

DPCR5 workshop on Customers and Environmental Issues

Record of the day and issues raised at workshop on Friday
23 May 2008, Park Plaza Hotel, Victoria.

1. Attendance

Ofgem

Rachel Fletcher	Director, distribution
James Hope	Quality of service
Laura Nell	
Paul Burnaby	
Mark Cox	Distribution policy
Alberto Prandini	
Simon Polley	
Nicola Cocks	Programme management
Sian Bailey	
Kieran Donoghue	Gas distribution
Nick Russ	Network investment
Gareth Evans	Technical

Stakeholders

Name		Organisation	
Paul	Bircham	Electricity North West (ENW)	
Rodney	Brook	Sohn Associates	
Malcolm	Burns	Scottish and Southern Energy (SSE)	
Jim	Cardwell	CE Electric	
Ralph	Chamberlain	Central Networks (CN)	Morning only
Hugh	Conway	Major Energy Users' Council (MEUC)	
Mark	Copley	CEPA	Afternoon only
Sangeet	Dhanani	Lecg Limited	
Predrag	Djapic	SEDG	Morning only
Jeff	Douglas	Central Networks (CN)	
Mark	Drye	CE Electric	
Nicola	Fomes	PricewaterhouseCoopers LLP	
John	France	CE Electric	
Sean	Gauton	Central Networks (CN)	Afternoon only
Mike	Green	Scottish and Southern Energy (SSE)	Morning only
Andrew	Jones	PricewaterhouseCoopers LLP	
Philip	Gueorquiev	EIC	
Bryan	Heap	Electricity North West (ENW)	
Roger	Hey	Central Networks (CN)	Afternoon only
Paul	Hickey	ESB Networks	
Ceri	Hughes	Centrica	

Name		Organisation	
Simon	Isherwood	Morrison Utility Services	
George	Jolesz	IBM	Afternoon only
Brian	Jones	Friends of the Lake District (FLD)	Afternoon only
Mike	Wilks	KEMA Consulting Europe	
Gavin	MacFarlane	Fitch Ratings Ltd	
Andy	Manning	RWE npower	
Scott	Mathieson	ScottishPower Energy Networks	
Jim	McOmish	ScottishPower Energy Networks	
Andrzej	Michalowski	Central Networks (CN)	
Darren	Nelson	LECG Ltd	
Colin	Nicholl	EDF Energy	
Dave	Openshaw	EDF Energy	
Stephen	Parker	Northern Gas Networks (NGN)	
Carole	Pitkeathley	Energywatch	
Dragana	Popovic	Energy Networks Association (ENA)	Afternoon only
Arthur	Probert	Arthur Probert	
Ed	Reed	Cornwall Energy Associates	
Joanna	Roberts	Wales & West Utilities (WWU)	
Matt	Rudling	EDF Energy	Afternoon only
Gian Carlo	Scarsi	Europe Economics	
Richard	Sills	TOSL	
John	Sinclair	EA Technology Consulting	
Matt	Skinner	Asset Management Consulting Limited	Afternoon only
Tony	Gray	BPI Energy	
Alison	Sleightholm	Western Power Distribution (WPD)	
Mark	Smith	Scottish and Southern Energy (SSE)	
David	Speake	ES Pipelines	Morning only
Alex	Spreadbury	B&Q plc	
Andrew	Stanger	ScottishPower Energy Networks	
Stephen	Topping	Europe Economics	
Nigel	Turvey	Western Power Distribution (WPD)	
Fiona	Upton	E.ON UK	
Paul	Whittaker	National Grid Gas (NGG)	
Steve	Wood	EDF Energy	Morning only

2. Introduction

Rachel Fletcher welcomed attendees to the workshop and gave an introductory presentation.

All of the presentations given at the workshop are available on the Ofgem website¹.

3. Morning Session – Customers

Presentations by stakeholders

The Customers session began with the following attendees delivering presentations.

¹ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=22&refer=Networks/ElecDist/PriceCtrls/DPCR5>

1. Key customer issues for DPCR5 – Ofgem – James Hope
2. Quality of service target setting – CN – Andrzej Michalowski
3. Options for competition in connections – SSE – Malcolm Burns
4. Presentation by the Ombudsman Service Ltd – Richard Sills

Roundtable discussions and feedback

Each table was then assigned questions to discuss. Following the discussions, each table was asked to deliver a five minute summary of their views. Outlined below is a brief summary of the views presented in response to each question.

