

Update on competition in connections market review: issues limiting effective competition

Consultation

Publication date: 7 October 2014
Response deadline: 4 November 2014

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Overview:

We are in the process of reviewing the market for new connections to the electricity distribution system. We recently ran a call for information to give interested parties the chance to tell us about how well they think the market is working. This document explains the issues that were raised.

The review process is ongoing. However, based on the information that has been provided to date, we have concerns that competition is not working as effectively as it could in this market - to the detriment of customers.

As well as updating you on the responses we received to our call for information we want to hear your thoughts on the issues raised and any others that you consider might be missing. In addition, we are inviting you to provide your views on some of the solutions that stakeholders proposed.

Context

Customers have a choice about who they get a connection from. This is because not all new connections to the distribution network are made by electricity distribution network operators (DNOs). Competition exists for some work. A customer can choose to use an alternative provider for some connections work known as “contestable work”.

Effective competition will help improve the quality of service that customers receive and reduce the cost of connection. Competition can also encourage innovation in the type of services on offer. A well-functioning market for connections to the distribution network should benefit us all – connections that are timely and cost-effective help the economy to grow and help to decarbonise the energy we use.

Associated documents

You may find the following associated documents helpful -

- [The various competition test notices and our decisions can be found on the Competition in Connections section of our website](#)
- [Our April open letter on the completion of the competition test process](#)
- [Our June open letter and call for information](#)
- [Guide to getting a connection](#)

Contents

Executive Summary	4
1. Introduction	5
Background - Our review of the market	5
Purpose of this document	5
Structure of this document	6
Our consultation	6
2. Development of competition in the market	7
3. Issues identified in the market	13
4. Next Steps	31
Further work	31
Possible outcomes of the review	31
Opportunity for DNOs to commit to further changes	32
Appendices	33
Appendix 1 - Consultation Response and Questions	34
Appendix 2 – Overview of the market for new connections	35
Purpose of this chapter	35
The electricity distribution network	35
The connections market	35
Types of connection providers	35
Types of customer	38
Appendix 3 – Summary of DNO accreditation requirements	40
Appendix 4 - Feedback Questionnaire	44

Executive Summary

We are reviewing the market¹ for new connections to the electricity distribution system. The first step in our review was a call for information, which closed at the end of July. This gave interested parties the chance to tell us about how well they think the market is working.

We received 80 responses to our call for information. Many issues were identified, or confirmed. This consultation gives you the chance to comment on our understanding of the issues raised and to highlight any others that might be missing. We are also inviting you to provide your views on some of the solutions that stakeholders proposed. **Please respond by 4 November 2014 and send your responses to connections@ofgem.gov.uk.**

This review process is ongoing. However, we have concerns about how the market is working, based on the information provided to date. The issues highlighted would appear to have a negative effect on competition – to the detriment of customers.

Many issues raised through the call for information relate to the DNOs' roles in the connection process. We note that the DNOs have a unique role in the process. In each regional monopoly, the DNO is the sole provider of a number of the key inputs needed to make a connection. The DNO provides these inputs both to its own connections business and to the independent providers – its competitors. This position places a particular responsibility on the DNO.

A number of these issues are not new, and lead us to question why all DNOs have not already addressed them. We continue to encourage DNOs to take action, and **invite them to explain any further changes that have been made to remove barriers to competition by 4 November 2014.**

As part of the call for information, we asked stakeholders to provide examples of good practice. Some DNOs – most notably Electricity North West (ENWL) and Western Power Distribution (WPD) – were highlighted by stakeholders as having good practice across a range of areas. We do not believe this is coincidental. We think that the feedback on both ENWL and WPD reflects the effort they have put in to minimise the extent to which their processes hinder their competitors.

We remain on track to publish the findings of our review at the end of 2014. Those findings will be informed by responses to this consultation.

¹ In this paper we use the terms 'market' and 'markets' to refer to different segments of the energy sector. For the avoidance of doubt, these terms are not intended to describe or otherwise suggest the approach that may be taken by us for the purposes of market definition, for example in competition law investigations.

1. Introduction to this document

Chapter Summary

This document forms part of our review of the market for new connections to the electricity distribution network. It explains our view of the issues in this market. We are asking for you to validate our understanding of those issues.

Background - Our review of the market

1.1. In June we published an open letter², explaining that we would review the market for new connections to the electricity distribution system. We made the decision to open this review in response to continued concerns about whether competition in this market is effective.

1.2. The first step of our review was a call for information. This closed on 31 July 2014. The purpose of the call for information was to give interested parties the chance to tell us about how well they thought the market was working. To help with this, we provided two questionnaires for stakeholders to complete. One was aimed at connections customers and one was for alternative connections providers.

Purpose of this document

1.3. Since the call for information closed, we have assessed the responses that we received. We have used this information to enhance our understanding of the issues that there are in the market. The purpose of this document is –

- To explain our understanding of the issues in the market, based on information collected through the call for information and via information provide previously by DNOs other stakeholders.
- To give you the opportunity to comment on the accuracy of our explanation of the issues in the market. We are doing this to validate our understanding in advance of making decisions on what to do about the issues.
- To explain to you what we are doing next.

² See the [June open letter](#)

Structure of this document

1.4. The structure of this document is as follows –

- **Chapter 1**, this chapter, is the introduction to the document.
- **Chapter 2** describes the development of competition in the market for new connections to the distribution network and reviews the outcomes of the competition test process.
- **Chapter 3** is the most important chapter in this paper. It explains our understanding of the issues that exist in this market. We are providing you with the opportunity to comment on these issues before we take a decision on how to deal with them.
- **Chapter 4** explains what we are going to do next, given the issues which have been identified.

1.5. In addition there are the following appendices –

- **Appendix 1** explains how to respond to this consultation.
- **Appendix 2** provides an overview to the market for new connections to the distribution network. It explains that parties who participate in the market and the services that are provided.
- **Appendix 3** is a summary of the accreditation regimes of the different DNOs.

Our consultation

1.6. We are consulting on issues that we have identified and described in this document. We want you to review the issues that we have described in chapter 3 and confirm whether or not they reflect your understanding of the situation in the market. In addition, we are inviting you to provide your views on some of the solutions that stakeholders proposed.

1.7. Please provide any comments on the questions in chapter 3 by **4 November** and send your responses to connections@ofgem.gov.uk.

2. Development of competition in the market

Chapter Summary

The connections market is worth in excess of £500m a year. Competition has increased in recent years. However, it has not been demonstrated that there is effective competition in large parts of the market: there appear to be variations in different types of connection and between regions.

Introduction

2.1. The value of the connections market is in excess of £500m a year with hundreds of thousands of connections completed.³ Over 300,000 connections were completed in 2013-14. The number of connections completed each year has returned to the levels seen before the economic downturn. Given the significant volume and value of this market, we would expect that effective competition could develop with the right conditions.

Historic levels of competition

2.2. Following its introduction in 2000, the development of competition for electricity connections had been slow compared to gas. When we were developing the current electricity distribution price control,⁴ 87% of metered electricity connections (across GB) were completed by the incumbent network company, compared to 41% in the gas connections market. Because of this, we developed measures in the DPCR5 price control to improve the conditions for competition. Collectively these measures are referred to as the 'competition test process'.

2.3. We have been very active in trying to open connections to competition and in examining potential barriers. We introduced the "competition test" (see below). We

³ Most of the figures in this section are drawn from DNO regulatory reporting. While we know the number of points of connection between DNO and IDNO networks, we have not gathered data on the customers ultimately connected on to the IDNO network. As we do not licence and regulate ICPs, we do not gather data on their costs and charges. As such, our figures only give an indication to the size of the market.

⁴ Distribution Price Control Review 5 (DPCR5).

have also used both or sectoral and competition law powers to examine behaviour which may be hindering competition or affecting customer service.⁵

Competition test – policy

2.4. In DPCR5, we introduced a regulated margin, of 4% above cost, which DNOs are required to charge customers when they provide contestable connection services. The intention was to create some headroom to encourage competitors to enter the market and compete for these jobs, while continuing to provide price protection for customers in the case that competition was not sufficient to constrain prices.

