

Competition in Connections Consultation Response

4 November 2014



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November 2014



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Executive Summary

We welcome the opportunity to respond to Ofgem's consultation on their competition in connections market review. We are confident that the facts presented within this response, taken together with our previous Competition Test and Competition Review submissions, collectively confirm that UK Power Networks has invested significant effort and achieved significant results.

In July 2014 we responded to Ofgem's Call for Information, inviting connections stakeholders' views on the state of competition in the connections markets following the end of the Competition Test period. We welcomed the opportunity to attend the seminar facilitated by the Metered Connections Customer Group on 1 September 2014 and we have acted swiftly on Ofgem's encouragement for DNOs to proceed with addressing the concerns raised and to work together to address common issues. We reviewed all the concerns raised by the Call for Information and the MCCG seminar with a view to making any adjustments required to our ongoing competition development plans to incorporate any aspects not already addressed. We also initiated and hosted a meeting with other DNOs on 13 October to exchange views and best practice.

Details of the extensive range of changes made as a result of this review are provided in Sections 3 to 7 of this document. Highlights include:

- A comprehensive review of our design approval processes leading to an innovative, staged approach to promote the quality of first time design submissions and allow submissions to be fast tracked. Ultimately, subject to further industry considerations, this could assist ICP designers in achieving a NERS accredited designer status that would enable self-approval and remove the need for UK Power Networks to approve those designs. Early improvements already implemented to minimise design rejection include increased liaison with ICP designers both during the evolution of the design and directly following design submission and monitoring our performance in achieving first-time design acceptance
- Agreement to pay (with effect from 1 October 2014) the cost of the LV link box where we require an IDNO to provide a boundary LV link box, pending a review of that requirement
- Provision of an alternative to the Construction Licence to ease the process for independents to use our existing easements
- An addition to our G81 site that gives competitors and customers the opportunity to be involved in the development of new and revised policy decisions

Some of the changes DNOs have been asked to consider present complex challenges and require a greater degree of planning. In addition to detailing changes that have been implemented, we also include as Appendix 1, a commitment to complete the implementation of a number of these further improvement actions. This commitment is personally signed by our Director of Connections as an indication of our intent to honour these commitments.

We recognise Ofgem's concern that DNOs must have sufficient controls in place to ensure parity of treatment between ICP connections and work where the DNO provides the full connection service. We wish to assure Ofgem that in UK Power Networks we have a robust and comprehensive framework of controls that not only provides employees with a clear understanding of our processes and systems and the behaviours that are necessary to meet the company's obligations under competition law, but also includes a learning loop that effectively captures and applies learnings from any instances of non-conformance that come to our attention.

Given that DNOs no longer have access to the information previously available via the Connections Industry Review and other DNOs' Competition Test submissions relate to varying time periods and

markets, we have only a fragmented view of connections market activity. However, we believe it is likely that such information would demonstrate that UK Power Networks can now be considered one of the leading two DNO groups along with WPD in terms of competition in connections in terms of:

- The volume and value of work delivered by independents
- The scale of our programme of competition workshops and other stakeholder engagement
- The number and scope of pilots provided to extend the scope of competition

We look forward to continuing to work with Ofgem and independents to ensure that our customers are able to benefit fully from competition in connections.

Structure of this document

For ease of reference we have structured this document in line with Ofgem's consultation document.

- Section 1 provides our observations on the review process.
- Section 2 responds to Chapter 2 of Ofgem's consultation concerning the development of competition in the connections markets. It includes a review of current levels of competition in UK Power Networks in each of the nine Relevant Market Segments and our observations as to the extent to which connections customers are able to benefit from competition in the UK Power Networks areas.
- Sections 3 to 7 provide our response to Ofgem's consultation questions 1 and 2 in respect of each of the five issues A to E that are set out in Chapter 3 of the consultation:
 - Section 3 considers Issue A: The DNO's level of control over the connections process
 - Section 4 considers Issue B: The customer's experience
 - Section 5 considers Issue C: The impact of regulatory regimes and requirements
 - Section 6 considers Issue D: Transparency of pricing
 - Section 7 considers Issue E: Competition not viable for certain types of connection

Unless stated otherwise, where the terms 'Competitor' and 'Independent' are used in this document they should be taken to include both Independent Connection Providers (ICPs) and Independent Distribution Network Operators (IDNOs).

