DRAGON
INFRASTRUCTURE SOLUTIONS

CONNECTIONS IN CONSTRUCTION 2015

INTRODUCTION

Historically connections were a monopoly and not open to independent competition. Then in 1998 the market was deregulated, allowing accredited companies to work in the sector. Since then independent connections providers (ICPs) have entered the market – giving construction companies far more choice when it comes to connecting their projects to the national grid.

This report examines whether deregulation has delivered all that it promised. How is the construction industry handling the connections aspect of a project? Are construction companies taking advantage of the additional supplier choice? Which providers are turned to, what is expected from them and where are their service gaps? The report also considers what savings and benefits deregulation has brought and what more needs to be done.

As a leading ICP, this research provides a fascinating insight into our market place. I equally hope that as a construction decision maker, you find the report just as informative – not least as a way to benchmark your company's approach to connections against your peers and to see whether deregulation is delivering for your business.

Simon Phipps
Chairman
Dragon Infrastructure Solutions

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METHOD

The report is based on in-depth, online interviews, carried out with 122 construction industry decision makers between January and April 2015. The interviewees were drawn from regions spanning the UK, ensuring the report truly reflects the whole market. The research examines the views of those working within the house building, commercial, mixed developments, renewables and public sectors. Where significant, we show the comparison between those working in these different sectors.

Sectors the Participants are Involved in	%
House Building	49%
Public Sector	17%
Commercial	42%
Mixed Developments	45%
Renewable	20%
Other	12%

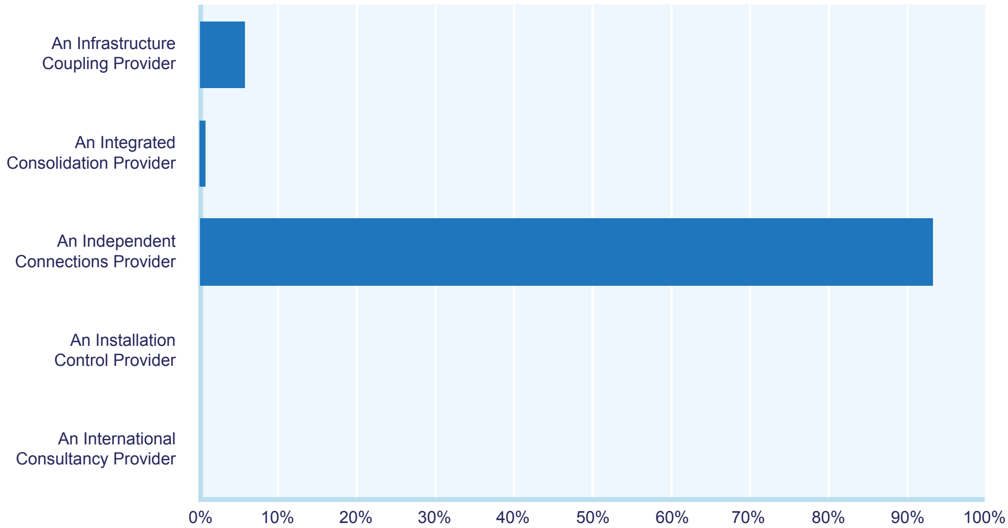
BACKGROUND TO DEREGULATION

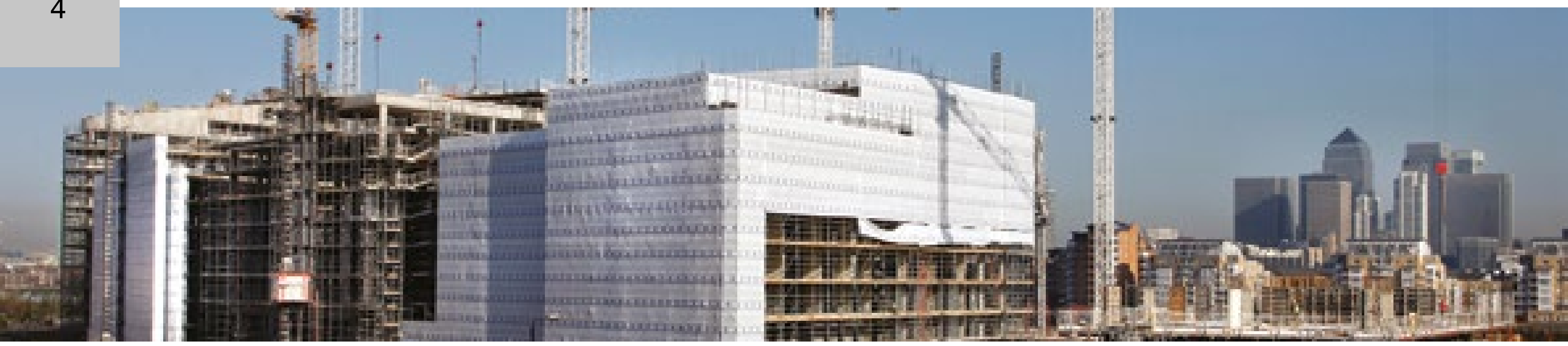
The introduction of competition within the connections business was introduced 19 years ago. In 1996 the Office of Gas Regulation (Ofgas) was tasked with deregulation of the gas connections business. Starting in the South West, it took over 2 years on a regional basis to complete the process. Electricity followed in 1999 with the Office of Electricity Regulation (Offer), but with lessons learned within the gas deregulation taken on board, this process took only 8 months.