2.5. During the price control, DNOs could apply to us to have price regulation lifted altogether, if they could demonstrate that competition had developed sufficiently to effectively constrain prices. This was the 'test' part of the competition test. DNOs had until the end of 2013 to apply to pass the competition test. This encouraged DNOs to change their procedures and policies so as to encourage competition to develop.

2.6. For the purpose of the competition test, we defined the contestable connections market into nine 'relevant market segments' (RMSs). Separate competition test applications were required for each segment. We considered that competition was not viable for certain activities (such as small scale LV domestic connections). These parts of the market were excluded from the competition test process and DNOs could not earn a margin on these activities.

Competition test - results

2.7. Of the 113 applications that were made for price regulation to be lifted, through the competition test, there were only 42 areas where we found sufficient evidence of competition to allow for price regulation to be removed. The results of the competition tests can be seen in figure 1.

2.8. The competition tests have shown that some parts of the market have effective competition. We have seen high penetration by competitors for both volume and value in certain parts of the market. For example, competitors won 64%⁶ of unmetered local authority connections by volume across all four Western Power Distribution (WPD) areas at the time of their October 2012 competition notice (this

⁵ For instance –

<https://www.ofgem.gov.uk/publications-and-updates/edf-energy-networks%E2%80%99-compliance-obligations-timescales-connection-offers.-final-penalty-notice>

<https://www.ofgem.gov.uk/publications-and-updates/no-grounds-action-decision-gas-and-electricity-markets-authority-following-investigation-alleged-infringement-chapter-ii-prohibition-united-utilities-electricity-plc-and-united-utilities-networks>

⁶ See WPD's [competition notice](#)

was over 15,000 connections). For metered demand high voltage in Northern Powergrid (NPG) area, 77%⁷ of connections by value were completed by competitors between 2010 and 2012 (this was over 9,000 connections).

2.9. In some RMSs where there are large volumes of work, competitors have not established themselves. For example, despite high volumes (over 4,000) of 'unmetered other' connections being completed, SSE Power Distribution retained 100%⁸ market share by volume at the time of its competition test submission. Another example in a different part of the market is in the Scottish Power Distribution, distribution service area (DSA), where SP Energy Networks completed 99%⁹ of unmetered local authority connections by volume from 2010-11 to 2012-13 (this was over 9,000 connections).

Figure 1. Competition test applications and results

RMS	Electricity North West	Northern Powergrid		UK Power Networks			Western Power Distribution				SSE		SP	
		Yorkshire	North East	EPN	SPN	LPN	East Mids	West Mids	South West	South Wales	SHEPD	SEPD	SPD	SPM
Metered demand LV														
Metered demand HV														
Metered demand HV & EV														
Metered demand EV & Above														
Distributed generation LV														
Distributed generation HV & EV														
Unmetered Local Authority														
Unmetered PFI														
Unmetered other														

Key	
	Pass
	Did not pass
	Did not apply

2.10. We also noted that some parts of the market have low volumes of work. This may make it harder for competition to develop and is why some DNOs did not pass the competition test for these market segments. In some segments, there may be no connections of a given type in a year. However, we note that where there are a low number of high value connections, competition is more likely to develop.

⁷ See NPG's [competition notice](#)

⁸ See SSEPD's [competition notice](#)

⁹ See SPEN's [competition notice](#)

Competition test - outcomes

2.11. We consider that the introduction of the competition tests has, to some extent, improved the state of competition in the market. DNOs have addressed some of the barriers to competition and stakeholders report improvement in certain areas.

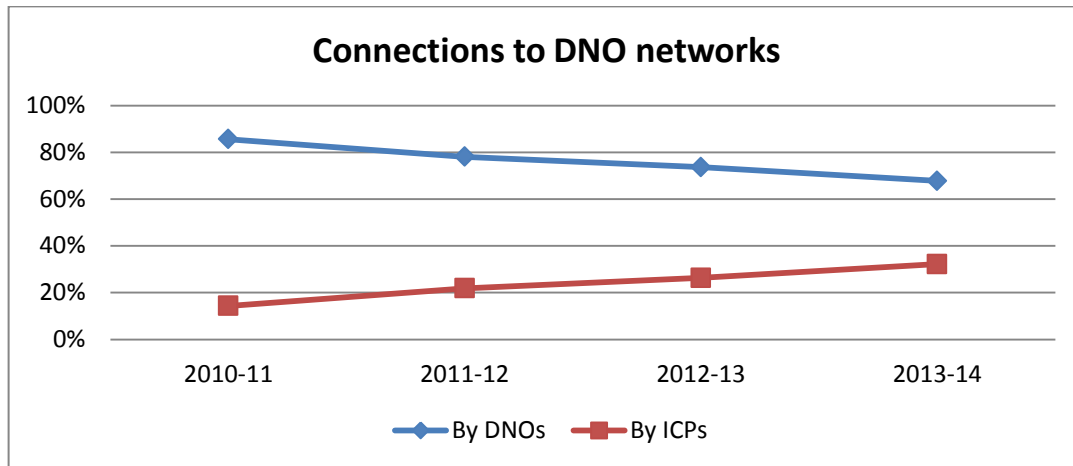
2.12. We have seen evidence of improvements made by some DNOs. Examples of changes, often made in light of stakeholder feedback, include -

- **Improved transparency and increased duration of quotes.** Transparent quotes help customers compare the scope and cost of the work being quoted for. In turn this makes it easier for the customer to make an informed decision about which provider to use.
- **Efforts to increase customers' awareness of competitive alternatives.** Customers cannot make use of competitive alternatives if they are not aware of them.
- **Increased scope of contestable activities.** This allows competitors to carry out a larger number of connections activities, enabling them to offer a more complete service to customers.
- **Standard application forms.** This makes requesting a quote easier for customers and independents.
- **Better provision of network information and less onerous adoption agreements.** This makes it easier for competitors to design the best connection for the customer and for the DNO to adopt the asset into its network quickly.

2.13. During the current price control, we have seen increasing levels of competition. For example, independent connections providers (ICPs) provided 14% (by volume) of connections to DNO networks in 2010-11 compared to 32% in 2013-14 (see figure 2 below).¹⁰

¹⁰ These figures are only connections to DNO networks. IDNO connections are not included. Figures from the DNO connections RIGs for 2013-14.

Figure 2. Connections to DNO networks by DNOs and ICPs.



2.14. The increased overall market share for independents, highlighted in figure 2, masks low levels of competition in certain DSAs and for certain types of work. The competition tests have also highlighted differences in the state of competition and, potentially, the apparent effectiveness of DNOs in encouraging competition across different parts of the market. However, we note that the improvements identified above have not been implemented in all DSAs and other – unaddressed – barriers appear to remain. Stakeholder feedback on the competition test applications often identified that further improvements could be made, beyond those made so far by the DNOs. **We note that such feedback has been available to all the DNOs for a considerable period of time.**

Conclusion

2.15. While competition has developed in some sections of the market, the results of the test show that it has not taken hold in all areas. DNOs continue to complete a significant majority of connections to the distribution network. The results of the competition tests highlight the marked differences in levels of competition in different DNO areas –

- Some DNOs have passed in the majority of RMSs that they applied for.
- This contrasts with some DNOs that have only passed in a minority of RMSs.
- In some cases, DNOs with multiple licences have not had consistent results across these licences. For instance WPD has 4 licensees and uses the same policies and procedures across all of these areas. However, despite this, they did not consistently pass the test – in the same RMSs – across all of these licence areas.

2.16. There was also noticeable difference in the levels of competition in different RMSs. For example, the test was passed in the majority of DSAs in the unmetered Local Authority and Private Finance Initiative RMSs. Conversely the test was not passed for the unmetered other and distributed generation low voltage RMSs.

2.17. As well as this evidence, stakeholders raised concerns during the competition test process about the nature of competition. This, together with the results of the competition test process, led us to launch our review of this market.