Q1. What changes should Ofgem consider making through DPCR5 to improve service to customers requesting connections and to support an emerging competitive market?

Two tables answered this question.

The first table suggested that:

- More consistency was needed across the country in terms of process for getting a connection. This could just be for distribution network operators (DNOs) or could also include independent connection providers (ICPs).
- The gas connections market is more competitive and results in a better experience for customers.
- Competition in electricity connections is encouraging improvements.
- The time between requesting a connection quotation and end delivery of the connection is the most frustrating issue for customers.
- Independent distribution network operators (IDNOs) have the same problems as DNOs.
- Ofgem should focus incentives on areas that can deliver improvements and should learn from experience with metering under the previous price control review (DPCR4).

The second table suggested that:

- Ofgem could introduce financial incentives on the 90 day rule, in which DNOs are obliged to provide a connection offer.
- A specific point of contact for customers requesting a connection would be particularly useful.
- There is a need to consider the different requirements for speculative vs. firm enquiries.
- Pricing should be transparent.

Q2. Should the quality of service framework allow different arrangements for business customers? If so, what could these arrangements be?

Three tables answered this question.

The first table suggested that:

- DNOs do not offer businesses a choice of connections, and instead provide the least cost option. Further options for selecting point of connection could be useful for business customers.
- Business customers expect a 100% reliable service.
- More flexibility in the relationship between the DNO and the consumer would be helpful.
- Business customers may be interested in selecting a level of quality of service which is different from the standard.
- Need to consider discrimination issues, but focus on undue discrimination. It may be appropriate to treat different types of customers differently.
- Clarity in terms of costs was desirable for business customers.

The second table summarised that:

- This would be sensible for quality of supply. Voltage fluctuations can be a significant issue for business customers, and this should be recognised.
- A dedicated point of contact at the DNO should be provided for business customers.
- Compensation is seen as a red herring for business customers and may not be appropriate. The preference is for the power to be restored as soon as possible.

The third table suggested that:

- Different arrangements could be put in place for business customers. These could be set based on those customers above a certain capacity threshold being classed as business customers.
- Need to ensure that balance is maintained between contributions from the customer and the level of service and/or level of compensation provided. A range of options could be offered to business customers.

Q3. Which is it more important to have uniform across companies:

the percentage of revenue exposed to the interruptions incentive scheme, or
the incentive rate per customer?

Three tables answered this question.

The first table suggested that:

- There is an issue that increased exposure of revenue leads to arising volatility.
- This partly depends on the risk to the company of failure to meet the standards set. Risk assessment focuses on potential penalties rather than potential reward.
- It was suggested that a uniform rate per customer assumes that customers all place the same value on a level of service.

The second table summarised that:

- An alternative approach would be for fault rate levels per DNO to be divided by customer experiences and used to calculate the percentage of charges paid.
- It is likely that there will be variations in customers' willingness to pay. This will likely be both between and within DNOs, such as between different customer groups. In particular, worst served customers may have different views to those receiving a higher level of service.
- Need to consider the impact on cost of capital and the impact of diversity of investors.

The third table suggested that:

- There are 3 criteria that need to be considered. These are:
 - the strength of the incentive,
 - the fairness to customers, and
 - the fairness to DNOs.
- This could involve a "back to basics" consideration of issues such as, what is the scheme meant to look like for the regulator, for customers and for DNOs?

Q4. Should penalties and rewards be symmetrical – and should there be any variation depending on whether the company is a good or a poor performer?

One table answered this question and suggested that:

- This is dependent on whether the aim is to get the DNOs up to an acceptable standard and then to remain at that level or whether the purpose is for the DNOs to continually improve. It depends on how much scope there is left for DNOs to improve.
- It also depends on whether performance is measured against each DNO's own past performance or a uniform acceptable/minimum level.
- This also depends on whether it is cost effective for the DNO to improve. DNOs need to assess when they should invest to improve. This is partly dependent on customer views in terms of their priorities for service.
- In terms of worst served customers, some sort of cost benefit analysis should be completed to see if it is cost efficient and/or important to those customers for service to improve.
- One option would be to have symmetric standards but to focus this on specific groups of customers rather than all customers. For example, one standard for urban customers and another for rural customers. It was recognised that this would be difficult to define.
- The option of different standards for different groups needs to be considered alongside the desire for clear/simple reporting and measurement.
- We also need to consider the costs of regulation and the value delivered to customers. The willingness to pay research will be helpful in this area.
- The discretionary reward scheme incentivises DNOs to gain recognition for the work and effort that they have put into improvements and is not driven solely by the potential financial reward.