1 The review process

UK Power Networks has consistently supported the industry's collective 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 have welcomed Ofgem's review to determine how this can be addressed. We nonetheless shared some concerns in our previous response to Ofgem's Call for Information; in addition we would note the following concerns regarding aspects of the scope and nature of the review.

- We believe it is important to view the points raised by respondents in the context of the volume of SLC15 work successfully delivered in the UK Power Networks areas. Although there is no publicly-available data on a consistent basis relating to levels of connection activity in other DNOs, our analysis based on information drawn from Competition Notice submissions tends to suggest that activity levels are higher in UK Power Networks' areas than in any other DNO areas.
- Although we recognise that decisions can only be made based upon the information available, we are concerned that the number of end customers that have engaged in this review represents a very small proportion of the customer base. As we have stated on previous occasions, we feel it is not in the interest of independents or customers' agents to support DNO submissions as there is more scope to leverage further change within a regulated environment. We believe it is crucial that Ofgem is able to directly engage with customers at every stage of this review to ensure a balanced view that is informed directly by the parties that competition is intended to benefit and with this in mind we welcome Ofgem's work to survey end customers.

We welcomed the opportunity to attend the seminar facilitated by the Metered Connections Customer Group on 1 September 2014 and learn more of the priorities of that group, which we have taken into account in addressing 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 reviewed all the concerns raised by the Call for Information and the MCCG seminar with a view to making any adjustments required to our ongoing competition development plans to incorporate aspects not already addressed. We also initiated and hosted a meeting with other DNOs to exchange views and best practice.

2 Development of competition in the Connections markets

Since the start of the Competition Test period we have seen significant movement in market shares. Information we provided in our response to Ofgem's Call for Information, included as Appendix 2 to this document, showed that the overall trend is for a significant shift of work away from DNOs to independents.

2.1 Our approach to enabling competition

Our commitment to enabling competition in connections is evidenced by the establishment of a Competition Development team in January 2011, independent from the day-to-day operational competition in connections team, charged with focussing specifically on identifying and facilitating improvements to our systems, processes and behaviours. 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. Appendix 4 provides details of dates and competitor and UK Power Networks attendance for each of the 15 workshops we have held since 2010 and indicates the high level of visible support provided by UK Power Networks' Executive and senior management teams. We have listened to all feedback gathered from those workshops and countless ad-hoc interactions and prioritised those that would benefit the most customers, often involving extensive changes to IT applications. Our previous feedback to Ofgem's Call for Information detailed many of the extensive range of improvements that have been and will continue to be delivered in this way.

2.2 Competition Test – results and outcomes

During 2012 and 2013 UK Power Networks submitted Competition Notices in line with the requirements detailed in Chapter 12 of Charge Restriction Condition 12 of our distribution licences.

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)

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. In particular we believe the state of competition in UK Power Networks in the Metered High Voltage Demand 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. A successful outcome to our December 2013 submission would have increased our success rate across the Competition Test period from 52 per cent to 63 per cent. We hope that Ofgem take this into account in their ongoing work in this arena.

Similarly we have made extensive efforts to create equivalent conditions for independents in LPN as exist in our EPN and SPN 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. It is not in the interest of independents or customers' agents to support DNO submissions as there is more scope to leverage further improvement within a regulated environment. 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 from the parties that competition is intended to benefit.

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

3.1.DNO accreditation schemes

It is important to note that the arrangements summarised in Appendix 3 of Ofgem's consultation, where UK Power Networks carries out an assessment of an individual's competency and familiarisation with our networks and materials, normally apply only where the ICP has requested access to the existing distribution system, for example when carrying out live jointing. In these circumstances DNOs have developed bespoke arrangements to reasonably meet the obligations of a duty holder under applicable health and safety legislation. We understand that IDNOs and ICPs are broadly accepting of this. For all other contestable work, which represents a significant majority of competitor activity in the metered markets, UK Power Networks (in common, we believe, with all DNO groups) require only Lloyds Register National Electricity Registration Scheme (NERS) accreditation, which may be held by any ICP on a national accreditation basis. There is no requirement for the ICP or its staff to secure any DNO-specific accreditation for these works. Work requiring access to the existing distribution system, where DNO-specific requirements are applicable, represents an extremely small proportion of overall metered ICP works and the majority of these ICPs do not wish to carry out this work, particularly in the case of high