3. Issues identified in the market

Chapter Summary

This chapter explains each of the issues that we believe, based on the feedback we have received, are collectively impacting on competition in the market. We are providing you with the opportunity to comment on these issues before we take a decision on how to deal with them.

Question box

Question 1: Please let us know if any of our issue descriptions do not adequately reflect your experience of the market.

Question 2: Please provide comments on the solutions that stakeholders have suggested to deal with the issues that have been identified. Let us know if you have other ideas.

Our call for information

3.1. On 24 June 2014 we issued a call for information to get stakeholders' views on how the market for new connections is working. We received 80 responses from a range of interested parties – including 61 responses from [connection customers](#), 15 responses from [alternative connection providers](#) and four responses from [DNOs](#).

3.2. Following the call for information, we have met some parties to further discuss the issues highlighted in their responses.

The purpose of this consultation

3.3. The responses to our call for information have helped improve our understanding of the issues facing the electricity distribution connections market.

3.4. In this section we -

- Expand on the main **issues identified** in our June call for information, to reflect our enhanced understanding of the problems in this market. For ease, the issues are grouped in a similar form as they were in the June document.
- Share with you a **summary of respondents' comments** on each issue.
- Highlight the **possible solutions** proposed by **respondents**.
- Cite examples that respondents consider to be **good practice**.

3.5. This is a consultation. It provides you with the opportunity to comment on the issues raised and highlight any others that you consider might be missing. In addition, we are inviting you to provide your views on some of the solutions that stakeholders proposed.

3.6. It is important to note that the possible solutions identified in this section reflect those proposed by **respondents** to our call for information. They are not our views of the full range of possible solutions, nor our position on whether the propositions have merit. While we think it is useful to highlight these proposals to understand your views on them, you should note that their inclusion in this paper does not indicate that they will be adopted.

Overview

3.7. Before describing each of the issues that have been identified, this section of the chapter provides a general overview of the responses that we received.

3.8. Stakeholders have highlighted a significant number of issues. In many cases, and taken in isolation, the issues raised would not appear to create major barriers to competition. However, we consider that their cumulative effect makes the process of getting a connection - from an independent connection provider - more costly and more time-consuming.

3.9. Many issues raised through the call for information relate to the DNOs' roles in the connection process. We note that the DNOs have a unique role in the process. In each regional monopoly, the DNO is the sole provider of a number of the key inputs needed to make a connection. The DNO provides these inputs both to its own connections business and to the independent providers - its competitors. This position places a particular responsibility on the DNO

3.10. Respondents have highlighted concerns with the interaction between DNOs and their competitors during the connection process - eg the accreditation regime, the need to secure design approval and the inspection and monitoring process. The DNO may be the only party who can provide access to these services and the need for this access may provide an opportunity for DNO staff to frustrate and delay competitors' activities. Cumulatively, the difficulties reported in the connections process can create uncertainty in customers' eyes. This can dissuade them from accessing competitive offerings and the additional choice and value that shopping in the market could provide. For competitors, these issues may deter entry into new sections of the market.

3.11. Based on the responses received, we think that it may be that competitors in many DNO regions have to work around DNO processes and absorb the additional costs and delay that these impose. However, some DNOs were given credit for aspects of their work to improve the competitive connections process. It was WPD and ENWL who were most commonly praised for their approach. This seems to be because they have either minimised the role that they play in the connections

process or because, when issues arise, they take speedy actions to ensure they are resolved.

3.12. We note that levels of competition have increased in other DNO regions. However, where competition has developed, it may not indicate that all of the issues associated with interacting with the DNO have been fully resolved. The level of competition seen may be in spite of the barriers created by the host DNO's policy and procedures.

3.13. Similarly we have had heard of a number of instances when the DNO has insisted upon one approach for allowing an ICP connection to proceed (whether it be design or construction technique), but would tolerate an alternative approach if it were providing the customer with the full connection service. To be clear, we would be seriously concerned if this is the case.

3.14. Overall, we are concerned that the responses suggest DNOs do not always have sufficient controls in place to ensure that they are not creating barriers to effective competition in the connections market. The following sections describe the issues in more detail.

Issue A - The DNO's level of control over the connections process

3.15. To safeguard the network integrity, all DNOs insist on having a certain level of control over connections to their network. However, the DNOs' level of control over the connection process may make competition less effective. In light of stakeholder feedback, we have identified several areas of concern. We expand upon each of these areas below -

- The nature of DNO accreditation regimes.
- How DNOs determine the Point of Connection (PoC).
- The way in which DNOs approve connection designs.
- The requirement for IDNOs to fund and install link-boxes.
- How DNOs inspect and monitor new assets provided by their competitors.
- Inconsistent application of planning and design standards.

The nature of DNO accreditation regimes

The issue and what respondents said

3.16. To ensure the safety of individuals work on their networks, DNOs require independent providers' staff to be accredited before they are allowed to do certain activities on the DNOs' network (including designing connections). Clearly such processes are essential for the safety of individuals working on the network and the wider public. However, the manner in which the accreditation regime is currently being applied may cause two problems for competition -

- The accreditations differ between DNOs. The timing and cost of accreditation can act as a barrier to entry for independent providers who want to move between DNO areas.
- Even within the same DSA, some DNOs insist that individual staff must be re-accredited before operating for a different company (ie subcontracting). This could act as a barrier to expansion – it prevents independent providers subcontracting to increase the volume of work they can deliver.

3.17. DNOs requiring ICPs to have different accreditation is a concern for independent providers and was raised by a number of respondents to the call for information. The cost, availability and transparency of processes to receive accreditation were raised as concerns.

Possible solutions – proposed by respondents

3.18. Respondents suggested the issue could be overcome through the arrangement of the same transparent process and testing regime across regions. This would enable the transfer of accreditation across DSAs. It was also proposed that the DNOs' accreditation requirements could be removed or relaxed for National Electricity Registration Scheme (NERS) accredited ICPs.

Examples of good practice – noted by respondents

3.19. Good practice highlighted included WPD not requiring accreditation for live jointing on the LV network. Other respondents noted that UKPN had a clear, published process. We also understand that SSEPD only require NERS accreditation before allowing independents and their staff to complete connections.

How DNOs determine the Point of Connection (PoC)

3.20. The issue and what respondents said

3.21. During the competition tests, concerns were raised that DNOs could give their own connections businesses different PoCs to those offered to competitors. It could be the case that different designers may produce different, but valid, PoCs for the same connections – two separate engineers may do things differently. However, if IDNO/ICPs are provided with different PoC locations from those made available to the DNOs own connections business there is likely to be a negative impact on competition and choice for customers. The proposals provided would be less comparable and it could be that one PoC is more advantageous than another from the point of view of time to connect or cost of connection.

3.22. Some competitors noted that where the point of connection provided is on third party land, delays can be experienced while land rights are secured.

Competitors noted that DNOs often have access rights for this land which can make it easier and quicker for them to complete the connection.

3.23. One DNO said it had conducted an internal audit and hadn't found any evidence that staff had proactively sought to disadvantage competitor schemes (and that it would take any such allegations seriously). It said it undertook regular staff briefings on the importance of compliance with competition law.

Possible solutions – proposed by respondents

3.24. To reduce the DNOs' control over the connection process, it was suggested that an impartial third party could become responsible for determining PoC for DNOs and ICPs/IDNOs. This would provide consistency. Some respondents also suggest that competitors should be able to determine the PoC for certain connections. These respondents noted that the ability to do this is affected by their ability to access DNO network information.

Examples of good practice – noted by respondents

3.25. Some respondents cited the gas connections market as good practice, where independents are able to access network information easily and determine their own PoC for certain connections.

The way in which DNOs approve connection designs

The issue and what respondents said

3.26. DNOs require ICPs and IDNOs to submit connection designs for approval, after a PoC has been issued. The licence provides that DNOs can take no longer than ten working days to approve or reject a design for a low or high voltage connection and no longer than 20 working days to review an extra-high voltage design. If a design is rejected it must be amended and re-submitted to the DNO – 'resetting the clock' for the DNO to consider the design.