- For some measures, symmetry is not appropriate. For example, there was no desire for a “wooden spoon” for the discretionary reward scheme.

Q5. Given the existing and new consumer redress arrangements, are there any gaps that should be addressed by the regulatory framework?

One table answered this question and summarised that:

- New framework complaint handling scheme Ombudsman National Consumer Council (NCC) posed several questions, such as:

Do consumers need an advocate service like energywatch provided?

Should NCC act in this capacity?

- The group suggested that there seems to be a potential gap here because it is not clear what the roles for NCC are going to be. They asked if business customers would perhaps be better placed to help themselves e.g. access to legal advice.
- The group suggested that it is not clear if NCC covers this and so asked if DPCR5 should do so.
- There is a need to make sure that the complaint handling process is robust in companies. For example not all customers are aware that first complaints are to be made to the energy company. But confusion among customers over difference between supply and distribution.
- Arrangements are focussed on supply companies not distributors.
- Compensation schemes can be difficult to apply e.g. LV faults.
- Don't want a compensation culture ethos, may direct funds to areas where they are not best used.

Q6. What should DPCR5 deliver for worst served customers?

Two tables answered this question.

The first table suggested that:

- We should move away from customer interruptions (CIs) and customer minutes lost (CMLs) as the only or best measures of service.
- The definition of worst served customers is vital as it can mean different things to different companies or between different areas. This needs to be agreed.
- One option would be to remove worst served customers out of the existing incentive mechanisms because of their small numbers, and focus on them separately. This may cause distortions in the data, particularly when comparing DNOs to one another.
- There may be variations between DNOs on “complaint issues”.
- Because of the relatively low numbers of worst served customers we need to prioritise groups based on cost benefit analysis.
- There is still a need to have tangible measures in place that are equitable between companies.

- In addition to high costs to deliver improvements there will also be high costs in monitoring improvements that have been delivered.

The second table suggested that:

- There was a need to define worst served customers. This could be those receiving poor CI and CML performance.
- There is a need to consider the trade-off between equal and differential costs.
- It is possible that service for the very worst served customers may never be addressed.
- DNOs need to consider what is driving the worst served performance. This could be topology or actual asset performance.
- Worst served customers could be dealt with separately from the IIS scheme.

Q7. Should additional areas such as voltage quality be monitored and incentivised?

Two tables answered this question.

The first table summarised that:

- The materiality of voltage quality is low in terms of the number of customers impacted.
- The costs involved in monitoring this would be high.
- DNOs should be allowed to make decisions on this issue based on cost benefit analysis. This could be linked to IFI.

The second table suggested that:

- Voltage quality is not an issue. There were concerns about long repair times to fix problems and repetitive interruptions.

4. Afternoon session – Environment

Presentations by stakeholders

1. Key environmental issues for DPCR5 – Ofgem – Mark Cox
2. Measuring carbon footprint – WPD – Nigel Turvey
3. Environmental incentives – SP – Jim McOmish
4. Future role of Networks – CN – Jeff Douglas

Questions and Answers

Losses

One attendee commented that WPD's presentation suggested that the measurement system for losses is flaky and so DNOs cannot plan on receiving a reward under the incentive scheme for action taken to improve losses. He suggested that the scheme does incentivise action taken to reduce losses, since the marginal reward is unaffected by measurement errors (the appropriate counterfactual being "no action, same error").

Therefore, difficulties in measurement are not a reason for not taking action to reduce losses.

Nigel Turvey (WPD) said that conceptually he agreed with that argument, but that when planning a business case for action then he needs to be able to demonstrate the results of the planned action. He said that he would be interested in understanding how much CE Electric is spending to reduce losses.

