our processes such that new and revised standards are updated on our G81 site in real time, i.e. by the same team and at the same time as they are provided to our own employees. This removed any risk of inconsistency or delay in updating the G81 website.
- In May 2014 we gauged attendees' interest at both a competition workshop and a customer technical forum in their becoming involved in the review of our design standards. Subsequently on 30 June we offered all those that were involved in each of those discussions (some 30 in total) the

opportunity to review a new design standard and provide comments before the standard is formally published, as a trial towards routinely inviting independents and customers to comment on new or changed standards. At the time of writing, two responses have been received. An independent welcomed the standard as drafted and a developer, although the scope of the standard was not relevant to its work, thanked us for the opportunity to be a part of the engagement.

- We are developing a new area within our G81 website where we will place new and revised standards for stakeholder review and comment. We plan to have this in place by the end of September 2014 pending our evaluation of the pilot.
- Currently there is no requirement to log in to access our G81 webpages. The disadvantage of this open access is that we have no means of tracking what each user views, which prevents us from being able to customise their experience. This is more complex to achieve but we have begun work on a means to provide secure online access for all relevant stakeholders via a simple log-in. This will enable us both to gauge which standards are accessed the most frequently and also to build a picture of the group of users for each standard; in this way we will know who to engage with when we are considering any changes to that standard and we will also be able to issue bespoke, targeted communications.

4.4.3 Extension of contestability

We continue to respond to requests to make further types of work contestable. Ongoing examples include:

- A working group to explore the feasibility of enabling independents to carry out metered LV disconnections; this presents some challenges due to the industry arrangements for data flows to the supplier but we are actively seeking a workaround to enable this to work
- In addition to the service we offer to carry out cable signal injection to assist independents in identifying a cable, we are now also looking into options for a pilot to enable the independent to carry out their own signal injection.

4.4.4 Other planned actions

- We have our fifteenth competition workshop planned for 15 September to review progress with current actions and understand current concerns
- We are considering technical and commercial alternatives to our current requirement for a link box as a means to isolate an IDNO network.
- We have begun discussions with an IDNO regarding the possible provision of emergency response services.

5 Issue A: DNO level of control

5.1 DNO control

Ofgem state that DNOs ‘insist on controlling some of the activities associated with network connections’. This is not a matter of choice; as a DNO we have an obligation under the Act to plan and develop an economical distribution system and this dictates that we apply certain standards. However we are always open to challenges to those standards and we recognise our obligation to consult with those independents required to work to them. We have recently implemented a pilot whereby a group of customers and independents have been invited to review a proposed revision to one of our engineering standards. We have undertaken to respond to each comment we receive to either agree to incorporate it in the standard or if not, explain our reasons. We have begun work on a means to provide secure online access for all relevant stakeholders to take part in reviewing future additions and revisions to our standards following our evaluation of this pilot. As a longer term approach we aim to track individual subscribers’ usage of each standard in order to establish targeted communication and consultation with relevant users. We also plan to take a fresh look at the requirements of SLC 15 to ensure that our interpretation of it is accurate and maximises the opportunities for ICPs and IDNOs.

5.2 Access to information required for the competitor to establish their own point of connection

In UK Power Networks the information available to ICPs via our online mapping system "eMAPs" provides sufficient information to enable them to identify a point of connection for certain types of work. For instance ICPs carrying out unmetered connections are able to identify their own point of connection with no requirement for approval. In addition, we have a pilot under way whereby ICPs are able to submit a proposed point of connection to an LV main as part of the design submission, which streamlines the end-to-end process. We developed this to reduce end-to-end times and discussed our plans with independents at two successive workshops, however this has attracted only limited take-up. This unfortunately reflects much of our experience with pilots and newly contestable activities, where take-up has often been limited both in terms of numbers of participants and levels of activity.

For larger or more complex schemes, there is a wider range of considerations in determining a point of connection. It is necessary to be aware of any future works that are planned for that part of the network, including other competing applications from third parties, information which commercial confidentiality dictates could not be shared with a competitor.

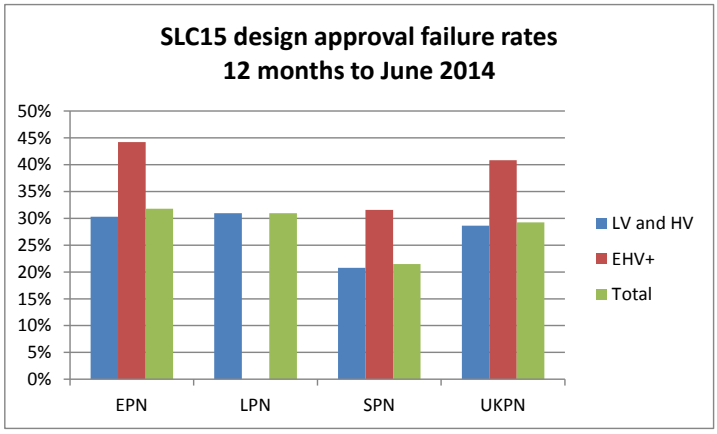
5.3 Design approval

Following on from the previous point, one improvement we have identified as worth exploring further would be to broaden the scope of the LV point of connection self-identification pilot so that a wider range of submissions include the point of connection and design in one step.

We recognise and support independents' desire to lessen the impact of design approval on their ability to progress schemes and meet client expectations. We will review our processes and seek in a future engagement workshop to gauge our competitors' views on how this might work, taking into consideration both positive and negative potential impact on the service delivered to end customers.

However any consideration of relaxation of design approval requirements must take account of current levels of performance. The quality of some submissions is so poor that repeated dialogue is necessary before the design is fit for approval. Figure 5 summarises the rejection rates reported in our SLC15 returns, which indicate an average 29 per cent rejection rate over the four quarters to June 2014, despite our efforts to grant design acceptance subject to minor revisions.

Figure 5: Summary of design rejection rates reported in SLC15 returns



We have also extended the scope of a report circulated to our competitors giving anonymised league tables, originally for audit performance but now also for design rejection performance. We believe this will help competitors recognise their shortcomings relative to other ICPs and IDNOs and learn where to focus their improvement efforts. We have recently implemented a rolling programme of one-to-one

meetings to review the independent's figures and discuss how they can improve. The analysis shown in Figure 6 for the first five months of 2014 shows that the top four independents in terms of volume of design submissions, representing 67 per cent of all submissions, exhibit a failure rate of 29 per cent with a range of between 20 and 34 per cent. It is clearly therefore not the case that high failure rates relate to inexperienced new entrants to the market.

Figure 6: Competitor design submission rejection rates for five months to May 2014

					Top 10		Top 4	
	Approve design	Reject design	Grand Total	% fail	% of total	% fail	% of total	% fail
ICP18	81	39	120	33%				
ICP37	79	40	119	34%				
ICP31	94	24	118	20%				
ICP36	33	14	47	30%			**67%**	**29%**
ICP33	17	8	25	32%				
ICP7	12	4	16	25%				
ICP4	9	6	15	40%				
ICP21	6	9	15	60%				
ICP10	6	3	9	33%				
ICP16	3	3	6	50%	**82%**	**31%**		
ICP6	4		4	0%				
ICP19	3		3	0%				
ICP30	2	1	3	33%				
ICP39	1	1	2	50%				
ICP28	1	1	2	50%				
ICP35	2		2	0%				
ICP43	2		2	0%				
Other	54	37	91	41%				
	409	**190**	**599**	**32%**				

One option that we will aim to discuss at our next stakeholder forum is an approach that differentiates between good and poor designers and enables those independents, or designers within an independent, with a good track record in quality of design to benefit from a less rigorous approval process.

