

energywatch response to Ofgem's-

ELECTRICITY DISTRIBUTION PRICE CONTROL REVIEW: UPDATE
DOCUMENT

SUMMARY

Energywatch would like to see Ofgem take the following taken into consideration during the price control review-

- *We would expect Ofgem to fully explore the possibility of setting incentives for NGC exit charges and business rate if it is found that DNO's have some degree of influence over these charges .*
- *We would support Ofgem making a general test of whether DNO's had met their quality and security of supply obligation as a means of ensuring coherent delivery of network services.*
- *We support the principle of rolling capex and opex adjustments.*
- *Ofgem should-*
 - *develop work on the Priority Service Register and consider allowing revenue for a dedicated customer helpline for vulnerable consumers*
 - *Address the issue of information provision to consumers for the restoration of power outages*
 - *Address the issue of giving notice for planned interruptions as a means of addressing clear consumer preference*
 - *Explore the issue of undergrounding cables*
 - *We would like Ofgem to consider whether IIP and the GS are actually working to their best effect*
 - *Whilst supporting the use of CI and CMI we think there is scope for these measurements to be refined in order to include those customers "worst served" by the network.*
- *Our complaints about DNO's should be-*
 - *used as a proxy for what consumers value about the networks*
 - *used as a means of auditing performance of the GSoP's*
 - *to adjust the existing GSoPs where necessary*

- *as part of a general Ofgem view “of the performance of the networks” (Para 3.15 p12)*
- *Network resilience incorporates a number of performance factors which deliver an overall resilience assessment. It is important that as a part of this work, DNOs also assess the impact of factors will have on the duration of outages and consequently, the information given to consumers is given due consideration.*

INTRODUCTION

energywatch believes the distribution price control review is an excellent opportunity to enhance the consumer experience of services provided by the DNOs. The review must also deliver some of the objectives of the Government's White Paper on Energy Policy regarding the connection of distributed generation onto the networks.

In this response we will focus our comments on the form and scope of the control, quality of supply and Ofgem's customer research.

Form and Scope of the Control

We hope that the DCPR will be an important stage in the evolution of the RPI-X approach to price control. We are particularly keen to see the development of a methodology that values what consumers actually want from the networks. However, we also expect the networks to be managed in both an economic and efficient way. These economic objectives can only be realised relative to a trade off between quality of service and cost. Ofgem needs to precisely identify the costs and benefits associated with for example, network resilience or standards of service, in order to deliver a meaningful price control.

Pass-through costs

We see no reason why as a point of principle, in cases where DNOs are able to have some degree of control over a certain aspect of its operating costs, it should be incentivised to reduce these costs. We would expect Ofgem to fully explore the possibility of setting incentives for what have previously thought of as pass through costs such as NGC exit charges and business rates.

Rolling Opex adjustment

We would support Ofgem making a general test of whether a DNO had met its quality and security of supply obligations (Para 3.15 p12). If

a DNOs is able to meet these requirements then it would seem appropriate to allow retention of the savings for a fixed period of time. However, this can only work if the efficiency gains can be both quantified and audited and in particular some measure of effectiveness of the savings made. The DNOs for example could reduce opex by using cheaper materials or processes, but this may not necessarily benefit consumers.

Rolling Capex adjustment

We support the introduction of increased flexibility within the price control. For Capex adjustments energywatch supports the introduction of an arrangement where a DNO is allowed to retain the benefit of capital efficiency savings for a period of five years from when the saving was made (Para 3.24 p15). It also seems appropriate to use the same principles as those applied to the regulatory asset value. We would expect auditing of the investment delivered as being crucial to the treatment of capex.

QUALITY OF SERVICE AND OTHER OUTPUTS

Whilst the core performance indicators of electricity networks are the number and duration of interruptions to supply, there are a number of other activities and customer expectations which we believe should be incorporated into the price control. This was revealed by Ofgem's research and our analysis of energywatch complaints and enquiries. We would expect the consumer preferences identified in the research to be placed into the control going forward.

Comment on Ofgem's consumer research

Ofgem's research is broadly consistent with energywatch's experience of consumer enquiries and complaints. The key research finding was that consumers were generally happy with the performance of the networks (Table 2 *Expectations of Electricity DNOs & WTP for*

Improvement in Service p78). However, it is also true that 23% of consumers expressed some kind of concern about the networks operation when they were specifically asked about the running of the local networks and the improvements (Table 2 *Expectations* paper p78). This is distinct from the questions relating to reliability of supply and impact on the environment of the networks (Table 3 and 4 *Expectations* paper p9) where consumers were more than happy with the DNOs performance.

Sample

Since there were differences in the responses of those consumers who had experienced a power cut over the last six months and those who had not, it might have been worth specifically targeting those consumers who had applied for a determination and either did or did not qualify for compensation payments.