3.27. Respondents have noted that approvals process can make it difficult for independents to quote and complete work in the same amount of time as the DNO. This is especially so when viewed in conjunction with the time taken by the DNO to make a PoC offer.

3.28. Respondents say that some DNOs may be using rejection of designs (or asking clarifications) as a method of slowing down ICP works and imposing costs on them. It was suggested that designs may be rejected multiple times for different faults (rather than once with all faults listed). They also noted that delaying the speed of connection could dissuade customers from choosing to use independent providers.

3.29. Competitors also consider that DNOs allow their developers to deviate from the DNO's design standards, if they are doing the work, but insist that ICPs must adhere to the design standard.

3.30. DNOs said that design approval is important, as quality of the independent's designs is often poor. One noted a 29% design fail rate in 2014, despite efforts to grant acceptance with minor revisions.

Possible solutions – proposed by respondents

3.31. Respondents suggested a range of solutions, including -

- Removing the approval requirement for straightforward connections. It was suggested that certain criteria could be set to establish whether design approval is required, eg if a connection is below a certain load.
- Allowing competitors to have designs approved post-connection, particularly if minor variations are required (as done by the DNOs for their own unmetered customers).

Examples of good practice – noted by respondents

3.32. Respondents identified WPD and ENWL as displaying *good* practice in this area. They noted that they were more approachable with queries and had the good timescales. However, respondents noted that issues were still encountered in these areas, and that design approvals were still required for most connections.

3.33. Some respondents cited the gas connections market as *good* practice where independents are able to approve their own designs for certain connections.

The requirement for IDNOs to fund and install link boxes

The issue and what respondents said

3.34. DNOs require that IDNOs fund and install a link box between their two networks. If the new network was to be owned and operated by the DNO, then a link box would not be required. The link box is added for system security. Because of this there is an extra cost for IDNOs that is not faced by the DNO.

3.35. IDNOs have stated that this is a major barrier to competition, especially for jobs where the overall cost of the connection is small. IDNOs argue that there is no engineering requirement for link boxes. IDNOs identified the cost of each link box as approximately £2,000.

3.36. DNOs state that they are following distribution code and G88 practice in requiring link boxes, as this requires them to disconnect users installations (with the

IDNO being the user). They note that link boxes allow the isolation of a fault on an adjacent network, thus minimising the numbers of customers that are potentially disconnected. Some DNOs acknowledged that the additional cost for IDNOs could impact on competition.

Possible solutions – proposed by respondents

3.37. Several IDNOs have suggested that in the majority of circumstances a link box is not required. IDNOs suggested that where a link box is required, DNOs should pay for it out of their price control revenues.

3.38. Through discussion with DNOs, we are aware of at least one licensee who is considering paying for link boxes where they think they are needed.

Examples of good practice – noted by respondents

3.39. Respondents didn't have any examples.

How DNOs inspect and monitor new assets provided by their competitors

The issue and what respondents said

3.40. DNOs can insist on their own inspection and monitoring regime to audit the work of a competitor before a final connection can be made to the DNOs' network.

3.41. Responses indicated that there is a risk that inspections could impact competition by delaying the speed of connection and adding risk, which could dissuade customers from choosing to use independent providers and impact ICP/IDNO projects.

3.42. Responses generally consider that the process would benefit from greater transparency, structure and consistency. Others highlighted the importance of a feedback loop to explain issues that arose under inspection and monitoring, so these can be remedied. This is particularly important because the requirements are non-standard across DNOs, and can also differ between individuals within DNO departments.

3.43. DNOs consider that this process is necessary to ensure that work is completed to a high enough standard for safety purposes. However, we note that one DNO explained that they have lower standards for their own 'term contractors' because these are competitively tendered for and tend to be engaged for a long period with the DNO.

Possible solutions – proposed by respondents

3.44. It was suggested that DNOs should be subject to independent audit in the same way as their competitors - to provide a level playing field. Though, it was acknowledged that this would require regulatory intervention.

3.45. One respondent considered that DNOs should adopt the approach used by the gas distribution sector – where inspection and monitoring are standardised and give greater autonomy to independent providers. Within the Gas Industry Registration Scheme (GIRs)¹¹ accreditation framework, asset and inspection autonomy is provided to registered independents. Within the comparable electricity NERS accreditation, this opportunity has been retained with the DNOs to individually inspect and monitor.

Examples of good practice – noted by respondents

3.46. Good practice highlights DNOs who have well-structured processes in place (UKPN). UKPN is also cited as being largely the most receptive in making changes and providing direct liaison for feedback.

Inconsistent application of planning and design standards

3.47. A common theme emerging from all of the aspects of issue A is the inconsistent application of standards and policies by the DNO to its competitors and to itself. When approving a design, deciding a PoC or inspecting an asset for a competitor, the DNO may insist that standards and policies are rigidly followed, but may be more flexible and pragmatic in applying those standards and policies to their own connections. This could be having a negative impact on competition, by making it harder for the DNO's competitors to operate as flexibly as the DNO.

3.48. We recognise that this outcome may be influenced by some DNOs having entirely separate teams responsible for DNO connections and competitive connections, and that these teams are interpreting standards and policies in different ways.

Issue B – The customer's experience

3.49. As part of our call for evidence, we have identified three areas of concern about customers' views on, and experiences of, the connections market that could be having a detrimental effect on competition. These are that -

- Some customers do not know that they can use alternatives.

¹¹ The equivalent to the electricity NERs accreditation scheme administered by Lloyds.

- Some customers are reluctant to use alternatives.
- Some customers that want to use a competitor find it hard to just accept the non-contestable part of the DNO's quote.

Customers do not know they can use alternatives

The issue and what respondents said

3.50. Some customers are still unaware that they can choose an alternative provider. This is a long-standing problem. DNOs now provide more information on alternative providers, but a lack of awareness remains.

3.51. If a customer is unaware that they can use an alternative connection provider then they will not engage with the competitive connections market. Customer failure to engage with the market reduces the volume of work for independents which deters entry and expansion.

3.52. We asked customers who responded to our consultation whether they were aware of competition in connections –

- Overall, 43% of customers that responded to our consultation were unaware that they could choose an alternative connection provider.¹²
- Awareness of alternatives was highest for customer types that completed large volumes of connections (eg councils or housing developers). Awareness of alternatives was lowest for one-off connection customers.

3.53. Several competitors considered that they had lost out on work because customers did not know about them. However, competitors noted that it was hard for them to quantify the impact of this issue because they have no interaction with these customers.

3.54. All the DNOs considered that they had taken reasonable action to raise awareness of competition in connections (eg providing information on their website and giving leaflets to quotation customers).

¹² It is worth noting that this only captures the views of customers who responded to our consultation on competition in connections, the actual level of awareness amongst connection customers may be different.

Possible solutions – proposed by respondents

3.55. To address this issue, most customers thought that either DNOs should do more to increase awareness of alternative connection providers or alternative connection providers should do more raise awareness of themselves.

3.56. One respondent also suggested introducing an independent third party to provide information on connections. This party could provide information on the connection process, connection providers and performance data on each one. It was not clear how this party would be funded.

Examples of good practice - noted by respondents

3.57. No DNO or marketing approach was identified as being *good* practice.

Customers are reluctant to use alternatives

The issue and what respondents said

3.58. Some customers are concerned about using an alternative connection provider because of a perceived increased risk of higher costs, extended timescales or greater 'effort' compared to the DNO. Some customers have said that the perceived benefits of using a competitor aren't sufficiently large. The majority of customers could identify benefits from using an alternative provider. The perceived benefits of using an alternative connection provider were primarily the costs, the timeliness of connections and the quality of service.

3.59. Some customers also identified perceived risks of using an alternative connection provider. Customers viewed good service and timely connection as a benefit, but that if service was bad and connection was slow, that would be a risk. The ability of the alternative connection providers to complete the work was also a concern.

3.60. As noted before, some customers are unaware that they can use an alternative provider. The responses to our call for information suggest that some customers are uneasy about using companies that they are unfamiliar with.

