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OFGEM REQUIRES COMPENSATION TO CUSTOMERS FOR MISREPORTING

- **Ofgem finds that two subsidiaries of CE Electric breached a condition of their electricity distribution licences by misreporting quality of service data.**
- **CE presented inaccurate data on power cuts and customer service which would have earned it revenue increases under an incentive scheme.**
- **CE discovered the misreporting and came forward to Ofgem. It also took appropriate steps with respect to the staff concerned and took corrective action to prevent a recurrence and to ensure that no customers suffered as a result of the misreporting.**
- **Ofgem has required CE's price control revenue to be cut by £5.5 million to correct the full financial impact of the misreporting and ensure its customers do not pay more than they should.**
- **In addition Ofgem will sanction CE by way of a further £2.1 million revenue reduction, which will benefit its customers.**

Energy regulator Ofgem has required a £2.1 million reduction in the price control revenue of the electricity distribution company CE Electric after an investigation found misreporting of performance data by two subsidiaries of the firm and a consequential breach of their licences.

Ofgem found that CE subsidiaries, Northern Electric Distribution Ltd (NEDL) and Yorkshire Electricity Distribution plc (YEDL), each breached a condition of their electricity distribution licences that required them to provide information on the quality of aspects of their services. Under distribution licence conditions companies are incentivised through revenue rewards and penalties to meet specific service quality standards.

NEDL and YEDL will now be required to cut their allowed revenue to ensure customers do not pay any more as a result of the misreporting. And the companies will be subject to further revenue cuts of £2.1million. Ofgem's decision takes into account CE's voluntary disclosure that YEDL and NEDL had misreported data and may have breached their licences and the action taken by the company. Other mitigating considerations were the company's thorough internal investigation and resulting changes as well as its acceptance of Ofgem's assessment of the consequences of its breaches.

Ofgem Chief Executive, Alistair Buchanan, said: "These were serious breaches. Had CE not come forward to admit its misreporting, taken the action it did and cooperated with Ofgem's investigation our sanctions could have been considerably heavier."

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Notes to editors

1. CE Electric UK is the owner of two licensed distribution network operators in North East England, Northern Electric Distribution Ltd (NEDL) and Yorkshire, Yorkshire Electricity Distribution plc (YEDL).

2. A quality of service incentive scheme for electricity distribution network operators (DNOs) was first introduced in April 2002 and was built upon during the distribution price control review for 2005-2010. Currently it financially incentivises the overall quality of service DNOs deliver in terms of the number and duration of power cuts and the interaction with customers that telephone the DNO when they experience a power cut. The DNOs are set targets for reducing the number and duration of power cuts. If they outperform the target they are able to increase their charges. If they under-perform their target their revenue can be reduced. In addition DNOs have financial incentives via compensation payment arrangements to minimise the number of customers off supply for extended periods following severe weather. Since 2002, the average number of power cuts has fallen by **17 per cent**. Over the same period, the duration of those power cuts has also fallen by **20 per cent**.
3. Ofgem monitors performance in several ways including:
 - the number and duration of interruptions to supply per year;
 - the quality of telephone response; and
 - the number of short interruptions to supply per year.

The number and duration of interruptions to supply per year are defined as the number of customers affected by power cuts per 100 customers per year and the average length of power cuts per customer per year. DNOs are incentivised based on their annual performance against the targets for each of these measures.

The quality of telephone response is assessed through a customer survey carried out on a monthly basis. This considers responses by a sample of customers who have recently called their DNO with respect to power cuts or other issues.

The number of short interruptions to supply per year is the number of customers affected by power cuts lasting less than three minutes per 100 customers per year.

4. CE provided inaccurate information to Ofgem on its number and duration of interruptions and the quality of telephone response. Ofgem calculated that CE's breaches, if uncorrected, would have led to its customers paying up to £5.5 million more than they should have paid had the correct information been reported. CE's revenues will be reduced by this amount with an added sanction of £2.1 million bringing the total cut to £7.6 million over the three years.

5. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. The Authority's functions are set out mainly in the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998 and the Utilities Act 2000. In this note, the functions of the Authority under all the relevant Acts are, for simplicity, described as the functions of Ofgem.

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