Interruptions

Regarding interruptions, the majority of consumers favoured “immediate” contact with the DNO during a power cut (35%) and 15% within “about 1 minute” (Figure 6 *Expectations* paper p14). There is a clear steer towards a seven day notice for planned interruptions when 39% of consumers questioned agreed with this timescale. Whilst the overall performance of DNOs informing their customers about planned interruptions is good we remain concerned that 14% of consumers thought the accuracy of the information given by DNOs was either “quite inaccurate” or “very inaccurate” when they got in contact with them consumers of a proposed interruption part. *energywatch* believes there should be more work done in this area to incentivise DNOs to refine their data about the consumers connected to their network. It would be possible to organically develop their data bases as and when they come into contact with their customers.

During an unplanned interruption, consumers wanted information in terms of when the power will be restored (91%) with regular updates on events (67%). The report outlined a number of information services that would be of benefit to a number of consumer groups for example, a dedicated help line for those with special needs (93%) and the rapid restoration of power (88%).

We also note that there is a mandate for placing selected cables underground.

From the domestic consumer research it is possible to conclude that-

- The majority of consumers are happy with the performance of their network. We are concerned that a significant minority (23%) had one or more concerns about the networks performance.
- Consumers require specific information during an unplanned outage the most important being when the power will be restored.
- There is a clear preference for a dedicated customer helpline for consumers with special needs

Recommendations

We would therefore expect Ofgem to-

- develop work on the Priority Service Register and consider allowing revenue for a dedicated customer helpline for vulnerable consumers
- Address the issue of information provision to consumers for the restoration of power
- Address the issue of giving notice for planned interruptions as a means of addressing clear consumer preference
- Explore the issue of undergrounding cables

- There should be more work done in this area to incentivise DNOs to refine their data about the consumers connected to their network.
- We would like to see further work on compensation arrangements for those consumers affected by severe weather conditions.

Industrial and Commercial Consumers

The commercial implications of a minor outage for I&C consumers can be a significant impact on business, this is reflected in the high levels of inconvenience caused by unplanned outages (68% Figure 28 p40). Just under a third of commercial users were either “very” or “quite dissatisfied” with the DNOs answers to their enquiries (32% Figure 30 *Expectations* p42). This is also reflected in the fact that they favoured having a named contact to communicate with (74% “quite” or “very” important Figure 31 *Expectations* p43).

Again the survey indicated the importance of information to I&C consumers during an outage including when power will be restored (98%) and regular updates (77% Tables 11 *Expectations* p57).

Both sets of consumers had a low level of awareness of the GSOPs (for example only 4% of I&C and domestics were aware of GS 2A p58). We also note that almost three quarters of all businesses compensation should be made automatically. This indicates to us that-

- Ofgem should require DNOs to make automatic payments to consumers
- there is a need for an “additional focus” is required on information provision to consumers (Para 4.9 Update Document p43)

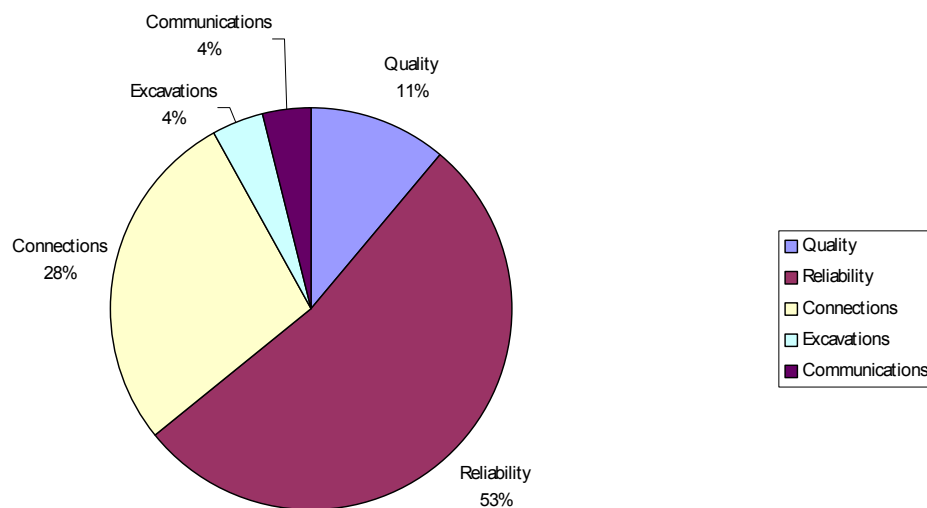
Complaint to energywatch about the DNOs

Energywatch complaint types about the DNOs are broken down into five broad distribution categories:

- quality of supply
- reliability of supply
- connections
- excavations
- communications

The proportion of the total number of distribution complaints in each of these categories is shown in figure 1 below:

Distribution Complaints Proportions Q1 & 2 2003-2004

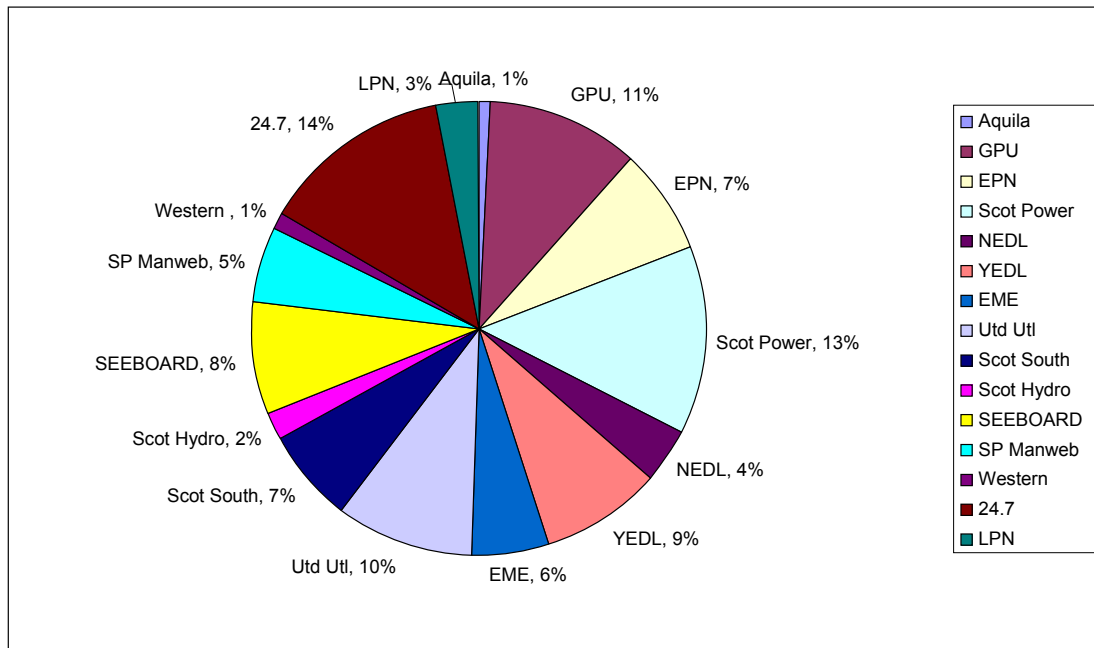


Source: energywatch complaints data base

Complaints about supply interruptions continue to dominate energywatch distribution complaints. We have found that consumers tend to accept short isolated supply interruptions and are only motivated to complain when the supply interruption lasts an unreasonable length of time or multiple interruptions are experienced.

Company Performance

The DNOs individual complaints performance varies considerably between 1 and 14% of total complaints even taking account of the different numbers of customers connected to each network. The percentages for 2002 – 2003 are shown below:



Source: energywatch complaints data base

Our data base is a consistent and nationally collected source of information about consumer's enquiries and complaints related to distribution activities and as such we would like Ofgem to consider using energywatch complaint data as a -

- proxy for what consumers value about the networks as they are clearly a negative preference
- means of auditing performance of the GSoP's to adjust the existing GSoPs where necessary
- part of a general Ofgem view "of the performance of the networks" (Para 3.15 p12)

Comparing quality of supply performance

We fully support the use of bench marking as a technique for improving performance. The success or failure of developing meaningful bench

marking for improving network performance depends on equitable comparison between networks, the ability to collect accurate audited data and the performance of the frontier companies increasing the overall standards.

Assuming the data is available we would prefer DNOs to be rewarded on the basis of their 2004/05 targets (Para 4.25 p27). However if Ofgem want to use the IIP incentive mechanism it would be useful to understand why the targets for 2004/05 were not met.

As part of comparing quality of supply performance we continue to support the number of customer interruptions and customer minutes lost measurement, though this might have to be refined to include those customers “worst served” by the network.

There is also a case for reviewing the existing Guaranteed Standards. For example, consumers may value different rates of GS payments depending on the time of day.

We would also point out that we have no knowledge of satisfaction relating to new connections or MPAs. We would expect Ofgem to do some more work in this area.

Network ownership

Comparing performance is made more difficult in the long term as a result of consolidation creating multiple network ownership.

Network resilience

The development of the concept of network resilience is a positive development in the price control. As it is a concept Ofgem must integrate a number of performance criteria into an overall assessment

of the networks resilience. We have raised a number of concerns about the quality of information provided to consumers during severe weather conditions and would expect this to be important part of the incentive.

Distributed Generation

The development of renewable technology could evolve in a number of directions such as micro generation (CHP or PV) or renewable generation such as wind. These technologies may require different forms of investment in the networks. For example, the charging regime for a connection agreement for micro generation may have a fundamentally different risk profile than that of a wind farm. We would not want the control to foreclose one form of technology over another and so support a more diverse and differentiated approach to understanding the implications of connecting different renewable technologies.

Recommendations

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