5.4 Risk that ICPs will be given a less favourable PoC

Notwithstanding the possibility that network availability may vary during the timing difference between a s16 application to the DNO and an LC15 application, causing a different PoC to be offered, we recognise this risk and consequently the point of connection decision now forms part of our internal audit of connections schemes. We have not identified any evidence to suggest that our employees have proactively sought to disadvantage competitor schemes. We have undertaken extensive and repeated briefing to ensure all our employees understand the importance of compliance with competition law and we would treat any evidence to the contrary very seriously.

In the longer term this will be addressed by delivery of our Business Transformation Programme, which is being phased in over 2014 and the early part of 2015, when it will be possible to provide visibility of all current and planned schemes.

5.5 Risk that ICP designs may be rejected unnecessarily by DNOs

We listened to representations from our stakeholders during the Competition Test process and revised our design acceptance procedure to allow for acceptance to be granted subject to the correction of minor errors or omissions. We explained in section 5.3 how we give feedback to independents as to why their designs are rejected.

We hold our regular 'designer days' where we bring all our designers together to exchange best practice and aid consistency in this area.

5.6 Requirement for link boxes to be installed at the network boundary for an IDNO

In common with all the network operators, UK Power Networks follows the Energy Networks Association's G88 practice. This requirement continues to apply following the ENA review that took place during 2013. We recognise that some IDNO companies find the cost of this provision to be unacceptable. It has been our view that this is a necessary consequence of the IDNO model. Where there are two adjacent networks (DNO and IDNO) and a fault occurs on one of those networks, there should be a means of isolating one network from the other to ensure the minimum numbers of customers are affected.

However we plan to work with IDNOs to explore possible technical and commercial solutions and we will support any solution that reduces cost to the end customer while continuing to protect all customers' interests.

5.7 DNO accreditation schemes

The primary driver here is safety, in that UK Power Networks is required to discharge our duty of care for employees, contractor and public safety. We would also observe that some ICPs have responded positively to the benefit they obtain from their employees learning about our network and various jointing technologies. In the year to April 2013 10 per cent of ICP employees that underwent our assessment failed it, which reinforces the importance of this arrangement in preventing the ICP from putting staff and the public at risk. We have arrangements in place with some independents to provide their own assessments where we have approved their training facilities, however we would caution that many would not have the facilities to carry out such assessment and DNOs must therefore continue to provide this service.

5.8 Inspection and monitoring

The obligation identified in paragraph 5.1 and general duties at law such as that under the Health and Safety at Work etc. Act 1974 necessitate attainment of specified standards. The relationship between a term contractor engaged by a DNO for anything upwards of five years and perhaps as long as eight years and the relationship with an independent which will, on an ad hoc basis, enter into construction and adoption agreements, is different. The selection of the term contractor is the result of a statutory procurement process, while the independent is chosen by the end customer. The checks that are carried out reflect the relatively occasional nature of the independent's involvement with the DNO and the standard that they demonstrate in their work.

The inspection regime becomes more complex as the voltage increases. As shown in Figure 2, task volumes are significantly higher in the unmetered market segments and this is reflected in a lower inspection frequency being applied to this work.

We will always keep under review the rigour of the checks that we carry out on independents and our own staff and contractors and in the meantime we look forward to the establishment of a national standard resulting from the work of the Inspection and Monitoring Working Group (IMWG).

6 Issue B – Complexity for customers

6.1 Transparency in quotes

We have progressively increased the amount of detail provided in our quotations, starting with non-contestable charges to ICPs and then extending this to include contestable charges and DNO 's16' customers. The quantitative breakdown is now as detailed as our current systems allow. However we have also been making efforts to improve the narrative description of the works, and in March 2014 we issued a policy reminder to all our designers with guidance as to the type of information they should expect to include. Furthermore our project audits identify and highlight any schemes with unreasonably large sums treated as "miscellaneous" leading to appropriate follow up actions with the staff concerned and their managers including staff training and the issue of briefing notes as applicable. All of the above will be superseded by the new systems that will come into play with the delivery of our Business Transformation Programme, as quotations produced by this new system will be made up of detailed component elements that will be itemised in the quotation.

6.2 Difficulty in accepting just the non-contestable part of a DNO's quote

As we have reported in successive Competition Notices, we have had a pilot for a 'convertible quote' under way since November 2012, with a progressive roll-out approach, starting with distributed generation customers across all three DNO areas, then incorporating all HV customers, and finally all other types of quoted work once new IT applications have been implemented, which is currently planned for Q4 2014.

7 Issue C – Customer appetite for competition

7.1 Awareness

We feel we have taken all reasonable steps to bring competition to the attention of customers. Every quotation that we issue is sent with a fact-sheet explaining the types of independent provider and what work they can do. The vast majority of our metered customers now apply online, and we have made competition a prominent feature of the relevant web pages (see Appendix 1 for sample pages). We also routinely discuss competition with any new customers for unmetered connections.

7.2 Customers' willingness to use independents

In the early stages of our competition development programme we found that, while independents would proactively seek out some groups of customers, other customers found it more difficult to identify an independent that was willing to take on their connection project. Customers found the NERS listing unwieldy and difficult to filter. We therefore set up an online listing where we invited independents to publish a link to their websites, thus giving customers direct access to suitable companies.

It is also the case in some markets (notably the local authorities) that customers are particularly satisfied with the service they receive from UK Power Networks and therefore there has been some inertia in developing competition as the customer has no desire to change.

We suggest that, to be truly reflective of the market place, it is critical for Ofgem's review to capture extensive and representative customer feedback

8 Issue D - Impact of regulatory regimes and requirements

8.1 Scope for changes in legislation

We welcome Ofgem's comments at their 8 July briefing that there may be an openness to revisit some of the legislation governing competition in connections to facilitate further improvements in the service we and the independents are able to provide to customers. UK Power Networks is currently working with DECC, Ofgem and a major independent on proposals to extend the scope of the ECCR rules to include assets installed by ICPs; a meeting was held on 18 July 2014 to seek to address asset valuation methodology and confidentiality of ICP charges. UK Power Networks has already proposed a solution to some of the issues that have been identified, and this was presented at the meeting on 18 July. We will be pleased to participate in any further similar developments.

8.2 Statutory powers

We are aware that as statutory undertaker we benefit from deemed planning permission for street works while ICPs are required to obtain a section 50 licence to become a 'works undertaker'. We have considered using a straightforward ICP scheme to demonstrate to an LA the merit of extending the DNOs' rights to independents. However our efforts to date suggest that ICPs are reluctant to draw this matter to the attention of the LAs and risk additional delays and costs to their projects. We recognise that this matter continues to disadvantage independents and we will support any move to address this.

8.3 Requirement for IDNO emergency response service

Some five years ago a major IDNO company approached UK Power Networks to explore a range of services from call handling and providing their required 24 hour power cut line, to field resources to undertake repairs on their networks. We held several meetings but no agreement was concluded to provide these services and we understand that the IDNO company now sources its repair resource from a contractor (that is also an ICP). However in July 2014 the same IDNO approached us to re-open discussions and these are ongoing. In the meantime we have a nominated point of contact within UK Power Networks for this IDNO company and in the past month we have provided emergency assistance to locate a link box. This was provided free of charge as a gesture of goodwill.

We note that the gas industry has a centralised solution to this issue and we will take part in any discussions as to the applicability of this or a similar approach in the electricity industry.

