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29 August 2003
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Dear Mr Altin

ELECTRICITY DISTRIBUTION PRICE CONTROL

I refer to the OFGEM Consultation Paper of June 2003 – Electricity Distribution Price Controls - and our telephone conversation on 22 August 2003. I herewith enclose a paper from Prospect for your consideration.

I understand that despite missing the official deadline of 22 August 2003 for receipt of responses, you will arrange for views to be considered.

Thank you for your assistance in this matter. A paper copy was placed in the post today.

Yours sincerely

Terry Lane
Deputy General Secretary

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ELECTRICITY DISTRIBUTION PRICE CONTROL REVIEW – SUBMISSION BY PROSPECT

INTRODUCTION

I refer to the consultation document of June 2003 “Electricity Distribution Price Control Review” and write on behalf of Prospect comments on the document which we would like you to take into consideration.

Prospect is a trade union formed in November 2001 by the merger of The Engineers and Managers Association (EMA) and The Institution of Professionals Managers and specialists (IPMS). We represent 105,000 scientific, technical, managerial and specialist staff in the Civil Service, electricity industry and related bodies in major companies. In the electricity supply industry we represent engineers and other professional specialist staff employed in generation, transmission and distribution.

We were fortunate in being able to draw on members direct operational and technical knowledge to inform our assessment.

GENERAL PRINCIPLES

Prospect welcome in general the concept of providing an appropriate incentivised climate to operate during the course of the price control period provided that the mechanisms for achieving the desired aims are seen to be fair, transparent and applicable to all on a consistent basis. It remains our view that the regulatory framework should be structured in a manner that recognises the need for flexibility to meet the challenges presented by uncertainties and other unforeseen events that will inevitably arise.

It is our belief that the Government will face an uphill struggle to achieve their specifically publicised targets for expanding the amount of electricity to be generated

from renewable sources. We do not think that this will simply be limited to technical difficulties associated with the connection of increased amounts of generation connected directly to distribution networks. It is our view that the Government's ambitions will be hampered by additional difficulties such as raising finances, achieving planning consents, plus the increasing public resistance to visually intrusive wind farms, immaturity of other technologies for tidal and wave energy extraction, and an increasingly severe shortage of appropriately trained and qualified technical staff capable of properly assessing and coping with distributed generation proposals.

QUALITY OF SERVICE AND OTHER OUTPUTS

Prospect would welcome a positive consideration of the issues which arose from the October 2002 storms. We have already explained both orally and in writing to the BPI inquiry as well as the DTI that in our view the major fault in the DNOs ability to respond to the challenges presented by the inclement weather was directly related to the lack of an adequate number of suitably trained and qualified staff to deal with the practical effects of the loss of supply to thousands of homes and businesses. Further, that the related poor performance of technical support and other backup systems were largely the result of procurement and operational cost cutting at the expense of a system of control with the capability of providing enhanced security. Continued cost cutting programmes stretching back over many years ultimately failed the very people such policies were supposed to protect – namely the electricity user.

The resources needed to meet such exigencies are not available from the registers of contractors or consultants, and this problem will become exacerbated as those who left the electricity industry early to take up work as contractors reach an age where they wish to give up work altogether. We estimate that this crisis will be reached in the next 5 years or so, and action must be taken now by DNOs to avoid this looming crisis. In this regard, we believe that DNOs should be incentivised to invest more in training and recruitment.

We certainly agree that further consideration must be given to the treatment of unplanned interruptions but it should be recognised that capital costs involved in the delivery of an engineered solution will result in an improved standard of security of supply to the customer, to reduction in faults and consequent reduction in loss of electricity supplies.

Prospect as a representative of staff interests – a key stakeholder in this process of delivering improved customer expectations – would be particularly pleased to share the understanding of the conclusions of the enquiries into the frequencies with which exceptional events occur. Further, we are quite clear that the extent to which DNOs are able to control the impact of such events will to a large extent be governed by immediate availability of adequately trained and suitably qualified numbers of staff.

DISTRIBUTED GENERATION

We accept that DNOs should have incentives to develop and operate a network needed to accommodate the expansion of distributed generation projects. But, our view is that there remain a number of uncertainties and unpredictabilities over the pace and development of its expansion. It is our considered view that generally network reinforcement and transmission costs will in all probability bear heavier on areas where the renewable capacity is installed rather than on the areas of immediate usage.

For these reasons we have sympathy with the idea of a customer levy although we are mindful that there are somewhat parallel circumstances where reinforcement costs to facilitate the demand of a higher load user are borne by the immediate DNO and where the costs also remain with that company. This would be particularly so in the case of the insolvency of a high load user. In either circumstance the costs associated with the installation of the additional facilities are borne by the installer rather than the user.

We are not entirely convinced by the argument that the ability to pass through costs would lead to higher charges simply because there would be an incentive to provide

access on an inefficient basis. A higher capital spend can lead to an improved engineered solution. There is a trade-off of advantage between reduced system losses and improved security.

We do not disagree with the proposal that DNOs should be incentivised to manage distribution losses but we can envisage the situation where a small scale distributed generator can reduce losses whereas a large scale distributed generator who exports to one or more other DNOs cause an increase in costs through additional power flow losses.

DNOs distribution losses are paid for by its load customers only but we cannot see that there is a logical reason why distributed generators should not accept a fair share of this cost. There should be a level playing field for all generators regardless of the method of generation. Costs should be reflected in the energy price paid by the supplier and the customer alike.

ACCESSING COSTS

In previous reviews unions, which merged to form Prospect, had consistently accused OFGEM of operating a secretive regime in the manner they applied and relied on the information provided by consultants to guide their thinking. We welcome the conversion to transparency. The public acceptance by OFGEM that they will explain how future costs will be assessed and how they will have been used to derive the level of allowed revenue is to be applauded. We would comment that there is a small omission in this approach. To be absolutely and totally transparent it will be necessary for the information to be available for public scrutiny as well as to ensure that this can be commented upon by stakeholders before the results or recommendations from advisers are implemented. Only in this way can there be the fullest confidence in the process and the robustness of the assessments.

Prospect would welcome assurance that the commissioned work on Total Factor Productivity (TFP) will be made available for comment. We do not believe there is scope for any further significant reductions in staffing costs. The evidence of the 2002 storms and the admitted underspend on capital expenditure by DNOs are two very good examples of the cut and cut again policies of the past. Many DNOs had no option but to defer some projects simply because there were neither the staff available to carry out the work or the personnel with an adequate range of skills and abilities. As mentioned elsewhere in this submission skilled staff are simply not available on the employment market.

TREATMENT OF PENSION COSTS

Prospect have commented extensively on the proposal to factor the cost of meeting Pension Fund obligations into the price control mechanisms in our response to consultation paper "Developing Network Monopoly Price Control" – June 2003.

29 August 2003

TL/EG