voltage final connections. However, notwithstanding this minimal impact, and in recognition of potential future levels of activity, UK Power Networks initiated and hosted a DNO best practice meeting which was held at our Elephant & Castle office on 13 October 2014 and where we proposed arrangements that would allow DNOs to recognise each other's 'accreditation' (or equivalent) for access to the live distribution system. This work is still in ongoing but we are confident that progress can be made in this area. The arrangements would involve Lloyds Register and we have asked them to discuss the proposal at the next meeting of the National Electricity Registration Scheme Advisory Panel (NERSAP) on 18 November. We question the portrayal as best practice in paragraph 3.19 of WPD's reliance on NERS accreditation where ICPs carry out live jointing, given that all other DNOs believe some degree of DNO assurance is prudent to ensure safe access to their live distribution system.

A further point relating to the freedom of competitors to serve customers in our areas concerns the ability of contractors to act as ICPs and conversely the ability for a customer to request that their contracted ICP be engaged to carry out the non-contestable works. In November 2014 we plan to update and re-issue a letter that was first widely circulated in March 2012, confirming that we would not unreasonably withhold consent to any customer that requested that the ICP could also act as UK Power Networks' contractor to carry out the non-contestable works. This has the potential to completely remove UK Power Networks' staff from the delivery aspect of a project, which is a significant step in minimising DNO control. The letter is published on our website at this link

<http://www.ukpowernetworks.co.uk/internet/en/connections/competition-in-connections/technical-information-for-icps-and-idnos/> and is included as Appendix 3 to this response. We can confirm that at least seven of our contractor partners also operate as ICPs within the UK Power Networks areas.

3.2. How DNOs determine the point of connection (PoC)

With regard to the proposed solution referenced in paragraph 3.24 of Ofgem's consultation document, it is difficult to understand how any party other than the DNO could take overall responsibility for the determination of PoCs. However, UK Power Networks has been at the forefront of DNO steps being taken to support ICPs in making PoC decisions. 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 stakeholder workshops during 2013 before commencing a pilot in October 2013. To date one ICP has completed three connections where they have identified the PoC. Several further ICPs have expressed an interest but none has yet taken up this opportunity. This unfortunately reflects much of our experience with pilots and newly contestable activities, where take-up has often been minimal both in terms of numbers of participants and levels of activity.

In response to Ofgem's comment in paragraph 3.24 concerning the ability of independents to access DNO network information, we have identified two changes we can make to assist in this respect. We are finalising plans to make a workstation available in each of our three main Connections offices (Maidstone, Potters Bar and Bury St Edmunds) where independents will be able to obtain network information direct from our systems. We intend to have these in place by the end of December 2014. We are also exploring the technical feasibility of extracting a set of schematic diagrams of our high voltage network into an electronic format that the ICP could access online or by CD. We hope that this work, which is ongoing, will enable more competitors to take up our Point of Connection self-identification and HV final connections pilots.

Furthermore, in response to the interesting presentation and discussions at the MCCG meeting on 1 September 2014, UK Power Networks raised the subject of PoC self-determination for more detailed discussion at its ICP/IDNO stakeholder engagement workshop on 15 September 2014 and is actively considering a 'rules based' approach that will allow ICP PoC decisions to be made where those rules apply, both at LV and HV. This will have a similar positive impact to the gas matrix but will recognise the

technical differences between gas and electricity distribution networks which must be taken into account when drawing comparisons between the two types of network. This initiative is discussed more fully in Section 7 of this document.

3.3. The way in which DNOs approve connection designs

We recognise and support independents' desire to lessen the impact of design approval on their ability to progress schemes and meet client expectations. Since early 2014 we have been holding one-to-one meetings with ICP design teams and many of these meetings have included discussion of design issues specific to that ICP with a view to helping them improve the quality of their design submissions.