8.4 Part-funded connections

Ofgem state that, when conducting a connection project, a DNO may decide to carry out additional wider work on its network. Whilst rare, in such cases the connecting customer will not be penalised and may benefit from operation of the 'enhanced scheme' provisions of the connection charging methodology (paragraphs 5.4 – 5.6). We note that where a connection requires network reinforcement which is to be cost apportioned then the work is 'non-contestable' and an ICP may not carry out the works. We support moves to remedy this and in 2012/13 we demonstrated this willingness by facilitating a ground-breaking pilot of a possible approach to resolving this issue. The ICP carried out the work, which was in our SPN area, and involved the installation of 2.5km of 11kV underground cable as cost apportioned reinforcement. We provided a report detailing our learnings from this pilot to

Ofgem to assist in their ongoing development of this thinking, which we understand may be in the form of a consultation.

8.5 Pricing

We can confirm that our processes and systems ensure cost reflectivity and appropriate overhead allocation in line with our Common Connection Charge Methodology and Statement (CCCMS) which is approved by Ofgem and published on our website. Overhead recovery is applied consistently regardless of the customer's choice in applying competitive options.

8.6 SLC15 timescales

We are aware that there may be some concern that the sequential nature of the SLC15 regime may lengthen the end-to-end process. As referred to in section 5.2 above, we have attempted to address this to some extent by developing a pilot whereby, for many LV schemes, the ICP is able to submit a proposed point of connection at the same time as a design. We have been surprised at the lack of interest in this offering, which we had hoped might help open up the LV market. We continue to look for opportunities to streamline the end-to-end process and will support any move towards regulatory change to facilitate this.

9 Issue E – Little evidence of competition for certain types of connection

9.1 Feedback from our competitors

In May 2014 we held the fourteenth of our regular stakeholder competition workshops. 21 competitors attended, representing 19 different ICP and IDNO companies. The agenda included an open discussion about the outcome of the Competition Test and the reasons why DNOs had been less successful in some RMS than others. Responses included the following opinions:

- If measured on a consistent basis, no DNO would have passed the Competition Test for the LV RMS, although there were aspects of LV work that could be viable with simplified processes.
    - There was a suggestion that there may be differing treatments of IDNO LV customers between DNOs and we will be interested in any clarification arising from Ofgem's review. We continue to explore opportunities to streamline our processes and extend the scope of work available to competition, however for the reasons Ofgem outline and those described in section 9.2 we feel it is unlikely that the greater part of the LV RMS will see a significant increase in competitive activity.
- The DGLV RMS was not viable as a separate market segment
    - We tend to support this view as volumes are extremely low and, as with LV demand work, it is not intrinsically attractive to independents.
- There was some uncertainty as to the viability of the UMC Other RMS, though some felt it could be possible if DNOs were able to significantly streamline their approach.
    - There is a diverse mix of work in this RMS and, while some customers such as telecommunications providers and developers have begun to exercise their competitive options, many smaller customers share similar characteristics to LV customers and as such are less likely to be commercially attractive to independents.

9.2 Competitors' behaviour/strategy

Although it does not feature in Ofgem's list of possible reasons for the lack of competition for some types of connection, we feel it is possible that the underlying reason is that competitors are not obliged to service these customers and are free to pursue more profitable activities, whereas the DNOs have a licence obligation to provide a connection to every customer that requires it. We suggest that Ofgem should consider whether the fundamental economics of the LV RMS would ever become attractive to the independents.

10 Other issues that respondents may raise

Ofgem have encouraged respondents to comment on any other issues they feel have not been picked up in the list of concerns identified by Ofgem. Given our focus on stakeholder feedback as a source of guidance about blockers to competition, we believe we have already dealt with, or are in the process of dealing with, any issues that we are aware of that are impeding independents from providing customers with an equivalent service to our own. It is possible that independents' responses may refer to some ongoing matters that we are attempting to address but are not yet fully resolved, as set out in the following paragraphs.

10.1 Full operational access

To date we have worked within the guidelines contained in the report on the findings of the ECSG Connections Working Group (CWG) published by the Energy Networks Association on 23 June 2010 entitled 'Proposed Extension of Contestability for Competition in Connections'. The CWG comprised representatives from Ofgem, DNOs and Independent Connection Providers. The report deemed the risks and authorisation levels for operational access to Grid and Primary substations to be too complicated to justify at that stage, although it stated that operational activity in existing DNO Distribution substations (11kV/400V) might be within scope pending further work, appropriate additional authorisation and agreement of the DNO.

In their 'Decision on extending contestability to jointing to existing DNO mains and associated operational activities', dated 8 May 2012, Ofgem stated they did not consider that there was sufficient evidence to enable them to establish:

- that procedures and processes have been developed to facilitate contestable operational activity
- the willingness and ability of competitors to compete with DNOs to conduct operational activity.

Ofgem were therefore not able to make an "in principle" decision on whether extending contestability to operational activity associated with jointing to existing DNO mains would be in the best interests of customers. Ofgem encouraged DNOs to continue to work with their competitors to trial contestable operational activity. UK Power Networks initiated a pilot in 2012 whereby ICPs are able to carry out some of the operational work associated with making an HV final connection in most circumstances where substation access is not required. We offer two variants of HV final connections, one based on an ENA recommendation now having contestable status and the other, which involves the ICP carrying out some operational activity, ongoing as a pilot.

10.2 Visibility of live running conditions in London

When live LV jointing to underground radial mains became a contestable activity within UK Power Networks in 2012, this specifically excluded works on the interconnected parts of the London network. However in January 2014, in response to competitor requests, we implemented a 'linking and fusing' service that allows ICPs to carry out live LV jointing in these areas and therefore enabled us to transfer this work to contestable status.

Before making a connection, this new process requires the ICP to determine the running conditions of the network at a number of iterations running up to the connection date, to identify whether the network is interconnected and therefore requires us to provide the 'linking and fusing' service. During the 'bedding-in' period for this process it has recently come to light that on some occasions an ICP has

become aware of the interconnected state of the network only on the day they attend to make the connection. We have undertaken some investigations and found that in a limited number of instances there may have been a failure of effective communication. We have held a meeting with the ICP to explain what we have done to avoid recurrence. We recognise that the ideal solution would be for relevant ICPs to have visibility of the live network running conditions; this is not easily resolved in the short term, but we are exploring options to see how we can best address this to enable an ICP to operate more effectively.

10.3 Role of the DNO in ICP/customer interactions

On a number of occasions recently we have been contacted by major customers that have appointed an ICP to carry out their contestable works, who we find do not understand fully how competition in connections works and expect UK Power Networks to act in an advisory capacity while they perceive the ICP more in the role of contractor. When we raised this at a recent competition workshop an ICP recognised this scenario and asked that UK Power Networks refer any such customer requests to the ICP.

11. Glossary of Terms

Relevant Market Segments:

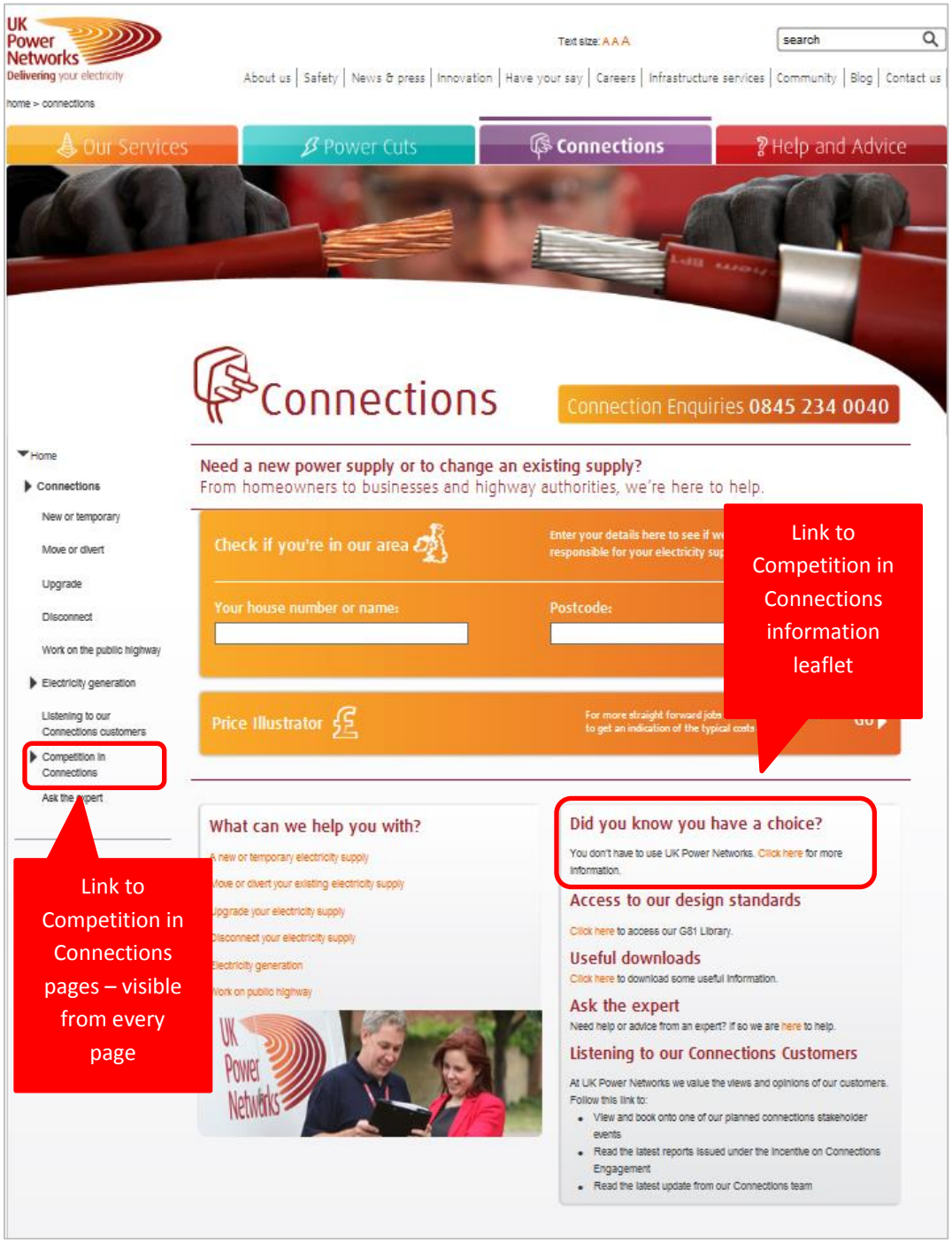
Term	Meaning
DGLV	In respect of Metered premises in which Distributed Generation is situated: The RMS comprising low voltage Connection Activities involving only low voltage work as defined in CRC12
DGHV	In respect of Metered premises in which Distributed Generation is situated: The RMS comprising any Connection Activities involving work at high voltage or above as defined in CRC12
EHV & above	The RMS comprising extra high voltage and 132kV Connection Activities as defined in CRC12
HV	The RMS comprising low voltage or high voltage Connection Activities involving high voltage work (including where that work is required in respect of Connection Activities within an Excluded Market Segment) as defined in CRC12
HVEHV	The RMS comprising low voltage or high voltage Connection Activities involving extra high voltage work as defined in CRC12
LV	The RMS comprising low voltage Connection Activities involving only low voltage work, other than in respect of Excluded Market Segments as defined in CRC12
UMC LA	In respect of unmetered premises: the RMS comprising New Connection Activities in respect of local authority premises as defined in CRC12
UMC Other	In respect of unmetered premises: the RMS comprising all other non-local authority and non-PFI unmetered connections work as defined in CRC12
UMC PFI	In respect of unmetered premises: the RMS comprising New Connection Activities under private finance initiatives as defined in CRC12

Other Terms:

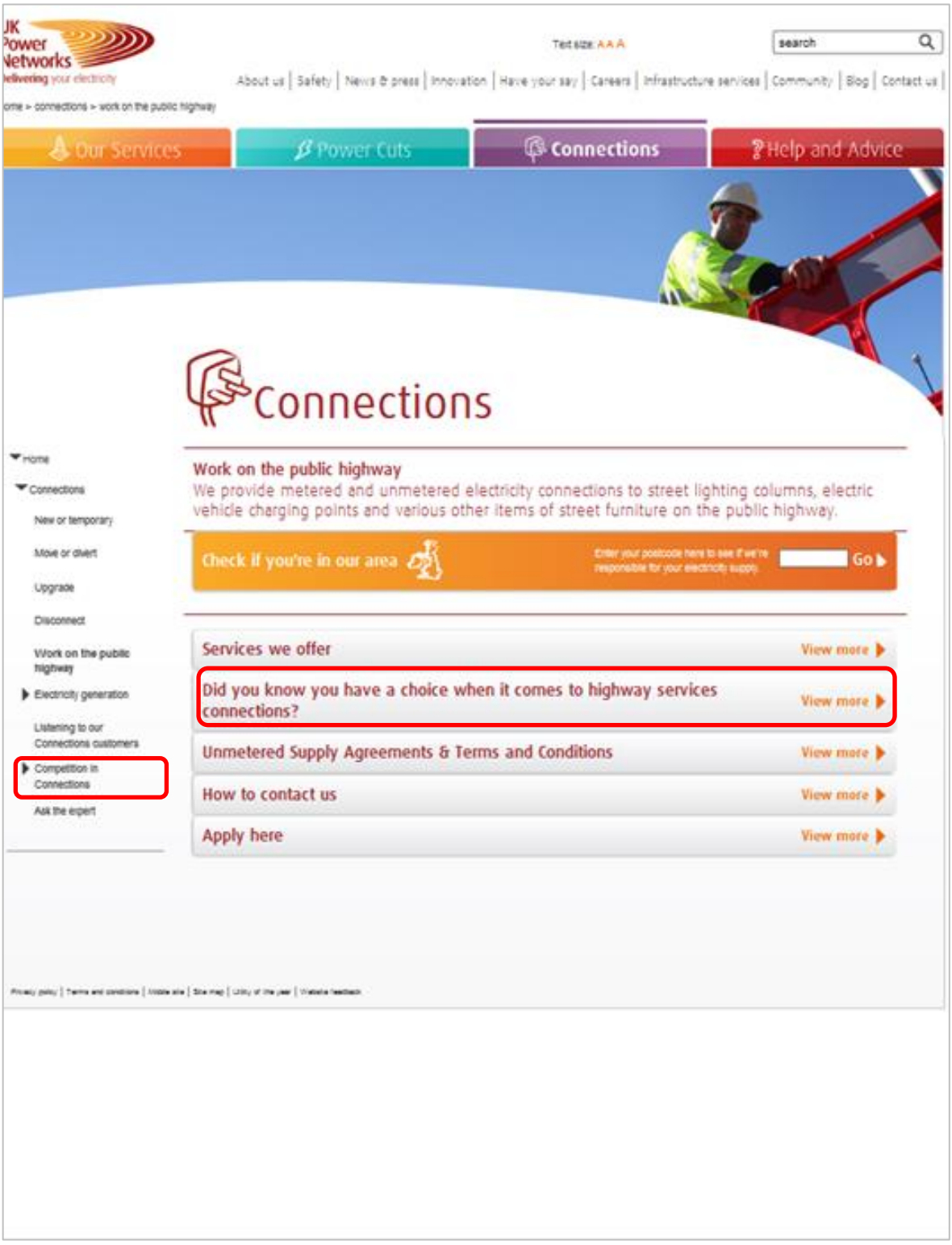
Term	Meaning
BTP	Business Transformation Programme
Competitor	An ICP or an IDNO accredited to operate in the UK Power Networks area