Historically, connections were a monopoly and not open to independent competition. Deregulation allowed companies to obtain Lloyds accreditation, based on sufficient knowledge and ability, to construct an adoptable infrastructure and connection. The Independent Connection Provider (ICP) was born.

ICPS

WHICH OF THE FOLLOWING DO YOU THINK AN ICP IS?





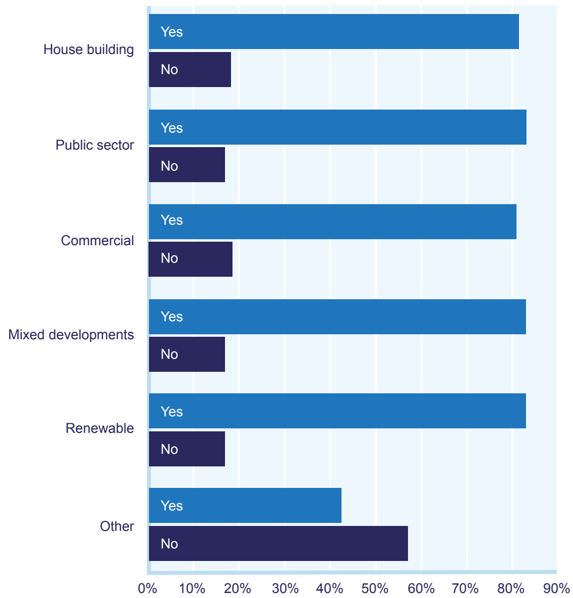
WHAT IS AN ICP?

The study suggests that 93% of those surveyed understand what the acronym ICP is, with over two thirds (67%) having firsthand experience of using an ICP.

Use of ICPs is particularly high among those who work in the more traditional areas of construction, for example house builders, mixed developers, public sector, commercial and renewables. Those who work in other areas of construction and engineering are less likely to have used an ICP.

When ICP users are asked if they would use one again, a staggering 98% stated that they would be happy to let an ICP handle their next connection. **This implies that the market has a good knowledge of deregulation and the benefits, and users have had a good experience working with an ICP in the past.**

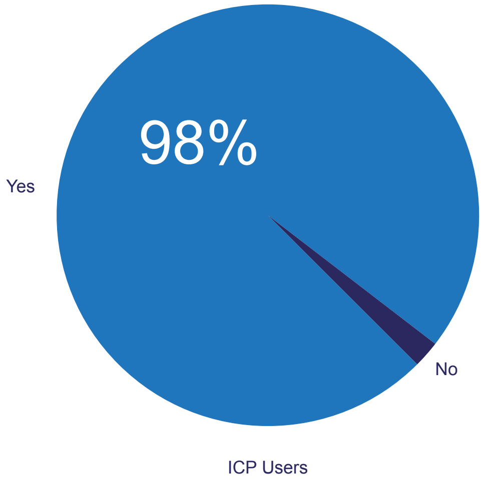
HAVE YOU USED AN ICP BEFORE?



DOES THE INDUSTRY UNDERSTAND DEREGULATION?

So is this the case, do people fully understand what deregulations have brought to the market and is the deregulated industry meeting the developer's requirements? Although many understand what an ICP is, a significant 59% of people do not fully understand what deregulation of the connections market means to their business. This statistic needs to be reduced if the construction sector is to get the very best out of the increased competition within the connections industry.

WOULD YOU USE AN ICP AGAIN?



FEELING THE BENEFIT

That said, a significant group is feeling the benefit of deregulation. For instance, **42% of developers and construction professionals feel the electricity connections market is in a better position than it was just two years ago**, with 27% thinking the same about gas connections and 33% about the dual connections industry. However, there are pockets of dissatisfaction; almost one in ten (9%) feel that gas utilities have become worse in the last two years.