3.61. Several customers were also concerned about how the DNOs' level of control over the connection process could impact upon them if they choose to use an alternative connection provider. For example, some customers were worried that a DNO may delay their connection if they choose a competitive provider. The responses to our consultation indicated that customers who were less concerned about the timeliness of connections, were more likely to consider using an alternative connection provider.

3.62. Some customers could also perceive some scenarios where independents will not be interested in undertaking work for them (for example low value work). For further information on this, please read "Issue E - Competition not viable for certain types of connection".

3.63. Some competitors considered that customers still carry adverse perceptions of ICPs/IDNOs from earlier experiences. Several competitors were also concerned that the DNOs control over the connection process contributed to the negative perception of independents (eg time delays, inaccurate quotes and limited flexibility of design standards).

3.64. The DNOs noted that customer behaviour can have a big impact on competition. One DNO noted that customers may favour their services because they provide connection customers with high quality, good value connections.

Possible solutions – proposed by respondents

3.65. Respondents raised a range of possible solutions to change customer perception and make them more willing to consider alternative providers -

- An independent third party should be created to provide information on connections. This party could provide information on the connection process, a list of connection providers and performance data on each connection provider. It was not clear how this party would be funded.
- DNOs should have less control over the connection process, so that customers are not adversely affected by problems between the DNO and alternative connection provider. (Please refer to the potential solutions highlighted above in "Issue A - The DNO's level of control over the connections process").
- To reassure customers that they will receive a minimum level of service from an alternative connection provider, it was proposed that we should introduce a common quality of service standard or require all connection providers to be audited by an independent third party.
- ICPs and IDNOs need to improve the service offered to connection customers, to provide a genuine contrast to the DNOs.

Examples of good practice - noted by respondents

3.66. No DNOs were highlighted as having good practice in this area.

Customers that want to use a competitor find difficulty in accepting just the non-contestable part of the DNO's quote

The issue and what respondents said

3.67. In some DNO areas, problems can arise when customers accept a non-contestable quote from a DNO, but decline the contestable element (choosing to use an independent for the contestable works instead). If this happens, some DNOs may reissue the quote and costs of the non-contestable works.

3.68. Several competitors recognised this issue and noted that reissuing quotations can increase the overall time taken to complete a connection to use an alternative connection provider. This may impact on competition by discouraging customers from using independents.

3.69. Several customers noted that using an alternative connection provider could add time and effort - however there were very few comments about this specific issue.

3.70. Most DNOs noted that they were aware of this issue and that they were trying to resolve it by developing fully transferable quotes. Some DNOs acknowledge that this solution was not yet available in all market segments, but they planned to extend it to all market segments soon.

Possible solutions – proposed by respondents

3.71. The majority of respondents that proposed a solution considered that fully transferable quotes were the good solution. One respondent considered that we should force each company to provide fully transferable quotes to all market segments.

3.72. One respondent suggested that we develop fully transferable quotes further, so that the customers can choose their connection provider for each individual contestable activity.

Issue C - The impact of regulatory regimes and requirements

3.73. DNOs, IDNOs and ICPs are subject to a number of different regulatory regimes and requirements. These can impact on competition. We have identified four areas of concern -

- The licensees' statutory powers
- The DNOs and IDNOs' licence requirement to provide an emergency response service
- The ability of DNOs to provide part-funded connections
- The ability of independents to compete on pricing

The licensees' statutory powers

The issue and what respondents said

3.74. Through their licence, DNOs and IDNOs have statutory powers that non-licensees do not have. These powers cover a range of different areas (eg wayleaves, easements and street works). Some of these statutory powers are also enjoyed by DNOs and IDNOs for continuous maintenance or fault repairs as well, eg for traffic light maintenance or repair.

3.75. Statutory powers can make it easier for IDNOs and DNOs to conduct connections work than ICPs. This may make ICPs' offers to customers less attractive in circumstances where these powers are advantageous. Competitors clearly cite this as a barrier to competition for ICPs.

3.76. The option for ICPs, in lieu of the statutory powers enjoyed by DNOs and IDNOs, includes section 50 notices for road closures. ICPs consider that these are time-consuming (respondents have told us it can take up to 3 months to get the notice in place) and more costly than the statutory powers enjoyed by DNOs and IDNOs. Responses consider that because of the advantages of the specific incumbents' statutory powers, and the evidence that alternative statute processes are more time-consuming and costly, DNOs and IDNOs can affect delivery of connections when using these statutory powers. Competitors confirm that the activities that require either statutory powers or section 50 notices occur very frequently and therefore considerably affect their ability to compete.

3.77. Furthermore, multi-utility developers specifically highlight the difference between the ease of getting necessary consents for gas works, often far in advance, in comparison to the time taken to secure the corresponding electricity consents. This limits their ability to provide innovative cross-sector solutions.

Possible solutions - proposed by respondents

3.78. Respondents suggested extending these statutory powers to non-licensees. This would give ICPs more control over the connections process.

3.79. Another respondent suggested extending the guaranteed standards scheme to cover the land rights process.

Examples of good practice – noted by respondents

3.80. There were few examples of good practice highlighted. One ICP did cite a good working relationship that they had developed with a local authority to overcome this issue.

The DNOs and IDNOs' licence requirement to provide an emergency response service

The issue and what respondents said

3.81. In the event of a fault on the network, DNOs and IDNOs are required by their licence to provide certain services to customers on their network. This includes fault restoration and, in certain instances, emergency response.¹³

3.82. IDNOs argue that these requirements impose costs that could stop IDNOs operating in certain parts of the market. They note that DNOs are more easily able to cover such costs through their regulatory revenues and higher volume of customers.

3.83. The problems the IDNOs have identified include –

- **Economies of scale.** The size of the DNO enables it to provide an individual customer with an emergency response service at a 'far lower cost' than an IDNO is able. This puts the IDNO at a competitive disadvantage when provide ongoing management of connection assets. The impact of this effect could be greater for smaller jobs, or if the IDNO is smaller in size.
- **Quality of service and reputation.** IDNOs believe that customers may consider the quality of emergency response in their procurement decision. If the service provided by the DNO is considered of higher quality (by virtue of its larger workforce and ability to deploy emergency response more rapidly), the customer may tend to choose the DNO to provide connections work and adopt the asset.
- **Location.** Some competitors have cited that the obligation to provide emergency response in certain locations has been reason enough for them to decline certain jobs, ie in remote areas or areas where their usual contractors are not operating. This could be seen as a specific issue relating to the viability of certain types of connection.

3.84. While the issue raised relates to ongoing ownership of assets, IDNOs argue that the issue also impacts on the market for construction of new connections. This is seen in two ways –

- The emergency service obligation makes certain opportunities in the construction market (ie build and own) less attractive to them, reducing competition.

¹³ Ie responding to an emergency and maintaining an emergency telephone line.

- The IDNOs are a key buyer of ICP services. If this obligation discourages IDNOs from adopting certain types of assets, or adopting assets in certain areas, then there may be a corresponding lack of stimulation in the corresponding ICP construction markets.

3.85. Customer responses are limited, though there is some reference to emergency issues taking longer to remedy if they are being completed by an IDNO or ICP. One competitor notes, as a customer, that IDNOs are pricing themselves out competitively by providing more expensive emergency response.

Possible solutions – proposed by respondents

3.86. The IDNOs have pointed to the status quo for gas connections, where the GDNs (together with National Grid) are responsible for the provision of emergency response services, regardless of which network they are on.

Examples of good practice – noted by respondents

3.87. WPD says it was asked, by some IDNOs, to offer an emergency response service and it intends to discuss this offer with these competitors later this year.

The ability of DNOs to provide part-funded connections

The issue and what respondents said

3.88. When conducting a connection project, a DNO may need to carry out additional wider reinforcement work on its network. If it does, the cost of reinforcement will be shared between the connecting customer and the wider customer base. If a customer contracts with a competitor for all of the work there will be no cost sharing. This may restrict the independent's ability to compete with the DNO on price for certain work. Five competitors provided a response of their experience of this issue. All of them indicate that this is a specific advantage open to DNOs, which can make them more attractive to customers. IDNOs and ICPs can then appear uncompetitive.