Building on incremental improvements implemented over the course of the Competition Test period and in response to comments in feedback to Ofgem's Call for Information, during October 2014 we developed plans for a progressive and comprehensive approach to design approval, the first stages of which have already been implemented.

- We instructed our designers at a designer day on 19 September 2014 to liaise more directly with ICPs to minimise design rejections by being aware of how designs are developing and addressing any issues before the design is submitted.
- From 1 November 2014 we have re-assigned our design resource to ensure each design submission is reviewed within two to three days of receipt, initiating dialogue with the ICP at an early stage if any issues are identified. This is prior to the submission being allocated to the specific designer that will be responsible for the scheme through to design approval.
- From 1 November 2014 we have introduced internal monitoring to track our performance in achieving first-time design acceptance and gauge the success of this set of measures.
- We also considered a potential 'quick win' by providing a 'Frequent Reasons for Design Rejection' section on our website. However, on reviewing a large volume of data relating to issues with recent designs it became clear that issues are diverse and specific and any attempt to simplify that data into a number of high-level headings would be so generalised as to be of very little value in understanding the actual issues. We therefore rejected this course of action.

In parallel to the 'quick wins' detailed above we have devised an innovative staged approach to promote the quality of first time design submissions and allow submissions to be fast tracked. Ultimately, subject to further industry considerations, this could assist ICP designers in achieving NERS accredited designer status should this be subsequently introduced, enabling self-approval and completely removing the need for UK Power Networks to approve those designs.

A progressive series of 'levels' is awarded based on a proven track record, with a greater level of submissions being fast tracked the higher the level gained. Separate levels will be awarded for LV and HV submissions. Fast-tracked submissions will undergo a 'light touch' review where ICPs provide good quality submissions and achieve a high first-time submission acceptance rate. We have tested this approach with a major competitor who has welcomed it as a significant step forward and will be one of two independents taking part in a pilot to enable us to test this approach for a limited period and make any adjustments required before rolling it out to all ICPs in 2015.

Participating ICPs' design teams have been invited to a series of briefing workshops in November and December 2014, where we will explain the staged approach and provide guidance on design submissions to promote a first time submission acceptance rate. When the ICP has attended this workshop and signed on to the pilot they will be deemed to have passed Level 1. We are currently making arrangements for these workshops and are in discussion with the relevant ICPs regarding initial dates in late November 2014.

UK Power Networks will table a proposal for a new accredited designer scope at the next meeting of the National Electricity Registration Scheme Advisory Panel (NERSAP) on 18 November.

3.4. The requirement for IDNOs to fund and install link boxes

We note that IDNOs have suggested the DNOs' requirement for them to provide a link box at the IDNO network boundary to be "a major barrier to competition". Having considered this point, on 3 November UK Power Networks implemented a new policy:

- to remove the requirement for IDNOs to fund their installation such that, with effect from 1 October 2014, UK Power Networks will make an equivalent payment of the costs for the ICP/IDNO to supply and install the link box, using a set of rates we would expect to incur if we were to carry out this work; and
- to review the requirements for link boxes.

3.5. How DNOs inspect and monitor new assets provided by their competitors

We are pleased to be recognised as having well-structured arrangements in place and for being receptive to changes and in providing direct liaison for feedback. However, we also recognise that ICPs have requested a single national process for inspection and monitoring and UK Power Networks is leading the work of the Inspection and Monitoring Working Group to develop such a process. UK Power Networks has hosted six work group meetings and has taken an active lead in a detailed proposal that will be presented to the next working group meeting that it will host on 2 December 2014.

3.6. Inconsistent application of planning and design standards

Although paragraph 3.47 under this heading in the consultation document relates specifically to how DNOs' design standards are applied, we note also that Ofgem express a wider concern in paragraphs 3.13 and 3.14 that DNOs may not have sufficient controls in place to ensure parity of treatment between ICP connections and work where the DNO provides the full connection service. In UK Power Networks we have a robust and comprehensive framework of controls including procedures, auditing and separation of teams that govern the way our people work, ensure they are fully informed about their responsibilities, and capture and apply learnings from any instances of non-conformance that come to our attention.