Do you Fully Understand what Deregulation Brings to Market

Yes	41%
No	27%
Not Sure	32%

Perhaps the more worrying statistic for those working within the connections industry is that over 31% of those surveyed do not know what state gas connections are in when compared to two years ago, with electricity rating the same question as 14% and dual connections at 33%.

How does your experience of connections providers compare with 2 years ago?

	Worse	Same	Better	Don't Know
Gas Connections	9%	33%	27%	31%
Electricity Connections	5%	39%	42%	14%
Dual Connections	5%	29%	33%	33%

BENEFITS OF COMPETITION

Despite some not being completely sure about what deregulation brings, the reaction to the impact of deregulation on the connections market has been on the whole positive. 53% believe that the introduction of competition has had a positive impact on the cost of connections. Just under half (47%) believe that the level of service has improved since the introduction of deregulation, 29% say standards have improved, 30% have experienced enhanced health & safety, whilst 44% feel that they are getting a more tailored infrastructure design. Over two fifths (43%) feel that the speed of connection has got better and **61% of those surveyed feel that the level of creativity and willingness to look for viable solutions on site has improved**.

How has deregulation impacted on the connections process?

Impacted Areas	Same	Better	Worse
Cost of Connections	39%	53%	8%
Service	46%	47%	7%
Standards	64%	29%	7%
Tailoring of Infrastructure Design	49%	44%	7%
Speed of Connection	47%	43%	10%
Creativity of Solutions	39%	61%	0%
Health & Safety	63%	30%	7%

A more detailed inspection of these figures highlights that those developers and construction companies who most commonly use an ICP or IDNO as a preferred supplier, are much more likely to say costs are down thanks to deregulation. **58% of ICP users and 77% of IDNO users experience a better cost of connections**, in comparison to only 29% from the DNOs. These figures suggest that those who do not ‘shop’ around for their connections have not found quite the same benefits of deregulation as those that have.

How has deregulation impacted the cost of connections?

Preferred Supplier	Same	Better	Worse
ICP	34%	58%	8%
DNO	62%	28%	10%
IDNO	15%	77%	8%

Similarly those who have taken advantage of deregulation appear to be experiencing a more tailored service. **ICPs are leading the way, in terms of creativity**, with the statistics showing that the construction companies that use them are almost twice as likely to feel a sense of improved creativity, in terms of the solution they are offered (75%), than those who prefer to use a DNO (38%). This suggests that the increased flexibility and bespoke nature of an ICP, is paying dividends, with greater strides and improvements over rival providers.

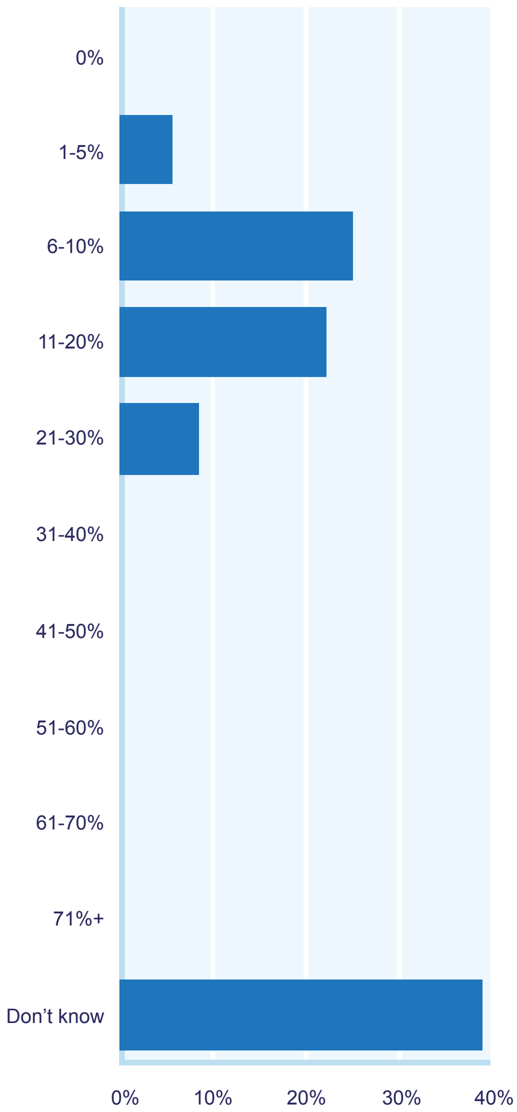
How has Deregulation Impacted Creativity of Solution