3.89. Competitors consider that their ability to compete has also been hampered by lack of pricing transparency with part funding and a lack of any explanation from a DNO when it decides to provide part funding on a project. Some say the latter has the potential for abuse as DNOs can use this as a unique selling point.

3.90. One DNO considers that if we extended the ability to do part-funded connections to IDNOs then there is a risk of IDNOs creating stranded assets. Some DNOs cite work being done to increase pricing transparency as a way to address this issue.

Possible solutions – proposed by respondents

3.91. Most competitors feel that the solutions would be very complex. Some high level solutions have been provided. We would welcome further detail on these.

Examples of good practice – noted by respondents

3.92. Three DNOs (WPD, SSE and UKPN) reference pilot schemes in place or planned, designed to facilitate competition in this area. However, no competitors have referenced these pilot projects.

Issue D – Transparency of pricing

The issue and what respondents said

3.93. Respondents raised concerns that quotes are difficult to understand because the content of work is not always clear.

3.94. Although DNOs have made some improvements to improve transparency of quotation, the responses would suggest that there is still more to do. Several competitors were concerned that opaque quotes made it difficult for customers to assess different offers – as they may not be comparable. Some customers made this point too. They said unclear quotes made it hard to compare costs between the DNO and an independent. However another customer indicated that poor quality DNO quotes was one of the main drivers for them to start using alternative connection providers.

3.95. Competitors were also concerned that opaque quotes could hide situations where a DNO applies the wrong cost apportionment or purposefully bids for work below cost price. For example, including the costs of contestable work as part of the cost of reinforcement (which can be spread across a larger customer bases) or as part of the non-contestable work costs. This could make independents appear less attractive or competitive.

Possible solutions – proposed by respondents

3.96. Respondents identified various ways to improve the transparency of quotes -

- All DNO costs should be calculated with reference to a common charging methodology that specifies the maximum and minimum amount a DNO will charge for each piece of work/equipment.
- All DNOs should provide more detail (eg a methodology) about how costs are apportioned between cost categories.

- All DNOs should use the same methodology to calculate connection charges so that customers can better understand connection charges.
- All DNOs should have common quotation formats so that it is easier for customers to compare them.

Examples of good practice – noted by respondents

3.97. ENWL was cited by several respondents as the best performer in the transparency of its pricing model.

Issue E – Competition not viable for certain types of connection

The issue and what respondents said

3.98. We have seen little evidence of competition in certain types of connection during the competition test process. No DNO passed the test in the 'distributed generation low voltage' or 'unmetered other' RMSs. There may be specific issues affecting competition for these types of connection. This could be because of -

- The total value of the work (and high proportion of non-contestable costs).
- The value of the work versus the costs or effort required to win it.
- Low volumes or sporadic nature of the work.
- High entry costs (accreditation etc).

3.99. Customers noted that independents were often reluctant to take on single connections and preferred 'batches' of work. Customers said that for these smaller jobs, they would usually use the DNO. One customer noted that they for smaller jobs, they would use a DNO because the cost saving would be so small it wouldn't warrant the extra effort of using an ICP.

3.100. Not all competitors commented on this issue. Several responses focused on difficulty competing for smaller size and value jobs (as opposed to the type of connection). They argued that many costs (including time-consuming interactions with the DNO) were the same, regardless of size or value of the work. Competitors said that this meant they could not offer customers a competitive quote for smaller jobs.

3.101. DNOs noted that competition tended to be more established where there was high volume and value of work. They noted that some parts of the market may never be attractive to competitors, who were able to pursue the most lucrative work.

Possible solutions – proposed by respondents

3.102. Some respondents suggested increasing the scope of contestable activities for LV connections and self-service for competitors may make smaller LV jobs attractive (by reducing some of the fixed cost and effort required).

Examples of good practice – noted by respondents

3.103. Respondents drew comparisons with the gas industry. They noted that interactions with the incumbent are minimised with competitors able to use self-service for straightforward connections. They said this enabled competitors to offer customers competitive quotes for work of smaller value or with a limited number of connections.

4. Next Steps

Further work

4.1. As part of our June open letter and call for information, we set out our expected timetable to complete this market review. We remain on track to meet that plan and expect to publish the findings of our review at the end of 2014.

4.2. Those findings will be informed by responses to this consultation. In addition, we have commissioned a market research company, Big Sofa, to undertake further research to further test customers' views of the market.

Possible outcomes of the review

4.3. We explained in June that there are a range of possible outcomes to this review. These are –

- *Enforcement Action* – we could open an investigation using our powers under the Competition Act or sectoral legislation in the event that evidence emerges through our review that companies have failed to comply with the relevant legal obligations. In considering whether to take enforcement action, we would take account of our published prioritisation criteria.¹⁴ Enforcement action could be taken in parallel with one of the other outcomes.
- *Regulatory remedies through licence conditions* – we may decide that the evidence demonstrates that there are failures in the market which could be addressed using regulatory powers.
- *Market Investigation Reference* – we could refer the market - or sections of the market - to the Competition and Markets Authority to undertake a market investigation, if we consider that there are reasonable grounds for suspecting that any feature, or combination of features, of the market prevents, restricts or distorts competition.
- *Do nothing* – we may conclude from the information provided, and based on other developments in the market, that no further steps are needed to improve the effectiveness of competition in the market.

4.4. All these possible responses remain open to us.

¹⁴ Our latest [enforcement guidelines](#) can be seen on our website.

Opportunity for DNOs to commit to further changes

4.5. As part of the call for information we asked stakeholders to provide examples of good practice. In this regard, we note that some DNOs – most notably ENWL and WPD – were highlighted by stakeholders as having good practice across a range of areas. However, a number of these issues identified through the call for information are not new, and lead us to question why all DNOs have not already addressed them. We continue to encourage DNOs to take action, and **invite them to explain any further changes that have been made to remove barriers to competition by 4 November 2014.**

Appendices

Index

Appendix	Name of Appendix	Page Number
1	Consultation responses and questions	
2	Overview of the market for new connections	
3	Summary of DNO accreditation regimes	
4	Feedback Questionnaire	
5	Glossary of terms	

Appendix 1 - Consultation Response and Questions

1.1. We would like to hear the views of interested parties in relation to any of the issues set out in this document.

1.2. We would especially welcome responses to the specific questions which we have set out at the beginning of chapter 3 and which are replicated below.

- **Question 1: Please let us know if any of our issue descriptions do not adequately reflect your experience of the market.**
- **Question 2: Please provide comments on the solutions that stakeholders have suggested to deal with the issues that have been identified. Let us know if you have other ideas.**

1.3. Responses should be received by 4 November 2014 and should be sent, preferably by email, to:

- Sam Cope
- Distribution Policy
- 9 Millbank, London, SW1P 3GE
- connections@ofgem.gov.uk

1.4. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

1.6. Next steps: Having considered the responses to this consultation, Ofgem intends to publish the findings of our review at the end of 2014. Any questions on this document should, in the first instance, be directed to:

- Sam Cope
- 020 7901 7239
- Sam.Cope@ofgem.gov.uk

Appendix 2 – Overview of the market for new connections

Purpose

2.1. This appendix explains the features of the connections market. It provides an overview of the parties who are involved in the market and explains the services that are provided. The purpose of this chapter is to provide you with an understanding of the market we are reviewing.

The electricity distribution network

2.2. The infrastructure that delivers electricity to customers is the electricity distribution network. This network comprises of substations and circuits that transport electricity from the high voltage transmission network to the final user. The distribution network typically operates across a range of voltages - at 11kV, 33kV and 132kV. See the map at the end of this chapter.

The connections market

2.3. New connections to this network can be provided, both by the local monopoly Distribution Network Operator (DNO) as well as other providers.

Types of connection providers

2.4. There are three types of connection providers.

DNOs

DNOs are regulated businesses operating in their own licensed regions. During privatisation, the market was separated regionally into Distribution Service Areas. These are 14 regional licensed areas, currently owned between six DNOs. They have responsibility for owning, operating and maintaining the distribution networks and they provide all aspects of non-contestable connections and compete for the opportunity to provide the contestable elements. The six DNO groups are - UK Power Networks (UKPN), Western Power Distribution (WPD), Scottish Power Energy Networks (SPEN), Scottish and Southern Energy Power Distribution (SSEPD), Electricity North West Ltd (ENWL), Northern Power Grid (NPG).