We are particularly keen to maintain awareness among all our employees and contractors of the company's and their own obligations under competition law. We provide annual competition law refresher briefings, with bespoke versions for field staff, office staff and contractors, and we support managers in discussing the content in a way that is relevant to their individual teams. The most recent refresher briefing packs were issued on 20 October 2014. This will be followed up with a code of conduct booklet which will be sent to all employees' home addresses with the employee *Wired* magazine in December 2014. Also in December 2014 the Director of Connections will personally endorse our annual employee competition awareness briefing, requiring every UK Power Networks manager to reinforce within their teams the company's commitment to enabling competition and the status of ICPs and IDNOs as valued customers that we will work as one team to serve.

The briefing packs referred to in the previous paragraph are among a wide range of material available to employees in various parts of our company intranet relating to competition in connections. In October 2014 we simplified access to all this material by creating a single Competition in Connections page accessed by a link from the front page. This contains links to each of the intranet pages for the teams involved in facilitating competitor activity as well as briefing packs and links competition-related content on the UK Power Networks, Ofgem and NERS external sites.

In any circumstance where, either through the application of the controls described above, or by external feedback, we have identified a possible lack of understanding or misinterpretation of our systems and

procedures, we use our Commercial Briefings mechanism to disseminate a corrective reminder to all relevant employees. Commercial Briefings are discussed on each occasion when a member of our Connections Regulation team meets with a design team. Every team of designers is normally visited at least every two to three months, either as part of their monthly team briefing, at a quarterly Designer Day for Competition in Connections designers or within regular Connection Regulation 'surgeries' if there is a specific topic to be covered. This is followed up by checks being made on an ongoing sample basis for compliance.

3.7. Other topics associated with DNO control

Although not specifically referenced in Ofgem's current consultation, we feel it is relevant to include details of a number of further steps we have taken to minimise our involvement in competitor connections.

- 3.7.1 Previous feedback has led us to take steps to give competitors and customers the opportunity to be involved in the development of any new and revised policy decision. In June 2014 we held a Technical Forum for customers, which led to a pilot where we invited 28 customers and competitors to comment on a design standard detailing the requirements for connection to the distribution network at High Voltage. Comments were collated into a combined comments table and circulated to all those that had made comments. Where a comment was not taken into account a response was provided. The document has now been published with an entirely new structure following a comment on the flow of the document. In October 2014 this became a business-as-usual process, enabling any significant new or revised policy to be posted online within our G81 website, with the ability for any stakeholder to comment.
- 3.7.2 In 2011 we developed a Construction Licence, at the request of an ICP and with their extensive involvement, to address situations where independents have difficulty in obtaining easements and wish to take advantage of those UK Power Networks already has in place. The licence is a simple form to be signed by the landowner that entitles the ICP to enter and work on their land and provides indemnity to the landowner for any damage the ICP may cause. Independents welcomed this approach and it has been operating successfully for more than three years. However, in response to representations made during the competition review, in September 2014 we introduced an alternative to the Construction Licence whereby we provide a letter for the independent to pass to the landowner, advising them that the ICP is contracted to UK Power Networks to construct the asset to the standard that will allow us to adopt it. However, we learned when we presented this among a raft of improvements at our September 2014 stakeholder workshop that some ICPs preferred to continue to use the Construction Licence, therefore we now offer both options. This was an interesting learning point that any issue raised by one competitor may not be representative of others within that community.
- 3.7.3 We have been offering a signal injection service since 2011 to assist ICPs carrying out unmetered live jointing to our LV mains in identifying cables. At a recent stakeholder workshop we asked if independents would be interested in carrying out this activity themselves and thereby reducing the involvement of UK Power Networks in the final connection process. As this suggestion was positively received we have developed proposals for a pilot and we held a meeting with an ICP on 31 October to finalise arrangements to commence a pilot.

4 Issue B – The customer's experience

4.1. Customers do not know that they can use alternatives

We feel we have taken all reasonable steps to bring competition to the attention of customers and that the range of information provided by DNOs and Ofgem offer ample information to enable any customer to understand the options available to them. As detailed in previous submissions, measures include extensive online information, details of competitive alternatives provided in application packs and issued with quotations, and employees briefed to discuss competition when speaking with customers.