Mostly Used	Same	Better	Worse
ICP	25%	75%	0%
DNO	62%	38%	0%
IDNO	38%	62%	17%

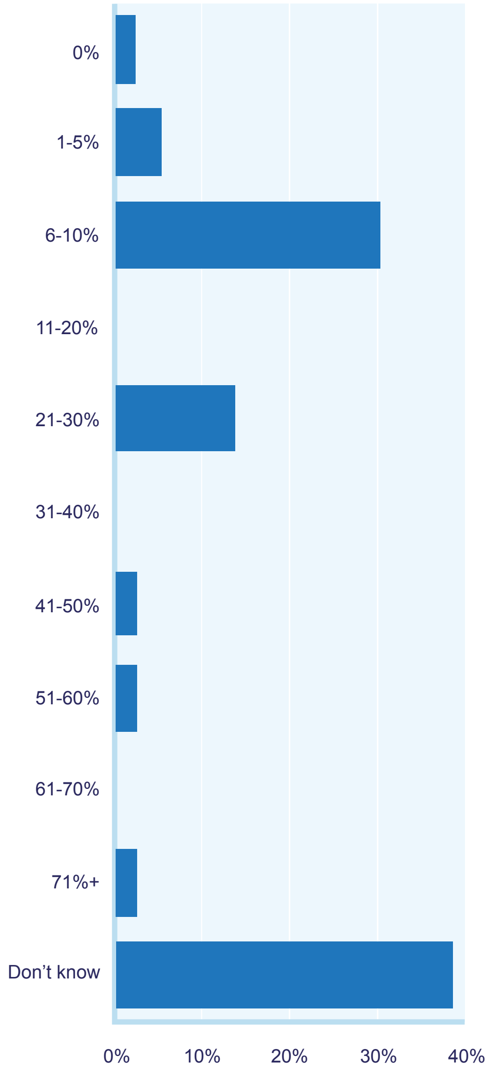
COSTS

Let's look at these improvements in more detail. The average savings when using an ICP turn out to be a significant 12%, which as an industry norm is considerable. More impressively 30% of those asked said that they found using ICP delivered connections up to 30% cheaper than a DNO.

IN PERCENTAGE TERMS, WHAT ARE THE COST SAVINGS ON CONNECTIONS THAT YOU TYPICALLY MAKE ON YOUR PROJECTS BY USING AN ICP?



IN PERCENTAGE TERMS, WHAT ARE THE TIME SAVINGS ON CONNECTIONS THAT YOU TYPICALLY MAKE ON YOUR PROJECTS BY USING AN ICP?



TIME

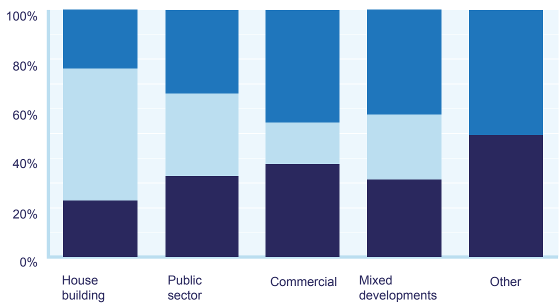
These cost savings, when using an ICP are almost mirrored by the savings in time. **On average construction professionals and developers are saving 18% on time, per project by using an ICP**. Given how critical time is, this is a really significant figure. Furthermore, 14% say that the time saving is between 21-30% and 7% state that using an ICP is over 40% more time efficient. These savings suggest that ICP's are transforming the connections and construction industry, turning the connection of gas and electricity on construction projects into significant opportunities to save both time and money.

CONTRACTS

CHOICES

Having gauged the level of awareness of deregulation and the benefits felt, we wanted to then understand how contracts are awarded. Dual fuel contracts offer a number of benefits, which include having one organisation handling everything under one roof, offering developers greater economies of scale, as well as better communication on and off site. Yet, the research shows that when it comes to awarding contracts, dual fuel is not always the preferred route. For instance, just 55% of house builders prefer to use a dual fuel contractor. It is understandable that only 17% within the commercial sector would favour the dual fuel route, given they are less likely to have a gas requirement. However why do 24% of house builders award contracts on an individual basis?

