

General Remarks.

The document is mainly concerned with determining an acceptable revenue stream and an appropriate capital spend for electricity distribution for five years from April 2005. A very large OFGEM resource is dedicated to this analysis. As a consumer group the UK Water Energy Managers Forum (UKWEMF) is not in a position to duplicate that work. We need the cost of power distribution to be as low as reasonably practicable. It is however of greater concern to us that these subcontractors provide a high standard of service. This is necessary for us to meet and exceed the performance we aim to give our customers. As a result the bulk of these comments are related to reliability of supply.

To illustrate this one of our members, Wessex Water, logs about 4000 power failures per year. Many of these are too short to be considered an outage in the electricity supply industry statistics but they certainly impact on a large number of process plants.

In this price review OFGEM proposes a RIA to cover reliability and quality of service and major decisions depend on the integrity of the industry's reliability claims. We have some doubts about the way the supply industry captures information on supply failures and this has leads us to ask OFGEM to look hard at the sources of information and in particular to the claims of improved reliability since privatisation. Specific responses on this topic are made below against the paragraph headings in which responses were requested. Investigation into using alternate procedures are recommended to supplement the self regulation techniques used in the industry.

3.65 Deferred Investment.

Reducing total capital spending compared with forecast requirements is not necessarily a measure of efficiency. Much investment is dictated by business conditions at the time.

Underspending on asset renewals or quality related investment may be a measure of inefficiency and should attract significant penalties rather than rewards. Finance itself is an inappropriate tool to measure the efficiency of the expenditure. At the public workshop held by OFGEM on 20th April 2004 the some DNO speakers said some assets would take hundreds and even thousands of years to replace. The changes proposed by OFGEM appear to be likely to make an improvement in the balance between CAPEX and OPEX spending. It may however be useful to consider non-financial measurements to supplement judgement of 'efficiency' in capital spending possibly by ISO 9000 procedures which have checks related to the OFGEM key performance indicators.

Chapter 4 Quality of service and other outputs.

In almost every other field of engineering or service provision reliability/quality has improved substantially. In electricity distribution claimed and planned improvements are relatively small and practical experience drives some commercial customers to the conclusion that they may be imaginary. To the extent that this is due to the better quality needed to operate modern equipment reliably this may be a new demand on the industry. However willingness to pay for improvements is limited because improved quality and reliability are taken as given in most areas of commerce. A difficulty with consumer surveys on which OFGEM relies to measure customer views in this area is that they do not forecast future requirements. Usually it is 'leading edge' commercial users who are likely to understand the costs and benefits associated with reliability and quality. The great majority of customers are in no position to evaluate the true costs. Reliance on public opinion surveys as a means of deciding what is appropriate.

4.21 Multiple interruptions standard.

Collecting effective data for the application of this standard is a difficult task, which may explain why so few payments are ever made. In addition the situation in which only outages of over 3 hours count makes it largely ineffective. It is not unusual for Wessex Water sites to suffer about a dozen failures per annum. Most of these outages will last under 2 hours. The fact still remains that the integrity of the operation is frequently put at risk by unreliable power supplies.

4.37 Auditing

An independent quality control system using ISO 9000 series standards which requires independent inspection would facilitate better and less regulation. The ISO 9000 series of standards originated in the UK as BS5750. It is ironic that they have been embraced so widely in commerce throughout the world while being avoided by so many UK organisations. In the case of utility regulation there is a natural tendency for the regulator to want performance statistics which justify previous regulation policy. Self-regulation makes self-deception all too easy for all concerned. ISO 9000 series standards make this more difficult and would be more in line with the commercial conditions under which consumers regulate their own businesses. OFGEM are requested to consider the potential for supplementing the proposed methods of audit by using this technique. Many commercial customers are used to imposing the system on their suppliers and have the in house skills to utilise the information. There are advantages for the distribution companies as such quality audit systems can also be used as internal management tools as well.

4.39 Auditing and adjusting data for accuracy.

While it is usually very difficult to obtain reliable statistics over the very long period necessary to come to any conclusions the UK electricity supply industry 'NAFIRS' fault reporting scheme gives more information than most. Can OFGEM confirm that they have considered the data available in this scheme which covers several decades before concluding that reliability is improving? Limiting the time period considered to the period since privatisation seems to be making a political point rather than developing a useful basis for regulating an investment programme. Has other work been done to validate the industry figures?

The claim that service reliability is improving may not be well based for the following reasons.

1. The practice of paying customers compensation to avoid claims against the guaranteed standards appears to have increased. It appears that the absence of claims against these standards is in some cases used as a yardstick for staff bonuses for staff dealing with complaints. One notes that few turkeys vote for Christmas when considering the reliability of data collected on such a basis. When refusing to withdraw a claim one can expect to be harangued.
2. At some time in fairly recent years the minimum time for the power to be off before it is recognised in the failure statistics has increased from one to three minutes. In BS EN50160 one minute is the period over which an outage is usually recognised although three minutes is allowed 'for certain control schemes'. Why has the UK universally adopted the lower standard? It can allow statistics to be manipulated. Once labour is mobilised, switching operations to test faulty networks can often be completed within three minutes. Customers can suffer repeated short interruptions over a period of hours that render the supply pretty useless for many applications. In view of the importance of customer minutes and the number of outages in the regulation process it seems very possible that great effort goes into their manipulation.
3. The period since privatisation, little over a decade, is seems to be too short for the basis of the claim for improved network performance. Over a longer period there may be little

statistical justification for the claimed improvement. The IEE paper by A.B.Milne when he was Chief engineer for London Electricity gives typical data from the industry's own statistics which appears to support this view.(Proc.IEE, Vol 121,No1, January 1974)

An alternative view is that investment in improved equipment performance has facilitated considerable cost reductions in operating networks. Overall, customers have probably seen a fairly consistent level of service but claims of an improvement do not appear to align with either anecdotal evidence or my personal experience. Management of assets to reduce costs rather than improve quality is a valid choice. However for the water industry some improvement in rural reliability is needed to reflect the more stringent demands made on us.

4.51 Severe weather standard

The current practice is a failure to deal with the industry's special pleading. The industry is not expected influence service standards in severe weather. One must surely ask whom else can. Any windy day such as those experienced every spring or autumn can qualify as 'severe' weather. The poor performance of the Aquila network in March 2004 is a good example. No one can expect an infallible performance from assets exposed to the weather but such complete protection from the vicissitudes of life was and continues to be an unreasonable privilege conferred by OFGEM and enjoyed by monopoly suppliers.

The automatic payment of compensation should cover all weather conditions if the Guaranteed Service Standards are to provide useful signals. The low level of compensation does not cause significant damage to the industry finances. However, it does bring failures to provide reasonable service to a wider audience within and external to the DNOs, than would otherwise be the case. Avoiding paying anything at all gives a perverse price signal in 'severe' weather. Other services, such as ferries and international air travel have steadily improved their performance in bad weather by applying new technology as a result of competition.

Most of the weather related outages on power networks are on overhead lines. Unfortunately UK overhead distribution design is based on an emergency wartime standard which was then used to reduce costs after the war. At that time reducing costs to enable rural electrification to proceed quickly was a national priority. In reality really severe weather is extremely rare in the UK and many outages can be avoided by appropriate engineering. Limited efforts have been made to improve the performance of the existing assets but these would be encouraged by consistent price signals. The present approach disadvantages rural customers and does not appear to reflect the intention of the Electricity Act. It would seem sensible to make no exceptions to compensation payments for severe weather. An additional advantage would be simpler administration and better customer understanding. The payments would have to be reflected in tariffs but they would create an incentive to improve performance.