4.2. Customers are reluctant to use alternatives

We have increased the ease with which a customer is able to identify potential competitors by providing an online listing where we invited independents to publish a link to their websites, thus giving customers direct access to suitable companies. There are currently 33 independents listed, with a direct link to their websites. However, feedback at our workshops from some of those independents listed supports the observation in paragraph 3.62 of the consultation in that the independents listed often reject enquiries from customers where the work is unattractive to them.

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 have consistently highlighted to Ofgem our belief that, to be truly reflective of the market place, it is critical for Ofgem's review to be informed by extensive and representative end customer feedback.

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

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. In parallel we made 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 must include. We have first introduced a 'convertible quote' in November 2012; however, customer feedback was that the layout of the quotation was too complicated and the take-up was disappointing. We therefore invested our effort into ensuring that the form of quotation produced in the Connections phase of our Business Transformation Programme would meet customers' needs.

This new Convertible Quote, which is currently scheduled to be introduced with effect from 15 December 2014, will provide three options/prices that the customer can select:

- Option A, where UK Power Networks will undertake all the works
- Option B, where UK Power Networks will undertake the non-contestable works plus the final closing joint
- Option C, where UK Power Networks will undertake the non-contestable works only

The layout of the Notice (quotation letter) will be simpler to understand and more concise. The Notice promotes competition further by making the options more obvious to the customer. It also provides significantly improved cost breakdown, with more detailed descriptive text for each costing item. A further improvement is that the table is limited to populated values only instead of showing a large number of zero values.

5 Issue C – The impact of regulatory regimes and requirements

5.1. The licensees' 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 a Local Authority 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 Local Authorities and risk additional delays and costs to their projects. We recognise that this matter continues to disadvantage independents and we will support any moves to address this.

5.2. The DNOs and IDNOs' licence requirement to provide an 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 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; on 19 September they provided us with an outline of their requirements based on their planned arrangements with another DNO and on 9 October we signalled our agreement to progressing discussions based on those outline requirements. In the meantime we have a nominated point of contact within UK Power Networks for this IDNO and have provided emergency assistance on request.

We would be interested to develop a workable set of arrangements as a pilot which could form the basis of a more generic offering to all IDNOs that wish for a similar service to be provided.

5.3. The ability of DNOs to provide part-funded connections

UK Power Networks provided and received feedback to other DNOs on this topic at the Best Practice Workshop that it hosted on 13 October 2014. Whilst other DNOs have discussed options for a pilot, UK Power Networks has already completed a pilot with an ICP and provided its feedback to Ofgem in its report dated 6 March 2013 and at a meeting with Ofgem and the ICP held at Ofgem's offices on 22 May 2013. UK Power Networks has combined its experiences on this pilot and those reported by another DNO at the Best Practice Workshop and now intends to complete further pilots as soon as suitable projects and willing ICP(s) may be identified.

6 Issue D – Transparency of pricing

6.1. Pricing

The new quotations that will be provided following our Business Transformation rollout will be built up from Compatible Units that will form a basis for estimating and allocating all labour, plant and materials and scheduling those resources. A Compatible Unit is a pre-defined "engineering procedure" performed upon a particular asset type with a specific voltage level for a specific reason. Each procedure states the specific tasks (what, who, qualification, how long) to be carried out, combined with required materials, costs and associated accounting rules. The new Compatible Units will enable us to include the following details on each quotation:

- A full description of the work to be undertaken for each Compatible Unit that the designer has identified as being necessary
- The charge for each of those Compatible Units
- The above to be grouped by contestable and non-contestable works

7 Issue E – Competition not viable for certain types of connection

With regard to the good practice noted in paragraph 3.103 of the consultation document, at our last competition workshop we ran a session to gather views from competitors about the use of a design matrix similar to that provided for gas, as had been proposed at the MCCG seminar. In the gas market, a design matrix is used to identify scenarios where the independent may make a connection without any requirement for the gas transporter to make a PoC decision in advance. Most of the stakeholders present had experience only in either electricity or gas; the few attendees that had experience of both felt that, as electricity is substantially different, the gas approach would be difficult to transfer, and agreed that more detailed examination would be needed to determine what might be feasible. We have set up a working group to assess the feasibility and scope of such an approach. The group held its first meeting on 3 November and we expect to conclude a feasibility study by the end of December and announce the new arrangements in Q1 2015.