The DNOs are bound by certain statutory obligations (Electricity Act 1989) to provide connections when requested. Their distribution licence includes additional obligations to safeguard customers and ensure a good service is provided¹⁵.

We regulate the standards and charges for the new connections they (and other licenced market participants), provide through specific charging frameworks and methodologies, most of which are safeguarded under industry codes¹⁶.

IDNOs

Independent DNOs (IDNOs) compete with DNOs to own and operate networks across GB. IDNOs are still reliant on DNOs for the final connection to the main distribution network (ie the final non-contestable part of the connection).

IDNOs are licensed by us and we put in place controls to regulate their revenues (although these arrangements are different and less onerous than the DNO price controls). IDNOs' licences share several of the same standard licence conditions with DNOs, eg regarding the provision of connections services. As such, they are obliged to provide specific standards of service and publish some of their network charges on their website. Additionally, they have certain obligations under industry codes¹⁷. The revenue that IDNOs earn from customer for the ongoing use of their network is linked to the charges that the DNO would apply.

ICPs

Independent Connections Providers (ICPs) are accredited contractor-type participants. They operate in the market to complete the contestable activities of connections. They can offer these services directly to the customer, eg excavation and reinstatement of the site for connection works. ICPs do not own and operate networks and their work must be adopted either by the DNO or IDNO. Some ICPs are affiliated to an IDNO or DNO.

ICPs are accredited by Lloyds Register.

Connections activities

2.5. New connections involve work that is open to competition (contestable) and those activities that can only be completed by the monopoly DNO (non-contestable). Generally, activities that involve directly working on the DNO's network are non-contestable. The table below provides an illustration of the types of activities that would be classified as either contestable or non-contestable. What is contestable or non-contestable can differ from DNO to DNO.

¹⁵ Eg standard licence conditions 12, 15, 15A regarding connections services and protection of customers receiving non-contestable services; standard licence conditions 13, 13A, 13B and 14 regarding charging methodologies and frameworks for use of system and connections services.

¹⁶ Distribution Use of System Agreement (DCUSA), Common Connection Charging Methodology (CCCM), Distribution Code (D-Code) and to a lesser extent the Balancing and Settlement Code (BSC), Connection and Use of System Code (CUSC) and Metering Registration Agreement (MRA)

¹⁷ See footnotes three and four

Activity	Contestable	Non-contestable
Determine point of connection to distribution system		x
Design of extension assets	x	
Design of upstream reinforcement works associated with new connections		x
Design of diversionary works associated with new connections	x	
Design approval		x
Plant and materials for own works		x
Procure materials for own works	x	
Land rights negotiations with third party landowners	x	
Produce wayleave/easement documentation and enter into agreements with third party landowners		x
Trench, excavation and duct installation – on site	x	
Trench, excavation and duct installation – public highways	x	
Construction of substation buildings and other civil works – on site	x	
Cable laying for own works	x	
Substation plant installation for own works	x	
Excavation for jointing bay – on site	x	
Excavation for own works jointing bay – public highways	x	
Jointing (dead) cables within extension assets	x	
Jointing (live) to connect contestable works to distribution system (closed joints)		x
Live LV jointing on newly adopted extension assets*	x	
Reinforcement/diversionary works on the existing distribution system		x
Quality assurance inspections		x
Testing of extension assets installed by ICPs	x	
Commissioning and connection of extension assets to the distribution system		x
Recording of installed assets	x	
Operations, repairs and maintenance		x

*Certain new activities have been opened to competition and have been re-classified as contestable¹⁸, for example jointing to existing mains.

¹⁸ Through a specific workgroup, the activity of live jointing to existing mains was trialled. We decided that there was sufficient competition in this sector to allow for this activity to be made a [contestable activity](#).

Types of customer

2.6. Various customer groups require new connections. The customer may be seeking a demand (ie taking electricity from the network) or generation (ie a generator exporting electricity onto the network) connection. Key customer groups include –

- **Industrial and commercial customers**, these customers would have specific consumption needs as a result of their size and nature of work. For instance, a large factory would have a bigger energy need than a small office-based company.
- **Local Authorities**, these customers would have a large volume of constant, low voltage energy usage such as street lighting. Local authorities may also need connections for social housing, council buildings etc.
- **Housing developers/builders**, these customers would typically need a full package of services including disconnection of existing supplies, and new connections for buildings and street lighting/furniture to meet the needs of a new housing developer.
- **Distributed generation developers**, distributed generation is the production of electricity that can be connected at the distribution network. This would include wind/solar farms. These customers would require a connection large enough to allow the energy produced to be exported back onto the network.
- **Domestic customers**, this type of customer would typically require a metered demand connection to their property, at low voltage. Increasingly though, energy needs for domestic customers may also include an ability to export energy back to the network, eg surplus energy from solar panels, or increasing energy consumption due to electric vehicles or heat pumps.

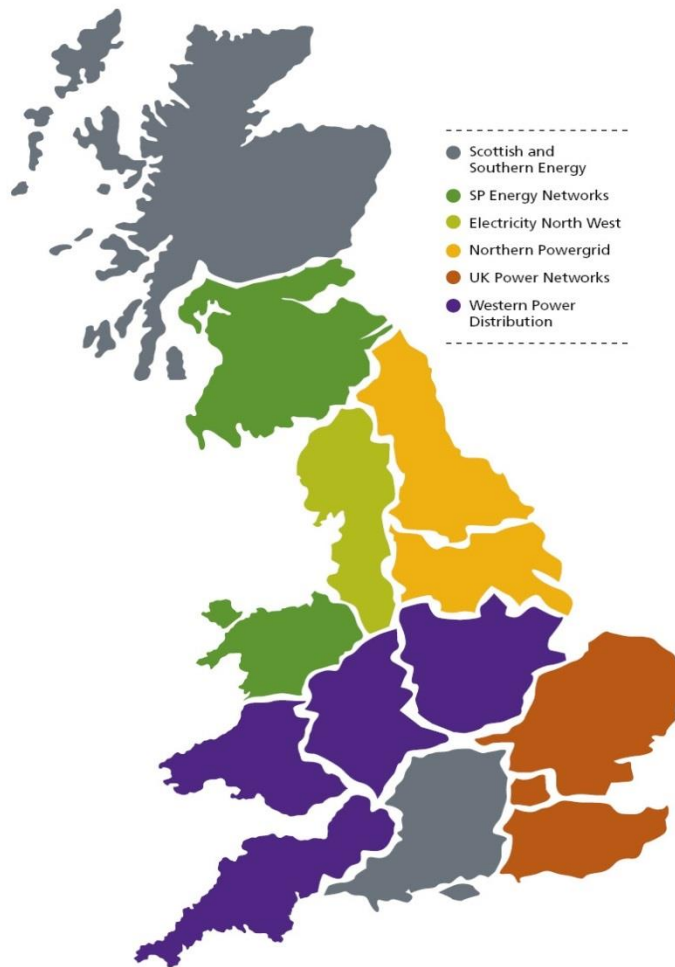
Interactions with other markets

2.7. We note that some of the respondents who made submissions to our call for information work across other markets. Most notably some independent providers also work in the gas connections market. An avenue of business opportunity that these companies are keen to explore is the provision of multi-utility connections services. This is where one company provides a range of utility connections for a development – electricity, gas, telecoms and water.

2.8. As such, it is important to note that the issues in the electricity connections market could affect the development of more innovative cross-sector offerings in other markets. For instance, we are aware that multi-utility providers have had difficulty in delivering electricity connections in the same timeframes as gas

Update on competition in connections market review: issues limiting effective competition

connections. This limits the benefit and attractiveness of multi-utility offerings to developers.



Appendix 3 – Summary of DNO accreditation requirements

This table summarises the responses we received from DNOs when we asked them about their accreditation regimes.