HOW DO YOU PREFER TO AWARD YOUR UTILITY CONTRACTS, DO YOU PREFER:

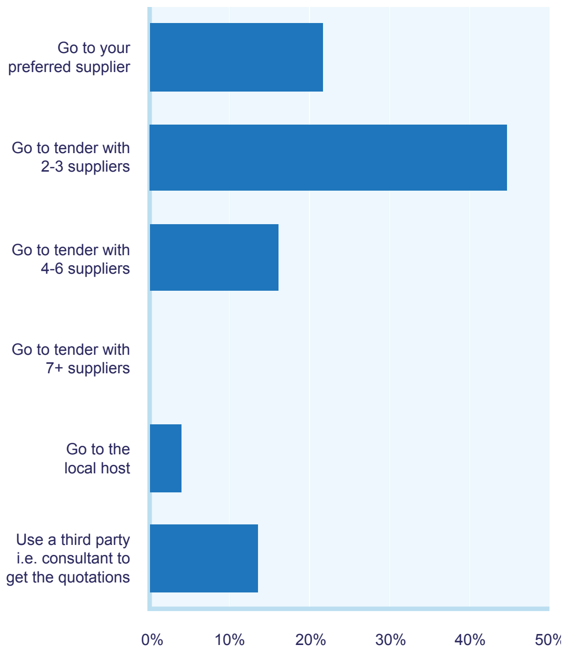


One reason could be that they feel they can get a better deal by not using one provider, because it allows them to pitch preferred suppliers against each other, encouraging competition and therefore lower costs. In addition, it allows them to source quotes from a greater number of providers, as there are 40 dual providers currently in the UK.

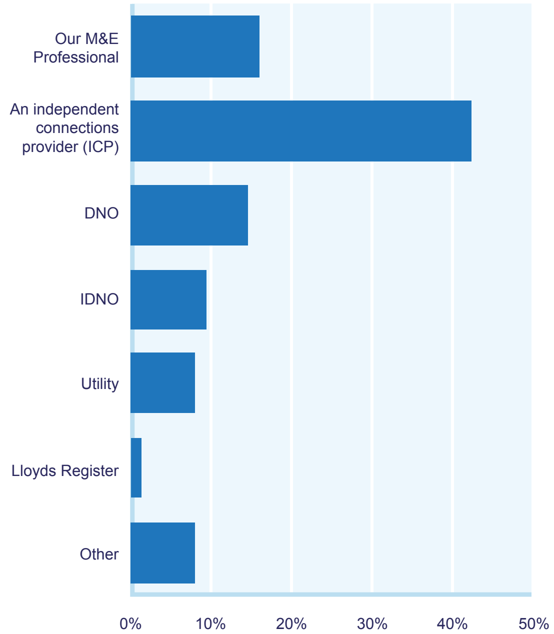
TENDERING PROCESS

Whether choosing a dual, single or multi-utility provider, how do developers and contractors appoint gas and/or electricity connection providers? 44% state that they go to tender with 2-3 companies, all vying for the project. A further 16% offer the project to up to six suppliers, whilst 4% use a local host and 14% use a third party to get quotations. There are obvious benefits for pitching organisations against each other, such as lower costs and shorter completion deadlines, but a significant 1 in 5 shun this approach. These companies are not 'shopping' the market, with 22% saying that they would always go straight to a single preferred supplier.

HOW DO YOU APPOINT A GAS &/OR ELECTRICAL SUPPLIER FOR YOUR PROJECTS?



WHO IS YOUR FIRST PORT OF CALL WHEN YOU NEED SOMEONE TO DESIGN AND PROVIDE CONNECTIONS?



FAVOURITE PROVIDERS

Although 44% of those questioned stated that they go to tender with 2-3 providers, many of these will have a favourite provider or first port of call. In fact 44% said that an ICP would always be contacted first when it comes to having a connection designed and installed. This is really positive for ICPs and for the industry as a whole, because it encourages more competition and therefore improves the way the market works. As the level of competition increases, costs will lower and the monopoly held by the larger statutory utilities will start to disappear.

It is particularly interesting to see that almost two thirds (65%) of those within the renewables market stated that they go straight to an ICP over any other supplier. **This strong showing for ICPs in the renewables sector is because they can mobilise and deliver connections much more efficiently than the DNO**.

Who is Your First Port of Call?