8 Glossary of Terms

| Term | Meaning |
|----------------------------------|---|
| Competitor | An ICP or an IDNO accredited to operate in the UK Power Networks area |
| DNO | Distribution Network Operator |
| ECSG | Electricity Connections Steering Group |
| 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 (either directly or under contract with a third party). |
| Independent | An ICP or an IDNO accredited to operate in the UK Power Networks area |
| LA | Local Authority |
| SLC15 [service] | A non-contestable-only quotation, design acceptance and delivery service |
| MVA | MegaVolt Amperes |
| NERS | The National Electricity Registration Scheme operated by Lloyds Register EMEA |
| RMS | Relevant Market Segment as defined in Charge Restriction Code 12 |
| Section 16 [service etc.] or s16 | A full (contestable and non-contestable) design, quotation and construction service |

Competition in Connections Consultation Response

November 2014



Appendix 1: Commitment of Intent

In addition to all the improvement actions reported as completed elsewhere in this document, we have initiated a range of further ongoing improvements. We commit to complete the improvements by the dates indicated. A small number of actions may be subject to external factors, however we provide an indication of when we expect to be able to complete each action.

| Improvement action | Relevant paragraph | Target date |
|--|--------------------|--------------------------|
| ICP workstations in our three main Connections offices | 3.2 | 31/12/2014 |
| Provide a copy of our HV schematic network diagrams in electronic format for use by ICPs (subject to technical functionality) | 3.2 | Q1 2015 |
| Point of Connection Decision Matrix: - Feasibility study completed - New arrangements announced | 3.2 & 7 | 31/12/2014 31/03/2015 |
| Design approval staged approach pilot under way | 3.3 | 30/11/2014 |
| Promote introduction of a new NERS scope for Accredited Designer (subject to NERS/industry agreement) | 3.3 | Q1 2015 |
| Inspection and Monitoring Working Group agree national process for ICP inspection and monitoring (subject to achieving consensus) | 3.5 | 31/12/2014 |
| Employee Competition Awareness briefing issued | 3.6 | 31/12/2014 |
| ICP signal injection pilot under way (subject to ICP timescales) | 3.7.3 | 31/12/2014 |
| Convertible quotation available for all market segments (subject to successful implementation of the connections release of our business transformation programme) | 4.3 | 31/12/2014 |
| IDNO emergency response pilot under way (subject to IDNO timescales) | 5.2 | Q1 2015 |

Signed

Mark Adolphus, Director of Connections

Date:

4 NOV 2014

Appendix 2: UK Power Networks market performance

The following tables were included in our July 2014 response to Ofgem's Call for Information in relation to the review of competition in the connections markets.

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.

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Changes in market share since 2011

This table shows the difference between the current market shares included in the preceding table 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.

| 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% |

Appendix 3: Letter concerning ICPs also operating as a contractor

Issued to 25 major contractors and suppliers in March 2012



Registered Office:
Newington House
237 Southwark Bridge Road
London SE1 6NP

Registered in England and Wales No: 3870728

Company:
UK Power Networks
(Operations) Limited

Name
Title
Address 1
Address 2
Address 3
Address 4
Address 5

Dear Sir

UK Power Networks (UKPN) actively supports the development of effective competition in connections, and the benefits that such competition should bring to end customers, in terms of service improvement and/or lower prices.

For some time UKPN has been working closely with external stakeholders to understand what changes it can make to improve the effectiveness by which competition in connections can develop and operate freely in our markets. We have conducted seven stakeholder workshops since 2010 to obtain direct feedback from Independent Connection Providers (ICPs) and Independent Distribution Network Operators (IDNOs) to identify a series of specific measures to assist with this objective, including the introduction and/or improvement of policies, processes, access to information, transparency of non-contestable charges and the extension of contestable connection activities. More recently those workshops have included some representatives of companies who are registered as ICPs/IDNOs to compete in UKPN's footprint but which do not do so at present.

