



Making a positive difference
for energy consumers

All interested stakeholders

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Dear Stakeholders

Competition in electricity distribution connections

In 2015, we introduced a licence condition and code of practice to help facilitate competition in the electricity distribution connections market. We stated that we would review these arrangements in 2017.

This letter reaffirms the importance of competition in connections and explains why we are not undertaking a further review of the market right now. The letter also provides stakeholders with more information on how they can propose changes to the services that Distribution Network Operators (DNO) provide to their competitors.

Background

Not all new connections to the electricity distribution network are made by the local DNO. A customer can choose to use an alternative provider for some connections work known as "contestable work". Contestable work can be carried out by a DNO, an independent distribution network operator (IDNO) or an independent connection provider (ICP).

Since 2000 we have worked to facilitate effective competition in the electricity distribution connections market. Effective competition should improve the quality of service received by connection customers, reduce the cost of connections and encourage the development of innovative connection services.

2014 Review

In 2014, we conducted a review into the electricity distribution connections market¹ to understand why effective competition had only developed in some sections of the market.²

Our 2014 review found several issues in the market that could limit competition. A number of these issues related to the DNOs' role in the connection process (as the sole provider, for both its own connections business and its competitors, of a several key inputs needed to make connection). To address this, we introduced:

- A new licence condition - which requires DNOs to facilitate competition in the electricity distribution connections market and maintain a Code of Practice.
- A Competition in Connections Code of Practice (Code of Practice)³ – which specifies how DNOs must provide key services to its competitors in the connections market.

¹ Competition in electricity distribution connections - call for evidence, 24 June 2014; [link here](#)

² The findings of our review of the electricity connections market, 21 January 2015; [link here](#)

³ Competition in Connections Code of Practice (Code of Practice); [link here](#)

The new licence condition and Code of Practice were implemented on 30 Oct 2015.⁴ At the time, we stated that we planned to undertake a further review of the market after 18 months to determine the success of these remedies.

Progress since 2014

Since 2015, we have received positive feedback from competitors about the improvements made by the DNOs. In particular, we have received encouraging feedback about the positive impact of the Code of Practice on the DNOs - both culturally and practically. To date, we have approved five modifications to Code of Practice.⁵ Two of these modifications introduced processes to allow ICPs to undertake connection activities that traditionally have only been undertaken by the DNOs (ie self-determination of the point of connection and self-approval of connection designs).

We have also been pleased to see the progress made by the DNOs to address some of the issues that did not relate to their role in the connection process. For example, in May 2017 we approved a Distribution Connection and Use of System Agreement (DCUSA) modification proposed by UKPN to simplify billing arrangements for large customers with unmetered assets on both IDNO and DNO networks.⁶

Way forward

Facilitating effective competition in the electricity distribution connections market continues to be a key priority for us and we will continue to engage with the stakeholders to ensure that this happens. Due to the relatively short period of time since we introduced these arrangements and the positive feedback that we have received since then, we will not be undertaking a further review of the market right now.

If you would like to propose any changes to how DNOs provide services to its competitors, then we would encourage you to raise a modification to the Code of Practice.⁷ If you have ideas about how the DNOs could improve the provision of non-contestable services, then we would also encourage you to help develop the DNOs' Incentive on Connections Engagement (ICE) plans.⁸

If you have any significant concerns about the state of competition in the market for new electricity distribution connections or our proposed way forward, then please send them to the connections@ofgem.gov.uk. We will continue to engage with the market for new connections and we will keep the issues identified in this letter under review.

Yours sincerely,

Andy Burgess
Associate Partner, Energy Systems Integration

⁴ Competition in Connections – Modification of the standard licence conditions of the electricity distribution licence, 4 September 2015; [link here](#)

⁵ All of our decisions on CiCCoP modifications can be found here; [link here](#)

⁶ DCUSA DCP282 "Embedded Distribution Network Operator (EDNO) UMSO", 18 May 2017; [link here](#)

⁷ More information on the process for proposing modifications to the CiCCoP can be found here: [link here](#)

⁸ More information on the ICE can be found in our ICE Guidance Document; [link here](#).