Term	Meaning
CRC12	Charge Restriction Condition 12
DG	Distributed Generation
DNO	Distribution Network Operator
ECSG	Electricity Connections Steering Group
EPN	Eastern Power Networks plc.
ICP	An Independent Connections Provider. An ICP is entitled, through being accredited under the Lloyds Register National Electricity Registration System (NERS), to build electricity networks to the specification and quality required for them to be owned by either a DNO or an IDNO.
IDNO	An Independent Distribution Network Operator. An IDNO has a wider scope than an ICP in that, after building the local network, it will continue to own it and provide maintenance and 24-hour fault repairs.
ICP nn	A specific ICP or IDNO anonymised for the purposes of this Notice
Independent	An ICP or an IDNO accredited to operate in the UK Power Networks area
kVA	KiloVolt Ampere
LA	Local Authority
LPN	London Power Networks plc.
SLC15 [service]	A non-contestable-only quote, design acceptance and delivery service
MVA	MegaVolt Amperes
NERS	The National Electricity Registration Scheme operated by Lloyds Register EMEA
PFI	Private Finance Initiative
RMS	Relevant Market Segment as defined in Charge Restriction Code 12
Section 16 [service etc.]	A full (contestable and non-contestable) design, quote and construction service
SME	Small and Medium size Enterprises
SPN	South Eastern Power Networks plc.
UKPN	UK Power Networks

Appendix 1a: Website - Connections header page



Appendix 1b: Website – Work on the Public Highway page



Appendix 2: Competition Case for HV RMS

Appendix 2a: Information common to all three DNO areas

Description of products and services
This segment covers the provision of all high voltage connections that have no element of associated extra high voltage work, and all low voltage connections with associated high voltage work.

The largest voltage connection in this category is 11kV. There are products offered by the DNO, by competitors, by consultants and by bundled services providers.

Critical success factors and relative market attractiveness
In general, this segment is characterised by mid-range volumes and a wide variability in value per connection. With a higher value per project than low voltage work and a lower level of complexity relative to EHV work, this segment is the largest and potentially the most attractive to competitors. To be successful in this segment requires access to sufficient volumes of work to adequately absorb any fixed costs and effectively manage unit costs, and/or access to local sub-contractors. The larger the number of connections and load the greater the attractiveness to competitors.

Customer profile

Relationship/one-off transactional
Within this segment customers will either be relationship-type customers such as house developers, or one-off, transactional SME enterprises. There is a growing number of companies that provide bundled services for a wide range of developments.

Customer needs/buying criteria – price, service, certainty etc.
For customers in this segment service is the primary driver, both in terms of certainty of delivery and quality of service, as the electricity connection cost tends to be a relatively low proportion of the overall cost of a development but is likely to act as a critical enabler to the overall success of that development. There have been some instances where a developer has chosen to pay a higher price than that quoted by a competitor because they had greater faith in UK Power Networks' ability to deliver on schedule. Customers in this segment are likely to have more purchasing power than in the LV segment.

Customer surveys – views of choice, competition etc.
In a survey of one-off customers carried out in March 2012, 57 per cent of those who responded were aware of our leaflet "Did you know you have a choice?" and all except one claimed some understanding of the competitive alternatives available to them. However one customer also commented that it would help if we could provide a list of suitable competitors. Although we provide the link to the NERS listing on our website, we found particularly with the smaller customer that they can have difficulty in locating a competitor willing to undertake a small project. As a result we invited competitors to be represented in a list that we publish on our website, which provides web links to competitor sites to enable customers to more easily locate and contact an alternative connection provider.

Competitor analysis

Recent trends, developments
Typically active competitors in this market segment are technically proficient and look for opportunities to undertake complex HV/LV and HV/HV substation installations which may also require significant quantities of cable laying. Large domestic housing estates requiring a substation(s) and associated low voltage distribution mains and services are favoured as are single points of supply to large commercial clients. These larger projects will often result in multiple applications from competitors as clients look for the best offer available in the market place.

Currently there are 26 competitors who have made point of connection applications in this

segment in the past three years of which seven have also expressed an interest in self-connect opportunities at HV. This would allow a competitor to give a more complete service to its client, minimising the reliance on UK Power Networks to undertake the associated operational works.

During 2012 we noted that IDNO connected load formed an increasing proportion of competitor market share. However during 2013/14 we saw a renaissance in ICP activity, with the volume of ICP work in the 12 months to March 2014 (measured by electrical load) more than doubling while IDNO activity increased by less than 50 per cent. Overall for the HV segment, IDNOs represent 59 per cent of the work won by competitors for the 12 months to March 2014, compared to 68 per cent in the previous 12 months.

Feedback
The CiC team actively engage with the larger competitors and have regular meetings to develop the working relationship between competitors' and UK Power Networks' staff, review how we are progressing their projects, discuss any difficulties that they may be encountering interfacing with UK Power Networks in the design or delivery functions and consider any opportunities for making improvements. These meetings are usually quarterly and are in addition to the wider competition stakeholder workshops.

In response to a survey in February 2013, 89 per cent of competitors active in the metered RMS agreed to a moderate or great extent that UK Power Networks has enabled them to compete effectively in its areas.

At our May 2013 competitor workshop 85 per cent of those attending, including four representatives of competitors operating in the HV markets, agreed that UK Power Networks should pass the Competition Test.

Extension of contestability
We support the principles of extending contestability wherever it is safe and practicable to do so. HV final connection concerns the jointing of new high voltage cables to the existing UK Power Networks high voltage network. There is a requirement for suitable arrangements to be put in place in order for a section of network to be temporarily isolated and released to the ICP to facilitate access for the jointing work to be completed. We provide ICPs with a choice of alternative options for the procedures and associated interfaces with UK Power Networks in the end-to-end HV connection process:

- Pilots involving limited 'operational activity' by the ICP in addition to the 'connection activity' have been available to ICPs since September 2012. Five joints have been completed within these arrangements by one ICP in EPN and six more have expressed interest in HV final connections.

- Jointing to existing DNO HV mains whereby UK Power Networks provide all of the associated operational activity was formally transferred to contestable status on 31 July 2013. Three connections (involving six straight joints) have been completed with one ICP (two in LPN and one in EPN) while two more are currently seeking NERS accreditation for this activity.

Appendix 2b: Information specific to EPN

Dimensions

Figure 7 provides a summary of the range and typical nature of projects in this segment.

Figure 7: Project dimensions: HV EPN

Scope	LV with associated HV ("LVHV")	HV only ("HVHV")
Number of connections – Domestic – Commercial	1–100, typically 1 1–15, typically 1	1–250 1-30, typically 1
Load	1 kVA–2 MVA Typical 200 kVA	80 kVA–20 MVA Typical 500 kVA
Value	£10k–£600k Typical £50k	£2k–£1m Typical £100k

Market dimensions

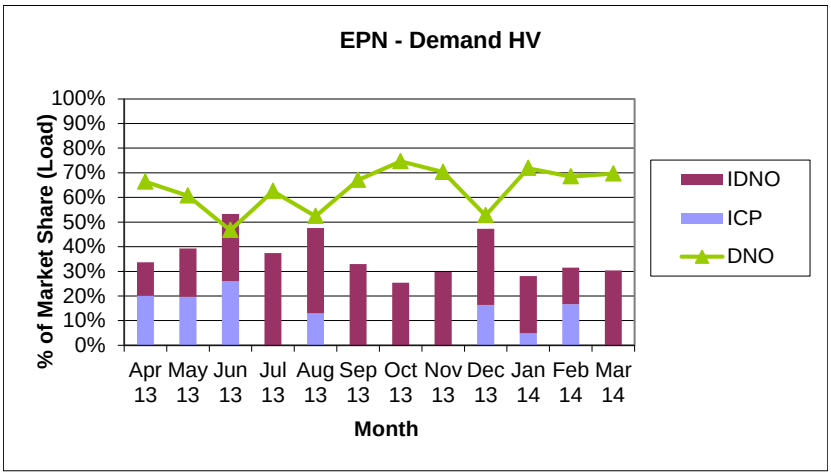
Estimated annual market and market share

Currently the overall size of the market equates to approximately £49m per annum in EPN, covering circa 630 projects, of which 18 per cent are wholly high voltage. The proportion of the market that was provided by competitors in the 12 months to March 2014 was 38 per cent. This represents a slight improvement compared to the 12 months to March 2013 when the competitor market share was 37 per cent.