The attendee replied that action to decrease losses is included in CE Electric's investment proposals and that CE does not assume that there will be no reward as a result. He stressed that the amount of reward does not justify the investment but that is not the only reason for undertaking the work.

Measurement of losses

One attendee asked whether one issue is that the incentive rate for losses is too low, and that this needs to rely on better measurement tools going forward rather than being based on settlements data.

DG incentive

One attendee asked if the purpose of the DG incentive had changed since its introduction.

Mark Cox (Ofgem) explained that the DG incentive was designed to encourage and facilitate the connection of DG at least cost.

The attendee questioned what was meant by the term "facilitate". He suggested that when they are approached for a DG connection they welcome the connectee "with open arms". He said that it was not appropriate to suggest that the DG incentive is not working because little DG has connected. Logically the amount connected is dependent on the number of applications for connection received, and that there may be a number of barriers that explain why take up has been low.

Rachel Fletcher (Ofgem) replied that Ofgem is seeking views on whether the DG incentive was sufficient given Ofgem and government targets for the connection of DG. She said that it was not an issue of DNOs acting as a barrier to DG but whether the DG incentive was sufficient to drive through appropriate changes.

Rachel suggested that we were consulting on whether the regulatory framework in this area should allow, encourage or require appropriate behaviour from DNOs. This has a bearing on the tools that Ofgem can use. Ofgem need to ensure that there is nothing in the regulatory framework to prevent DG connecting, and need to consider if incentives to encourage DG or licence requirements to connect are appropriate.

Funding innovation

One attendee said that big steps forward into innovation require a great deal of leadership. There may be a need to commit to up-front investment with little hard evidence to support doing so. This is very different to traditional capex approaches and will need support from Ofgem.

Mark Cox (Ofgem) said that there was recognition that the framework needs to be flexible to allow very significant network change and invited views on what Ofgem need to put in place to ensure that this happens.

Scope of environmental issues

One attendee stated that whilst discussions on environmental issues had been focussed on climate change there was a need to ensure that the scope covered other environmental issues such as fluid filled cables.

Roundtable discussions and feedback

Each table was then assigned questions to discuss. Following the discussions, each table was asked to deliver a five minute summary of their views. Outlined below is a brief summary of the views presented in response to each question.

Q1. Is the current regulatory framework constraining a DNO's ability to facilitate low/zero carbon technologies and, if so, what could be done to address this?

One table answered this question and suggested that:

- Constraints are preventing access for those that are ready to connect. Should we require actions rather than incentivise them?
- There are also constraints on storage provision.
- One option could be for DNOs to trade their losses.

Q2. How could the RPZ incentive be developed in DPCR5?

One table answered this question and summarised that:

- DNOs could be obliged to innovate through a licence obligation.
- RPZ could be extended to:
 - include demand connections,
 - encourage storage,
 - encourage heat and power schemes, and/or
 - include smart grid solutions.
- There is also an option to reconsider the structure of the incentive.

Q3. Do you think Ofgem have identified the key areas where DNOs can facilitate activities that have a positive impact on the environment?

One table answered this question and suggested that:

- Distributed generation is a big issue but the impact depends on whether DNOs are passive or proactive.
- If DNOs have a passive role then they can "open the door" to distributed generation.
- If DNOs are proactive then they can use strategic investment to utilise distributed generation rather than undertake reinforcement.
- DNOs could also invite distributed generation to connect, rather than wait for applications.
- DNO facilitation of smart meters could have a positive impact.
- DNOs could also take account of asset whole life environmental cost.

- DPCR5 could be used to enable DNOs to use active network management.

Q4. Should the DNOs be taking an increasing role in managing transmission access on behalf of DG? If so what are the issues for DPCR5?

One table answered this question and summarised that:

- Exporting energy to the Grid is different from merely displacing transmission-connected generation. In fact, DNOs cannot address grid constraint problems.
- Actively switching demands, switching generally, intertrips?
- Network reconfiguration (active)

Q5. Have we identified the range of issues associated with the current losses incentive and identified the options for incentivising losses in DPCR5?

Two tables answered this question.

The first table suggested that:

- The range of issues had probably been captured.
- Options for taking this area forward include:
 - indexing the incentive to the market price of carbon,
 - change the sharing of benefits, and
 - cost benefit analysis for all future projects, factoring in carbon prices.

