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Dear James,

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

Scottish and Southern Energy Power Distribution welcomes the opportunity to respond to Ofgem's latest update on the competition in connections market review.

We note that the issues highlighted by alternative providers as potential barriers to the development of competition have not yet been quantified by Ofgem and that instead these remain predicated on the views of market participants. It is therefore very difficult for us to comment on the significance of each of these issues and to understand the potential impact on customers. Analysis of each issue in turn including an assessment of the number of customers impacted would be helpful in gaining perspective of the issues and an understanding of the impact on customers that resolving the issues could have.

Notwithstanding this, we have taken significant steps to address the issues raised and were disappointed to note that this is not reflected in the latest consultation document. We believe that we now demonstrate best practice in a number of areas: as the only DNO to have fully transferable quotations across all market segments; the only DNO that requires no more than NERS accreditation; the only DNO to be implementing a 'one design rejection' policy; and the first DNO to have committed to funding link boxes. This was not apparent in the consultation document.

There are still improvements that can be made across the industry and our proposals in relation to these are set out in Appendix I. We would like to discuss the progress we are making and, in particular, our actions since the close of the Competition Notice process, in more detail with you and

will contact you to arrange a suitable time. In the meantime, please do not hesitate to contact me if you have any questions on any of our response.

Yours sincerely,

Gwen MacIntyre
Regulation, Networks

Appendix I – Issues and potential solutions: response

Detailed below are our views on each of the issues highlighted in the consultation document and the steps we have taken to resolve these issues to date.

DNO accreditation regimes

We recognise that stringent and different accreditation and authorisation regimes across the country could create difficulties for alternative providers. For this reason we only require alternative providers working in our licensed areas to be NERS accredited. We also allow alternative providers to operate under their own Distribution Safety Rules with no additional requirement to be authorised under ours. If this process was adopted by all DNOs, then any requirement for an alternative provider to be subjected to multiple alternative accreditation and authorisation regimes would be eliminated.

Determining the Point of Connection (POC)

We recognise that although many of our alternative providers are satisfied with our current performance in identifying POCs on their behalf, for some there is a wish to be able to identify these themselves.

Alternative providers are already able to determine POCs for some types of jobs in our licensed areas, including for unmetered connections and smaller LV and HV connections. We are also in the process of developing a “proof of concept” project with two alternative providers to consider extending this to other types of connection.

Design approval

We recognise that design approval is a key stage in the progress of a project for alternative providers. As it is often undertaken under tight deadlines to allow the project to progress, it is an area that particularly benefits from a close working relationship. It is therefore essential that we work together to make this step as simple as possible.

We have made a significant improvement here with the introduction of our ‘one design rejection’ only policy whereby if we have rejected a proposal from an alternative provider then our response is clear and specific on the issues with the design and also includes the offer of a follow up meeting to discuss and explain our issues with them to ensure that the next design will meet the requirements. We also now uniquely allow partial approval so that where we are not able to approve the full design, we may

approve specific elements, e.g. civil works or cable routes, of a design to allow a project to progress in a timely manner.

Following discussions with a number of our larger alternative providers, we are also in the process of introducing pre-approved specific designs to avoid the requirement for approval on a site by site basis.

We note that our pragmatic approach to design approval was recognised in responses to Ofgem's recent consultation.

Link boxes

We recognise the additional costs that link boxes create for IDNOs and it is for this reason that we have committed to the removal of the obligation to include link boxes where not operationally justified and to fund link boxes where we believe these to be required. We are pleased to see others follow our lead as we consider this to be the most appropriate solution for the industry to adopt.

Inspection and monitoring

We understand that stringent inspection and monitoring requirements and differing requirements across the country could create difficulties for alternative providers. We note that our "hands off" approach and reasonable inspection and monitoring regimes were recognised in responses to our Competition Notices. We currently provide alternative providers with regular updates on where they are within our inspection and monitoring requirements and now see a number of providers on minimum inspection regimes.

A consistent and centralised approach to inspection and monitoring by an external third party would be a sensible solution and one which we will commit to working with the other DNOs to consider.

Customer awareness

We agree that some customers remain unaware that they can use alternative providers. We believe that this is particularly the case for smaller developers who apply for a connection on a less frequent basis. We have made significant efforts in this area with the introduction of a fully transferable quotation with choice across all market segments to ensure any choice with potential savings was transparent, together with our 'you have a choice' leaflet.

Following feedback, we recently reviewed our leaflet, introducing some improvements. This included outlining the next steps for a customer if they wish to engage an alternative provider. We had these changes reviewed by a number of alternative providers, building their comments into the revised

version which was re-launched to all our stakeholders and is included in all applications and offers we provide.

Customers' reluctance to use alternative providers

We are aware that this may be an issue for some customers, and have incorporated information on choice at each step in the process of connection to try to alleviate this issue.

We have a link on our website to the Lloyds register of accredited alternative providers but are currently developing our own register of alternative providers to complement this. This will include greater granularity on the geographic areas and project types that alternative providers are interested in providing. We have had very positive feedback from those who have registered so far.

Accepting the non-contestable part of the DNO's quote

We agree that it could add time and effort to the process for customers wishing to use alternative providers if a dual quotation has to be reissued when the customer wishes to accept the non-contestable element only. For this reason our quotations across all market segments are fully transferable.

Licensees' statutory powers

We recognise that occasionally lack of statutory powers could lead to some work being more time consuming for alternative providers. Where this is a risk we address this through the offer of either an extension of our powers or completion of tasks where appropriate.

However the underlying issue is not one that can be resolved by individual DNOs. We would have no objection to the proposal to extend certain statutory powers to non-licensees, as long as any wider implications were fully considered.

Emergency Response

Provision of emergency response can be significantly costly. This is a cost that we also have to bear as a DNO within and outside our own licensed areas and we do not necessarily agree that DNOs are more easily able to cover these costs. We are also not clear that removing this requirement from IDNOs would lead to the improvements to customers offered by the development of true competition

as IDNOs would only be carrying out a small element of the work of a network operator and would not be competing on an equal basis with DNOs.

Nevertheless we recognise that IDNOs have raised this as an issue and we are therefore in the process of agreeing to provide this service where requested via our contracting business.

Part funded connections

We agree that the ability to provide part-funded connections is something that DNOs can currently offer that alternative providers cannot, potentially making smaller projects with limited contestable works less attractive to alternative providers.

We recently took part in a DNO wide workshop where we reviewed the trials each of us has carried out on this. We plan to work with the other DNOs to put proposals to Ofgem in relation to this with the intention to offer part funded reinforcement as an option for alternative providers.

Transparency of pricing

We understand that transparency of pricing is important both to alternative providers and end customers. We also note our level of transparency was recognised in responses to our Competition Notices. We currently provide a high level of detail in our offers but are always looking for an opportunity to improve this.

A way to provide clarity, transparency and comparability would be a national pro-forma detailing costs. This seems a sensible proposal and one which we would be happy to commit to working with the other DNOs to implement.

Competition not viable for certain types of connection

Based on our experience of connections work and of working with alternative providers, we consider that there are certain types of connections jobs that may not be attractive to alternative providers. This is particularly an issue in our SHEPD area, where some connection jobs can be low value, low volume and located in very remote areas.