Recent trends

During the 12 months to March 2014 the market share retained by UK Power Networks averaged 62 per cent and varied between 46 per cent and 74 per cent based on connected load.

Figure 8: Market share HV EPN



Competitor analysis

Competitor numbers

There are 21 competitors that have actively participated (enquiries) in this market segment in EPN in the last three years (from April 2011). Of those, 16 were active (enquiries) in the last 12 months and at least 11 were successful in winning work (quote accepted). An analysis of those competitors is provided in Figure 9 below. Please note that 'Other' refers to those cases where the non-contestable quote has been accepted but the identity of the competitor is still to be confirmed by the customer.

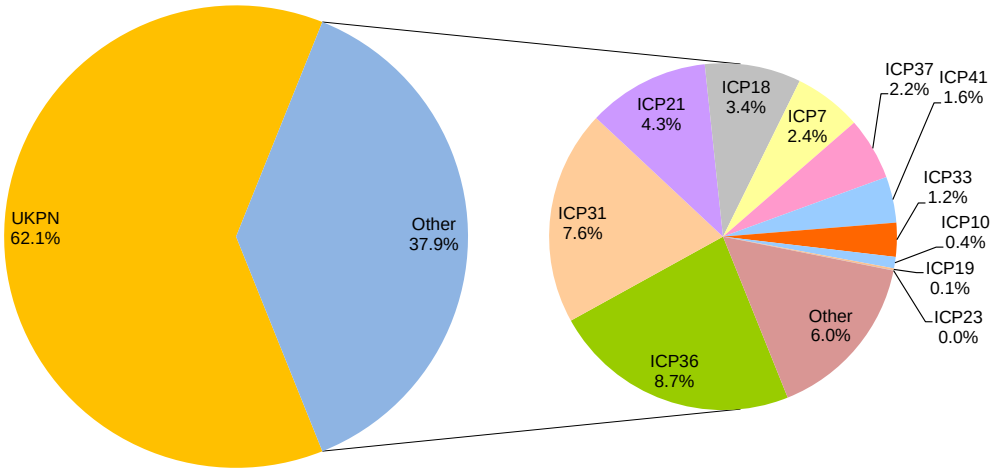
Figure 9: Competitor analysis: HV EPN

Key Metrics (12m to Mar14)	Load (kVA)	No. of jobs won	Date of first enquiry
UKPN	153,126	525	
ICP36	21,482	16	2012
ICP31	18,693	20	2006
ICP21	10,574	6	2009
ICP18	8,345	26	2006
ICP7	5,900	4	2007
ICP37	5,441	12	2009
ICP41	4,000	1	2008
ICP33	2,950	4	2004
ICP10	994	3	2003
ICP19	178	1	2009
ICP23	14	1	2010
Other	14,733	11	
Total	**246,430**	**630**	

Percentage and value of market share

Figure 10 shows the competitor intensity in the EPN HV market based on work won in the 12 months to March 2104, based on electrical load.

Figure 10: Market share by participant: HV EPN



Recent trends, developments

In the EPN area one new entrant which became active in 2012 is now the leading competitor, winning 23 per cent of all the work won by competitors in the year to March 2014.

During 2012 we noted that IDNO connected load formed an increasing proportion of competitor market share. Although IDNO remains the dominant model in EPN, the trend has begun to reverse during 2013/14, with 70 per cent of competitor work won by IDNOs in the 12 months to March 2014 compared to 75 per cent in the previous 12 months.

Extension of contestability
Currently there is one competitor carrying out HV jointing (ICP31), with six joints completed in EPN, and discussions are also being held with six further interested competitors.

Conclusion
The analysis above and elsewhere in this document confirms that there is "effective competition" in this Alternative RMS because:

- UK Power Networks' market share for the last 12 months was 62 per cent and has fallen in some months to 46 per cent
- HV final connections activity was transferred to contestable status in July 2013
- Competitors' progressive take-up of HV Mains final connection work will lead to further erosion of market share
- This segment has benefitted from the broad programme of competition improvements which have been implemented over the past three years (see section 4.1 above)
- Customers' awareness of competitive alternatives is satisfactory for one-off customers and high for repeat customers; their purchasing power and capabilities will be strong
- 85 per cent of competitors attending a workshop in May 2013, including four operating in the HV markets, agreed that UK Power Networks should pass the Competition Test
- There are numerous active competitors in this segment that could be selected by customers to undertake their contestable work

Appendix 2c: Information specific to LPN

Dimensions

Figure 11 provides a summary of the range and typical nature of projects in this segment.

Figure 11: Project dimensions: HV LPN

Scope	LV with associated HV ("LVHV")	HV only ("HVHV")
Number of connections – Domestic – Commercial	1–400 1-35, typically 1	1–250 1-20, typically 1
Load	50 kVA–4 MVA Typical 500 kVA	200 kVA–35 MVA Typical 900 kVA
Value	£4k–£2.5m Typical £100k	£10k–£2m Typical £8k

Market dimensions

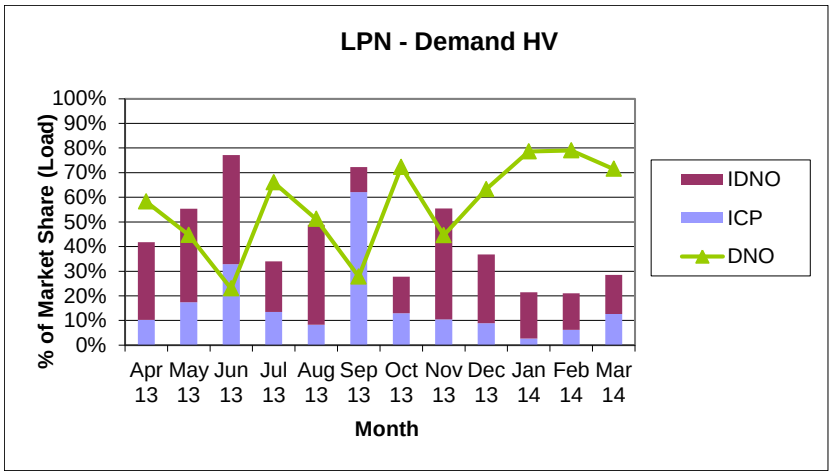
Estimated annual market and market share

Currently the overall size of the market equates to approximately £119m per annum in LPN, covering circa 349 projects, of which some 28 per cent are wholly high voltage. The proportion of the market which is provided by competitors is approximately 42 per cent. This represents a significant improvement over the 12 months to March 2013 when the equivalent share was 32 per cent.

Recent trends

During the 12 months to March 2014, the market share retained has varied between 23 per cent and 79 per cent based on connected load, while the overall size of the market has increased by some 60 per cent.