The second table summarised that:

- The current losses incentive does not provide a true measure of carbon reduction.
- If emissions are the key issue then we need to look at use of renewables and not purely focus on losses.
- Need to recognise that the carbon value of loss changes over time.
- At present, there is no consistent mechanism for measuring losses. We need:
 - robust data,
 - measurable impact, and
 - linkage.

Options for the losses incentive

- One option would be to move to an input based losses incentive scheme.
- It may be appropriate to separate theft from the measure of losses.
- In order for the incentive to work then action taken by the DNO must have a measurable impact on reducing losses.
- Smart metering should allow DNOs to more accurately measure losses and so could be used as a facilitator of the solution. Unmetered connections and their impact on losses measurement is less relevant if other items are measured more accurately.

Q6. Do you think changes are required to the role of the DNOs to ensure that distribution networks remain fit for purpose? If so what?

One table answered this question and suggested that:

- A clearer steer was needed on what we are aiming for in terms of adapting the networks to ensure that they are fit for purpose. It was unclear whether this direction should come from Ofgem, BERR and/or the DNOs.
- This steer should help the industry to understand how the government's targets can be translated into specific aims for the development of the network and for DNOs.
- The group recognised the conflict between asking for clear direction and encouraging innovation.
- DNOs should look to improve communication and to raise awareness of environmental issues through their planned stakeholder engagement.

Q7. Has the DG incentive been effective so far, and how can it be improved?

One table answered this question and summarised that:

- The DG incentive works if a distributed generator approaches the DNO. However, there are two key issues with connecting DG:
 - The scheme is not pre-emptive and so the incentive payment is only received by the DNO after the DG connects.
 - Costs of connection deter DG from connecting. This is because suitable sites for DG are often a large distance from the distribution network and so costs to connect are high.
- The DG incentive could be expanded, although not necessarily in a financial way. The incentive could be for DNOs to provide information on the process for connection, indicative costs and options for appropriate connection sites.
- If the scheme is extended financially then issues arise regarding who funds this.
- The group queried whether it was the DNOs' responsibility to drive the connection of DG. Although it was seen as being part of the bigger picture of environmental issues for DNOs, Ofgem and government.

Q8. How can Active Network Management be incentivised effectively and efficiently? What are the implications for vertically integrated groups?

Two tables answered this question.

The first table suggested that:

- Active network management could be defined as the use of non-network solutions to avoid investment. It was felt that innovative contracts are not enough and that there needs to be some kind of legal framework or licence condition introduced to ensure that DNOs consider non-network solutions.
- Active network management links with existing incentives including losses and quality of service measures. It may be worth considering whether these schemes can be used to complement one another or whether they are mutually exclusive.

- It will be easier to deal with issues around vertically integrated groups once each DNO's position is clearer.

The second table summarised that:

- Skills are key in this area and DNOs may not have the appropriate resources for this at the moment.
- Customers also need to understand and change their view of their own role, as well as the risks of different options.
- It is crucial to develop appropriate contractual interfaces, but this is especially difficult for integrated groups.

Q9. How can the LTDS and technical connections requirements (e.g. ER G/59 and ER G/75) be made more valuable and user-friendly instruments for DG?

One table answered this question and summarised that:

- LTDS statements are useful to the limited number of repeat users who are currently utilising them. It is important that this is not seen as the only indicator for how useful they are.
- The e-connect project should allow a wider range of users to have simpler access to LTDS statements and make them more user friendly to customers

Q10. Do you think the DNOs should have stronger financial incentives to reduce their Carbon Footprint? How might this account for other wider initiatives?

One table answered this question and summarised that:

Non-losses

- Existing commercial and reputational pressures are sufficient to drive carbon reducing behaviour and so no further incentives are needed.
- Government policies (taxes etc) are internalising cost of carbon in many areas.
- DNOs are no different from rest of economy and so should not be subject to specific incentives in this area.

Losses

- It is costly and difficult for DNOs to make significant improvements to losses.
- The expected increase in generation connections may have a bigger effect than DNOs' actions. Although DG could help in this area, this is dependent on DG receiving appropriate cost signals and on sufficient density of connections to utilise DG.