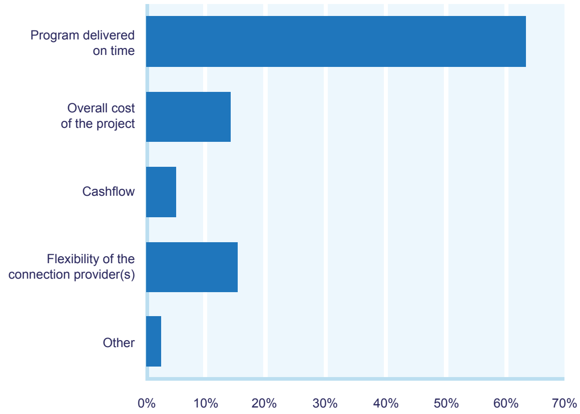
Type of Work Undertaken	Own M&E Professional	An ICP	DNO	IDNO	Utility	Lloyd's Register	Other
House Builders	15%	35%	12%	15%	15%	0%	8%
Public Sector	25%	33%	8%	17%	0%	0%	17%
Commercial	17%	28%	17%	14%	10%	0%	14%
Mixed Developments	19%	26%	16%	16%	13%	0%	10%
Renewable	14%	65%	7%	7%	7%	0%	0%
Other	37.5%	37.5%	25%	0%	0%	0%	0%

Although the figures are less significant, in every sector of construction, an ICP is most likely to be the first port of call. Interestingly, within the public sector developments, M&E professionals are much more likely to be favoured, with one in four (25%) contacting them first. This could be because they outsource the utility procurement to M&E/professional consultants.

MOST IMPORTANT SERVICE PROMISE

Having understood the process for awarding contracts, we wanted to identify what matters when the connections provider has been selected and is onsite. Having the program delivered on time is the singularly most important factor when performing a gas or electricity connection, selected by nearly two thirds (62%) of construction companies. This underlines the ramifications that go hand-in-hand with delays. 15% cite the flexibility of connection provider as the major must-have on site, which hints at the unforeseen occurrences which crop up on site. Indeed as we will see later in the section (Issues), being flexible is one of the benefits of using an ICP, especially over larger and less flexible competitors.

ON A GAS OR ELECTRICITY CONNECTIONS PROJECT WHICH OF THE FOLLOWING IS MOST IMPORTANT TO YOU?



ISSUES

ELECTRICITY

A deregulated market is meant to increase competition, so that the customer's needs are more effectively met. Therefore we sought to gauge whether the deregulated market is meeting the needs of the construction companies and what the service gaps are. To do this we asked respondents to select their most common electricity connection problems. Time taken to issue quotations (34%) tops the poll, closely followed by inflexible utilities (32%), time taken to design an infrastructure (28%) and knowing who to go to (28%). It is clear to see that time is an important issue and we will see this again when we have a look at the problems experienced with gas providers (see page 12).

A further 28% cite poor service delivery as a major concern, whilst over one in four (26%) select both unforeseen issues on site and poor communications between teams as typical problems encountered. Given this, it is not surprising that we saw onsite flexibility as such an important aspect of the service for 15% of the companies interviewed.

Cost has always been an issue, when it comes to securing an electricity connection. Historically, companies have demanded full payment upfront, before any design or equipment ordering can take place. It is clearly still a real issue with over one in five (23%) stating that having to commit funds upfront is a problem, while 21% say that electricity connections can also be bedeviled with hidden costs.

Problems with Electricity Connections	
Knowing who to go to	28%
Unforeseen problems once on site	26%
Mismatch between load required and infrastructure design	14%
Having to commit funds upfront	23%
Hidden costs	21%
Time taken to issue quotations	34%
Time taken to agree to supply	17%
Time taken to design infrastructure	28%
Time taken to complete the infrastructure works	23%
Poor communications between design and installation teams	26%
Losing point of connection to rival developers	8%
Adhering to regulations when redeveloping old sites	4%
Inflexible utilities	32%
Service delivery not being what's expected	27%
None	11%
Other	2%

Biggest Single Electricity Connections Issues	
Knowing who to go to	10%
Unforeseen problems once on site	5%
Mismatch between load required and infrastructure design	1%
Having to commit funds upfront	7%
Hidden costs	8%
Time taken to issue quotations	11%
Time taken to agree to supply	3%
Time taken to design infrastructure	8%
Time taken to complete the infrastructure works	8%
Poor communications between design and installation teams	8%
Losing point of connection to rival developers	2%
Adhering to regulations when redeveloping old sites	2%
Inflexible utilities	7%
Service delivery not being what's expected	13%
None	5%
Other	2%

Many of these problems have been addressed head-on by DragonIS. For instance, we offer bespoke payment plans and an accelerated quotation process. With so many clients (59%) not understanding what deregulation has meant for their business, it is clear that many are missing out on these enhancements offered by DragonIS.