Figure 12: Market share HV LPN



Competitor analysis

Competitor numbers

There are 23 competitors that have actively participated (enquiries) in this market segment in LPN in the last three years (from November 2010). Of those, 17 were active (enquiries) in the last 12 months and at least 12 were successful in winning work (quote accepted). An analysis of those competitors is provided in Figure 13 below. Please note that 'Other' refers to those cases where the non-contestable quote has been accepted but the identity of the competitor is still to be confirmed by the customer.

Figure 13: Competitor analysis: HV LPN

Key Metrics (12m to Mar14)	Load (kVA)	No. of jobs won	Date of first enquiry
UKPN	246,380	216	
ICP31	45,727	46	2006
ICP37	34,207	32	2009
ICP33	21,742	12	2004
ICP7	7,203	8	2007
ICP4	7,028	8	2011
ICP43	2,150	1	2009
ICP42	2,000	1	2010
ICP16	1,890	2	2012
ICP36	1,762	5	2012
ICP18	1,576	4	2006
ICP6	868	1	2010
ICP28	250	1	2010
Other	48,970	12	
Total	**421,753**	**349**	

Percentage and value of market share

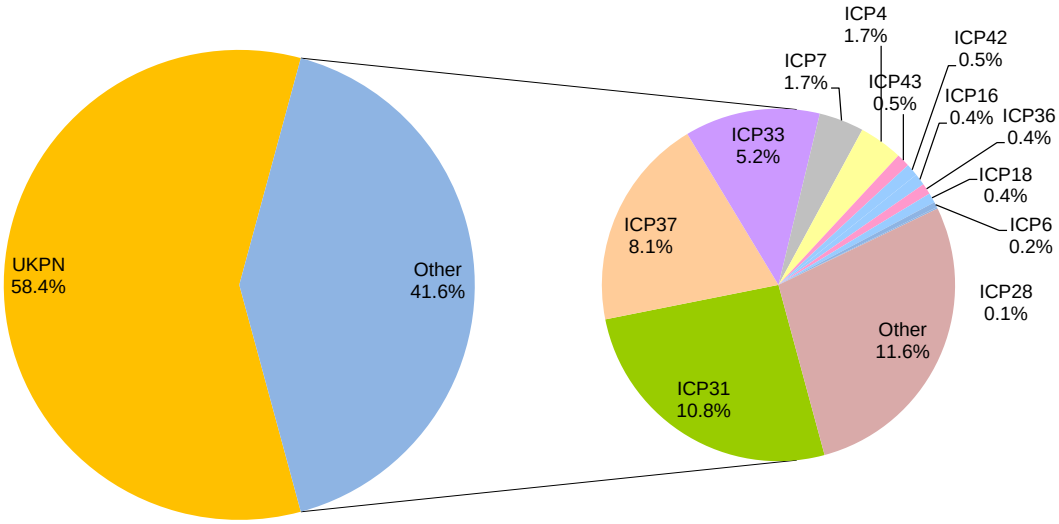
Figure 14 shows the competitor intensity in the LPN HV market based on work won in the last 12 months, based on electrical load.

Recent trends, developments

The LPN area has seen a number of new entrants to this RMS in LPN which has contributed to the reduction in retained market share. There have been two new entrants that have become active and won work in this segment in LPN since the beginning of 2012. Overall, two competitors won over 45 per cent of all work lost to competition in this segment in the year to March 2014.

During 2012 we noted that IDNO connected load formed an increasing proportion of competitor market share. In LPN the trend has continued during 2013/14, with the volume of IDNO work (measured by electrical load) almost two and a half times greater while ICP work increased by 80 per cent. In all 57 per cent of competitor work was won by IDNOs in the 12 months to March 2014 compared to 51 per cent in the previous 12 months.

Figure 14: Market share by participant: HV LPN



Extension of contestability

Jointing to existing DNO HV mains whereby UK Power Networks provide all of the associated operational activity was formally transferred to contestable status on 31 July 2013. Two joints have been completed with one ICP in LPN while two more are currently seeking NERS accreditation and expecting to commence during 2014.

Conclusion

The analysis above and elsewhere in this document confirms that there is “effective competition” in this market segment because:

- UK Power Networks’ market share for the 12 months to March 2014 was 58 per cent and has fallen in some months to 23 per cent
- HV final connections activity was transferred to contestable status in July 2013
- Competitors’ progressive take-up of HV Mains final connection work will lead to further erosion of market share
- This segment has benefitted from the broad programme of competition improvements which have been implemented over the past three years (see section 4.1 above)
- Customers’ awareness of competitive alternatives is satisfactory for one-off customers and high for repeat customers; their purchasing power and capabilities will be strong
- There are numerous active competitors in this segment that could be selected by customers to undertake their contestable work

Appendix 2d: HV information specific to SPN

Dimensions

Figure 15 provides a summary of the range and typical nature of projects in this segment.

Figure 15: Project dimensions: HV SPN

Scope	LV with associated HV ("LVHV")	HV only ("HVHV)
Number of connections – Domestic – Commercial	1–200 1-25, typically 1	1–250 1-30, typically 1
Load	1 kVA–3 MVA Typical 200 kVA	80 kVA–20 MVA Typical 500 kVA
Value	£2k–£1.5m Typical £20k	£2k–£1m Typical £100k

Market dimensions

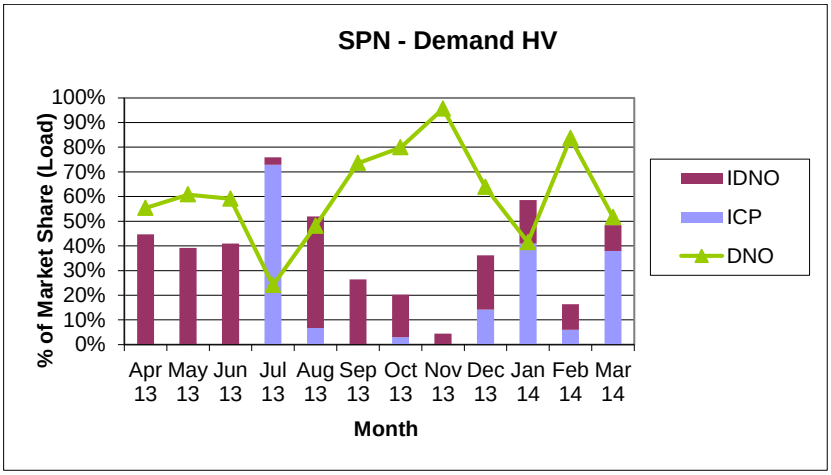
Estimated annual market and market share

Currently the overall size of the market equates to approximately £16m per annum in SPN, covering 236 projects, of which some 27 per cent are wholly high voltage. The proportion of the market provided by competitors is approximately 37 per cent. This represents an improvement over the 12 months to March 2013 when the equivalent share was 35 per cent.

Recent growth trends

Over the 12 months to March 2014 the market share retained has varied between 24 per cent and 96 per cent per cent based on connected load.

Figure 16: Market share: HV SPN



Competitor analysis

Competitor numbers

There are 23 competitors that have actively participated (enquiries) in this market segment in SPN in the last three years (from November 2010). Of those, 13 were active (enquiries) in the last 12 months and at least 10 were successful in winning work (quote accepted). An analysis of those competitors is provided in Figure 17 below. Please note that 'Other' refers to those cases where the non-contestable quote has been accepted but the identity of the competitor is still to be confirmed by the customer.