This therefore seems an appropriate time to stress UKPN's policy with regards to any of our suppliers and contractors who have any desire or ambition to enter/trade in UKPN's competitive connections market:

1. UK Power Networks welcomes and supports increased activity levels by its existing competitors and from new market entrants;
2. UKPN has no objections whatsoever to any of our contractors and suppliers competing actively in UKPN's connections markets;
3. Participation by UKPN's contractors and suppliers in the connections market will not have any adverse consequences whatsoever in terms of those organisations' ability to compete for and win supply/service contracts with UKPN; and
4. Any contractor/supplier considering entry to the Connections market can obtain information and advice from our independent Competition-in-Connections unit, which is established solely to provide such support and to manage the delivery of all non-contestable services.
5. If a customer requests a contractor to provide both the contestable and non-contestable works for a single project and, this is supported by the existing contractual agreements, UKPN will always try to accommodate the customer's wishes.

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Please note that;

- We provide regular staff briefings on Competition Law and will add a reminder of this policy in future briefings;
- If any of you would like to attend one of our future stakeholder workshops, please contact Sue Jones (Competition Development Manager) on 07875 111 861;
- Information regarding competition in connections in UKPN's footprint can be found on our website at <http://www.ukpowernetworks.co.uk/products-services/networks/connection-services/competition-in-connections.shtml>

If you have any queries or require further information , please contact Sue Jones (as above) or Steve Wood (Head of Commercial Services) on 07875 113 888.

Kindly forward this note to the relevant members of your organisation.

Yours sincerely,

Nirmal Kotecha
Director of Capital Programme & Procurement

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Appendix 4: Programme of Stakeholder Workshops

| Workshop No. | Date | Companies invited | No. attended | UKPN attendees * |
|--------------|------------|-------------------|--------------|---|
| 1 | 22/11/2010 | 18 | 12 | DoC, HoCS, RM |
| 2 | 17/02/2011 | 14 | 12 | DoC, HoCS, CiCM, CDM, RM |
| 3 | 18/05/2011 | 28 | 17 | DoC, HoCS, CDM, RM |
| 4 | 20/07/2011 | 29 | 18 | DoC, HoCS, CiCM, CDM, RM |
| 5 | 14/10/2011 | 30 | 14 | DoC, HoMC, HoCS, CiCM, CDM, RM, HSIM |
| 6 | 17/01/2012 | 34 | 21 | DoC, HoMC, HoCS, CiCM, CDM, RM, HSIM, AM |
| 7 | 03/04/2012 | 35 | 21 | DoC, HoMC, HoCS, CiCM, CDM, RM, HSIM |
| 8 | 14/08/2012 | 40 | 14 | DoC, HoCS, CiCM, CDM, HSIM, AM |
| 9 | 15/11/2012 | 38 | 16 | DoC, HoCS, CiCM, CDM, RM, HSIM |
| 10 | 12/02/2013 | 39 | 14 | DoC, HoCS, CiCM, CDM, RM, HSIM |
| 11 | 10/05/2013 | 42 | 14 | DoC, HoMC, HoCS, CiCM, CDM, RM, HSIM |
| 12 | 10/09/2013 | 52 | 15 | DoC, HoMC, HoCS, CiCM, CDM, RM |
| 13 | 29/01/2014 | 47 | 27 | DoC, HoMC, HoCS, CiCM, CDM, RM, HSIM, HSS |
| 14 | 15/05/2014 | 49 | 21 | DoC, HoMC, HoCS, CiCM, CDM, RM, HSIM, HSS, AM |
| 15 | 15/09/2014 | 51 | 17 | DoC, HoCS, CiCM, CDM, RM, HSIM |

Key to UK Power Networks representatives:

DoC – Director of Connections
 HoMC – Head of Major Connections
 HoCS – Head of Commercial Services, Connections
 CiCM – Competition in Connections Manager
 HSIM – Highway Services ICP Manager
 CDM – Competition Development Manager
 RM – Regulation Manager, Connections
 HSS – Health, Safety and Sustainability representative
 AM – Asset Management representative