DNO	What accreditations are needed?	Frequency?	Cost?	Individual accreditation or company?	How are independents informed?	Is process the same for DNO's own staff and contractors as independents?
ENWL	<ul style="list-style-type: none"> NERS (or seeking NERS) required for work not on ENWL's existing network (including assets to be adopted) ENWL accreditations required to work on ENWL network <ul style="list-style-type: none"> LV Jointing – Unmetered services LV Jointing – Mains and Services HV Jointing – Mains Competent Person (jointer's mate) (accept accreditation from other DNOs) 	<p>Every 6 weeks</p> <p>Courses on weekend if sufficient demand</p>	<p>Assessment costs range from £162 - £1,936 (highest cost for HV mains).</p>	<p>Individual is accredited – fully transferable between companies and sub-contractors.</p> <p>Reassessment required every three years.</p>	<p>Direct emailing to independents and details provided at independent seminars.</p>	<p>Yes.</p>
NPg	<p>May grant accreditation to independents who are NERS accredited or accredited by other DNOs. If accreditation doesn't look genuine, assessment will be required.</p> <p>Accreditation required for all work with different accreditations</p>	<p>Assessments offered on request – 2 week lead time.</p>	<p>Assessment and authorisation at zero cost (although charge for materials used).</p> <p>Training and weekend</p>	<p>Operatives require accreditation certificate for each ICP they work on behalf of. Formal reassessment not required and</p>	<p>Process and procedures published on website. Awareness raised at stakeholder engagement events</p>	<p>Yes.</p>

DNO	What accreditations are needed?	Frequency?	Cost?	Individual accreditation or company?	How are independents informed?	Is process the same for DNO's own staff and contractors as independents?
	for voltage level and overheard line or underground cable. LV accreditations further split by joint type. Additional codes depending on cable type.		assessment offered at a 'commercial rate'.	reissuing authorisation can take around 3 days. Reassessment required every three years.		
SP	Individuals require authorisations for all scopes of work that they are contracted to carry out. There can be many variations of different tasks at different voltage levels. Jointers assessed through jointing competency assessment.	Public access booking system. Frequency dictated by demand. Popular courses are run twice a week.	Costs for jointing assessment range from £275 to £902. Other authorisation costs range from £125 - £590.	If individuals move between companies, new authorisation is not required but a company name change on the existing authorisation certificate is required. This is usually completed in one or two days. Reassessment required every three years.	Independents must contact SP Senior Engineer Compliance Consultant. SP engineer provides overview and applications forms.	ICP companies are required to have NERS accreditation. SP contractor companies are required to have Achilles accreditation. Achilles accreditation covers various industry segments from gas/oil to transportation to utilities. This is a 12 months rolling renewal with an annual fee.

DNO	What accreditations are needed?	Frequency?	Cost?	Individual accreditation or company?	How are independents informed?	Is process the same for DNO's own staff and contractors as independents?
SSE	NERS only for all activities.	N/a	N/a	The individual would still have to receive new NERS accreditation at the new company. Individuals require NERS reaccreditation after three years.	NERS requirement explained on website.	Yes
UKPN	Full trade tests not required (where NERS accreditation already held) but competency assessments required ensuring staff familiar with UKPN networks and materials. Authorisations for: <ul style="list-style-type: none"> • LV – live extension/connection of service, live extension of main, live connection of service onto main and Jointer Mate • HV – Senior authorised person up to 11kV, jointing up to 11kV and Jointers Mate. 	Assessment for up to 6 delegates monthly. If increased demand the number of assessments can increase. Between August 2012 and August 2014 34 assessment sessions.	Cost of assessment ranges from £420 to £610	Individual certificates valid even with moves between independents. The individual would still have to receive new NERS accreditation at the new company. If individuals move from independents to UKPN or UKPN subcontractor a full trade test	The application form, course outlines and training centre location details are available on our G81 website. UKPN will meet with new ICPs or those expanding their scope to explain processes.	Accreditation is less onerous (trade tests not required) for independent staff than it is for UKPN staff or sub-contractors.

Update on competition in connections market review: issues limiting effective competition

DNO	What accreditations are needed?	Frequency?	Cost?	Individual accreditation or company?	How are independents informed?	Is process the same for DNO's own staff and contractors as independents?
				would be required (as accreditation of independents does not require this).		
WPD	<p>For LV work, only NERS accreditation (and observation of the ICP's safety rules) is required.</p> <p>For HV works, independents can enter a trial whereby they only need NERS accreditation and to follow the ICP's or WPD's safety rules. If using WPD's safety rules authorisation required as WPD staff will be senior authorised person and need to ensure that all operatives on site following the same safety rules.</p>	If using WPD safety rules, ICP staff will have to attend a course and be interviewed. Reassessment will be required once a year.	Cost of the course is £240.	Authorisation needs to be reissued if individual moves to a new employer.	Available on technical information website or on demand.	Yes.

Appendix 4 - Feedback Questionnaire

4.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

Please send your comments to:

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Appendix 5 – Glossary of terms

Purpose

5.1. This appendix outlines some key terms referenced within the document.

Terms

Contestable – Connections activities that can be carried out by a non-affiliated third party with relevant accreditation. Third parties eligible to complete this work, can offer this service to their customers. See non-contestable for those connections activities for which competitors cannot offer services.

DPCR5 – Distribution Price Control Review 5 was the price control in place for regulating distribution network company revenues between 1 April 2010 and 31 March 2015. It is succeeded by the new RII0 ED1 price control.

DNO – Distribution Network Operators are regulated businesses operating in their own licensed regions. The six DNO companies are - UK Power Networks (UKPN), Western Power Distribution (WPD), Scottish Power Energy Networks (SPEN), Scottish and Southern Energy Power Distribution (SSEPD), Electricity North West Ltd (ENWL), Northern Power Grid (NPG). Between them, they hold 14 licensed regions across Great Britain.

DSA - Distribution Service Area are regional areas individually licensed and owned by the DNOs. There are 14 of these DSAs licensed as follows:

DNO	DSA
ENWL	Electricity North West Ltd
UKPN	London Power Networks Ltd
	South Eastern Power Networks Ltd
	Eastern Power Networks Ltd
WPD	Western Power Distribution (East Midlands) plc
	Western Power Distribution (South West) plc
	Western Power Distribution (West Midlands) plc
	Western Power Distribution (South Wales) plc
SPEN	SP Distribution Ltd
	SP Manweb plc
SSEPD	Scottish Hydro Electric Power Distribution plc
	Southern Electric Power Distribution plc
NPG	Northern Powergrid (Northeast) Limited
	Northern Powergrid (Yorkshire) plc

GIRS – Gas Industry Registration Scheme – is the accreditation scheme in place for gas equivalent ICPs (called Independent Gas Transporters 'IGTs'). This accreditation scheme is administered by Lloyds Register.

ICP – Independent Connections Providers - build electricity networks to the specification and quality required for them to be adopted by a network operator (ie a DNO or IDNO). ICPs are accredited by Lloyds so that they complete this work under a standard approach, which is called NERS. ICPs can be affiliated to a DNO and IDNO and complete work directly for them or they can provide contestable services directly to a customer.

IDNO – Independent Distribution Network Operators – are competitors to the DNOs. They can own and operate networks and compete with DNOs in providing connections services. They are reliant on DNOs for the final connection to the main network.

Lloyds Register – is the accrediting body who performs technical assessments of the Service Providers who elect to be assessed for accreditation for contestable works associated with the installation of electrical connections.

NERS – National Electricity Registration Scheme – is the accreditation scheme in place for ICPs. Lloyds Register administers this scheme.

Non-contestable – Connection activities that cannot be carried out by a non-affiliated third party with relevant accreditation. These activities are the responsibility of DNOs to deliver.

PoC – Point of Connection – is the point or points of physical connection to a distribution network.

RMS – Relevant Market Segment. Any of the relevant market segments that are described in or determined in accordance with Appendix 1 of Charge Restriction Condition 12 (CRC 12). In DPCR5 Final Proposals Ofgem considered that competition is viable in these market segments.