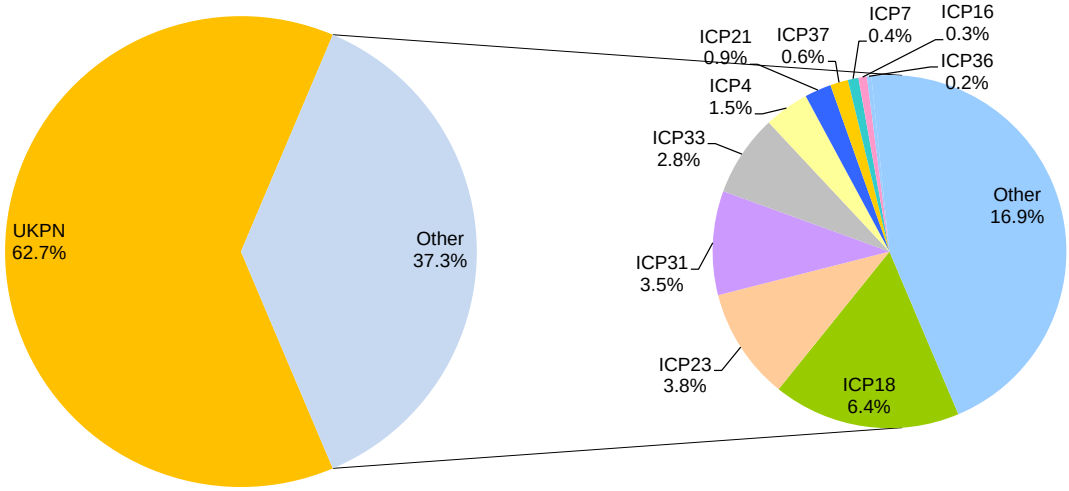
Figure 17: Competitor analysis: HV SPN

Key Metrics (12m to Mar14)	Load (kVA)	No. of jobs won	Date of first enquiry
UKPN	87,101	177	
ICP18	8,874	23	2006
ICP23	5,300	2	2010
ICP31	4,927	11	2006
ICP33	3,875	5	2004
ICP4	2,122	2	2011
ICP21	1,260	3	2009
ICP37	844	4	2009
ICP7	500	1	2007
ICP16	400	1	2012
ICP36	209	1	2012
Other	23,417	6	
Total	**138,829**	**236**	

Percentage and value of market share

Figure 18 shows the competitor intensity in the SPN HV market based on work won in the last 12 months, based on electrical load.

Figure 18: Market share by participant: HV SPN



Recent trends, developments

There have been two new entrants that have become active and won work in this segment in SPN since the beginning of 2012. Overall, three competitors won 37 per cent of all work lost to competition in this segment in the year to March 2014.

During 2012 we noted that IDNO connected load formed an increasing proportion of competitor market share. In SPN the trend has reversed markedly during 2013/14, with the volume of ICP work (measured by electrical load) increasing more than tenfold while IDNO work fell by a third. In all 43 per cent of competitor work was won by IDNOs in the 12 months to March 2014 compared to 93 per cent in the previous 12 months.

Extension of contestability

Although no HV final connections have yet been completed in the SPN area, the ICP that has completed a number of HV final connections in EPN and LPN is also active in SPN and six further ICPs have been involved in discussions regarding possible pilots once they have suitable work in this area.

Conclusion

The analysis above and elsewhere in this document confirms that there is "effective competition" in this market segment because:

- UK Power Networks' market share for the last 12 months was 54 per cent and has fallen in some months to 24 per cent
- HV final connections activity was transferred to contestable status in July 2013
- Competitors' progressive take-up of HV Mains final connection work will lead to further erosion of market share
- This segment has benefitted from the broad programme of competition improvements which have been implemented over the past three years (see section 4.1 above)
- Customers' awareness of competitive alternatives is satisfactory for one-off customers and high for repeat customers; their purchasing power and capabilities will be strong
- There are numerous active competitors in this segment that could be selected by customers to undertake their contestable work

Appendix 3: Competitive Networks Association checklists

The Competitive Networks Association's criteria for comparison of progress with competition in connections in the gas industry

Process Area	UK Power Networks	Comments
ICP in control of meeting delivery to customers throughout connections process	Partial	Many improvements made but we note that some IDNOs feel there is more to be done. We will work to address this during 2014.
Design process managed by the IGT/IDNO	Partial	Further improvements proposed within this response
No onerous application process	✓	We are not aware of issues in this area for IDNOs.
Process removes need for onerous inspection regimes	Partial	We are working to provide assurance and ensure industry-wide consistency.
Self connection process in place	✓	Confirmed in GTC March 2014 consultation response
Behaviour of Upstream Operator doesn't cause loss of work	✓	Employee awareness programme; learnings from issues raised
No additional boundary constraints imposed by upstream operator	✓	Confirmed in GTC March 2014 consultation response
Legal/commercial issues agreed and in place	✓	Confirmed in GTC March 2014 consultation response
Agreed Industry wide arrangements (formal agreements)	Partial	We believe IDNOs are satisfied with the agreements we have in place.
Emergency Response Agreements in place across the UK	X	We are working with IDNOs to address this locally.

	Competitive Networks Association Twelve Tests for Competition	Improvement Action	Complete
1	Connections quotation process that promotes choice to customers: Separate identification of non-contestable and contestable elements of work. Customer (ICP/IDNO) ability to accept both elements of quotation or to accept the non-contestable element only (with the ICP/IDNO carrying out contestable works.	Breakdown of charges in quotes Convertible quote - Pilot - Full solution	Yes Ongoing In scope for BTP
2	Accredited ICPs/IDNOs to have sufficient information to be able to identify their own points of connections on the DNO system (if they choose to do so).	- POC self-ID - online view of network mapping	Yes In scope for BTP
3	ICPs and IDNOs to be able to contest the design and construction of DNO network reinforcement work.	Industry pilot with ICP31	Complete (2nd pilot now underway with WPD)
4	Accredited ICPs and IDNOs able to self-certify/ validate designs for contestable work.	Generic designs pilot with ICP18	Ongoing
5	DNOs make available design policy documents, codes of practice, method statements and material specifications to accredited IDNOs/ICPs • To enable the right design first time • To facilitate compliance with standards and COPs • To create transparency and remove ambiguity.	G81 policy review complete and all relevant documentation online	Yes
6	Simple, transparent, documented land rights processes that are followed by their staff and ensure that progress of Competition in Connections is not unduly delayed.	Implement new ICP consents process	Yes
7	Arrangements that enable accredited ICPs/ IDNOs to undertake LV and HV jointing on contestable works. To include: • a regime that also allows ICPs/IDNOs to operate on DNO networks and/or, • an arrangement where DNOs could offer ICPs/IDNOs contract SAP services to enable ICPs complete HV closing joints.	Metered and unmetered live jointing to mains pilots and HV final connections contestable	Yes
8	Clearly defined process and timeline for delivery of methodology that facilitates accredited ICPs/IDNOs to carry out switching on DNO networks and issue safety documentation.	HV jointing pilot with ICP31 [and others]	Yes
9	Linked to 8 above. Evidence of work with other Licensees and the ENA to develop a national suite of operational documents identifying DNO specific requirements: To enable Competent Persons to operate across different Distribution Service areas without the requirement for a new Authorisation for each DSA.	Metered and unmetered live jointing to mains pilots HV jointing pilot with ICP31 [and others]	Ongoing
10	Fair and Equitable Adoption Agreements that share liabilities between ICPs or IDNOs and the DNO.	Revised T&Cs for Construction and Adoption	Yes

11	DNOs must demonstrate non-contestable charges are transparent and cost-reflective.	Breakdown of non-contestable charge in quote	Yes
12	Simplified payment methods including the use of electronic correspondence throughout the connection and adoption process.	Customer portal enabling end-to-end interaction	In scope for BTP