We wanted to dig a little deeper into these industry issues, so we asked those questioned to highlight their one major problem, in an attempt to whittle down the most serious and systemic industry issues. However there is no consensus, with several issues being identified. Service delivery not being what was expected (13%), time taken to issue a quote (10%) and not knowing who to select (10%) are most cited. 7% highlight upfront cost commitment as their major problem, whilst 8% state that hidden costs are their main issue. The problems selected tend to be quite widespread, rather than being focused on specific areas. This suggests that they are generally project and site dependant, rather than there being something fundamental wrong with the industry. **This is why Dragon have developed bespoke solutions to your problems.**

GAS

When we examine gas connections, once again time appears to be the serious issue. One in four (26%) of those polled, state that the time taken to initially issue a quote is a major problem, closely followed by time taken to complete infrastructure work (24%) and time taken to design the network (21%). However, more encouragingly, 24% stated that they do not encounter problems.

When asked to pick a single, overriding issue, those that do, report that poor communication between design and installation teams (11%) leads the way. As expected, time taken to complete infrastructure works (9%) follows close behind. Knowing who to go to (9%), committing funds upfront (8%) and inflexible utilities (8%) finish off the top troubles, however, DragonIS have created solutions to many of these issues.

Biggest Single Gas Connections Issue	Selections
Knowing who to go to	9%
Having to commit funds upfront	8%
Time taken to issue quotations	6%
Time taken to agree to supply	2%
Time taken to design the network	6%
Time taken to complete the infrastructure works	9%
Poor communications between design and installation teams	11%
Adhering to regulations when redeveloping old sites	1%
Inflexible utilities	8%
Getting a point of connection when you need it	6%
Gaining design approval	1%
None	26%
Other	7%

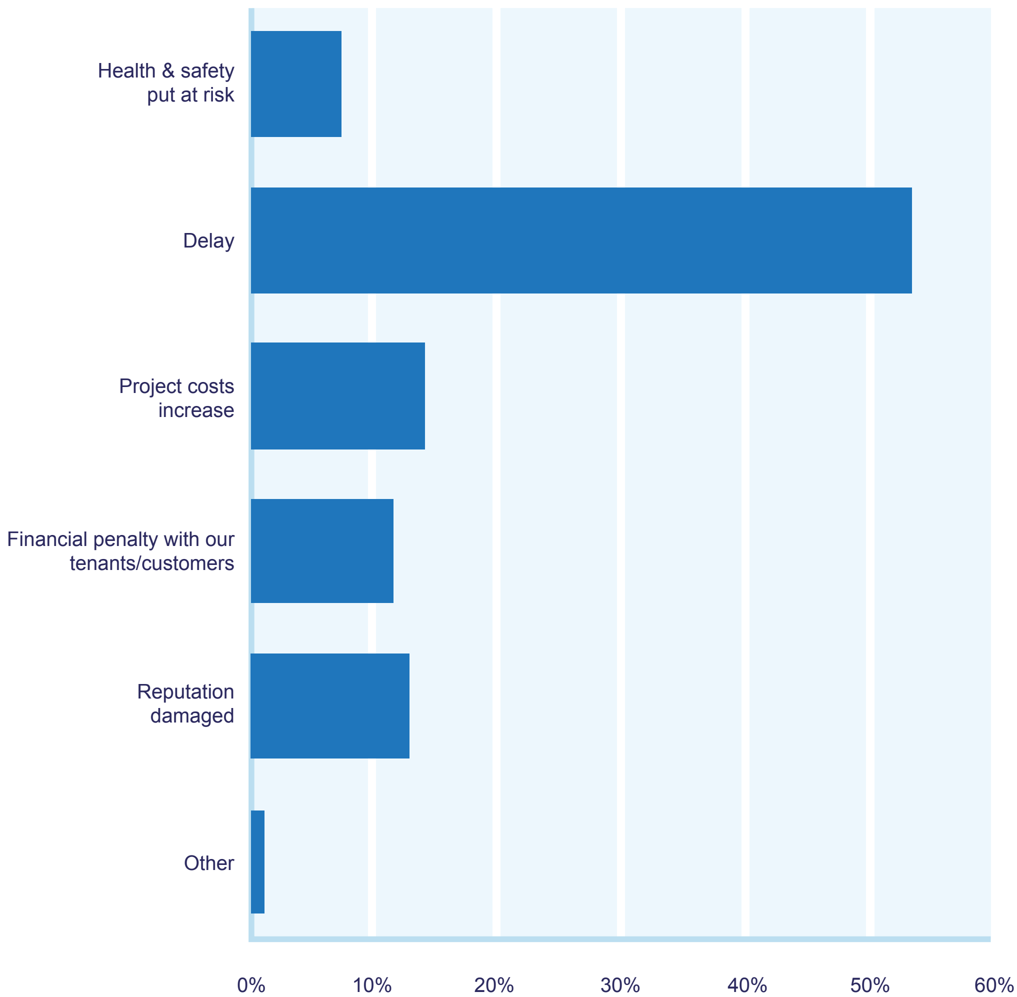
WHAT ARE THE TYPICAL PROBLEMS YOU ENCOUNTER WHEN GETTING GAS CONNECTIONS?

CONNECTIONS PROBLEMS - IMPLICATIONS FOR PROJECT

As already seen, construction companies and developers are becoming increasingly time conscious. So, not surprisingly, when asked what the one major implication is when problems occur during the connection process, over half (52%) highlight delays as the biggest issue. As the famous saying states ‘Time is Money’. Interestingly when those surveyed are broken down into their sectors, it is clear to see that those involved in house building and mixed developments feel the effect of delays more than others, with over 61% highlighting it as their major implication on a project.

When delays occur, production on the whole site is pushed back, affecting other suppliers, causing deadlines to be missed and financial penalties to be incurred. The potential solutions are either to throw money at the problem or work quicker, which is when errors might creep in. Increased costs and damage to reputation were also highlighted, by 23% of those involved in the public sector and 17% involved in the commercial sector respectively, as potential implications when problems occur with the connections process, but both of these play second fiddle to delays. DragonIS understand this and put achieving client programs only second to Health & Safety in our targets.

IF THERE IS A CONNECTIONS PROBLEM WITH ELECTRICITY OR GAS, WHAT IS TYPICALLY THE BIGGEST IMPLICATION FOR YOUR PROJECT?



SUMMARY

There are clearly pockets of companies who are still not 'shopping around' for their connection, and therefore not making the most of deregulation and increased competition within the industry. This means they could lose out to their more forward-thinking and progressive rivals. It is time that these construction companies and developers start to look at the connection process as less of a commodity service and more of an opportunity to save or even make money.

- Most people know what ICP stands for, but only 41% feel they understand what deregulation has brought to the market
- That said, 42% feel that the electricity connections market is in a better position than it was just two years ago, with 27% saying the same about the gas connections
- There are small sections of dissatisfaction within the gas sector, with almost 1 in 10 saying things are actually worse
- Many say things have remained the same, suggesting huge levels of those within the industry are missing out on the deregulation benefits
- Those who have 'shopped around' following the introduction of deregulation are much more likely to have experienced an improvement in costs, with 58% of ICP users saying costs are lower in comparison to 29% of DNO users
- Similarly 57% of ICP users have experienced an improved level of tailored service, only 29% of DNO users and 28% of IDNO users share this view
- ICPs also lead the way when it comes to creativity, with 75% of construction companies who use an ICP feeling they now receive more creative solutions compared with just 38% of those who prefer to use a DNO
- On average developers and construction companies are saving 12% in costs and 18% in time, per project, simply by using an ICP
- 44% state that they 'shop around', going to tender with 2-3 companies, all vying for the project
- Dual fuel providers are particularly popular with house builders, but even so 24% prefer to use individual providers for gas or electricity connections
- Over one in five (22%) don't search the market, always going back to the same provider again and again. If this is a DNO, they will be missing out on benefits their counterparts are enjoying
- Having the project delivered on time is particularly important, but the inevitability of delays on site (a problem for 26%) means that flexibility is important for 15%
- Time delays creep in to many areas, with time taken to issue quotations, complete the infrastructure design and build topping the polls
- Cost is also a reoccurring theme, with committing funds upfront (23%) and finding hidden costs (21%) the major issues.

DragonIS understand our clients and their expectations therefore we offer solutions to suit you.

ABOUT DRAGON INFRASTRUCTURE SOLUTIONS

DragonIS is one of the UK's leading independent connections providers, working with nearly all of the UK's leading construction companies. It is one of only three UK companies Lloyd's accredited to handle both 132kV of electricity and 2bar pressure gas (2000mbar). It has also completed over 300 major construction projects, connecting over 10,000 houses and apartments to the national grid, plus it has connected over 500MWp of all the ground mounted solar in the UK.

DragonIS is licensed to design and install gas and electricity distribution networks throughout the UK. Plus due to its subsidiary, Dragon Electrical Solutions Limited, it is able to take even the toughest gas and electric projects right from the drawing board through to the meter.

DragonIS offer bespoke, cost effective solutions, on time and within budget.

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