

By e-mail
Chris Watts
Head of the Quality of Service Team
Ofgem
9 Millbank
London
SW1P 3EG

11th November 2004

Dear Chris,

Re: Open letter on Ofgem's proposals to implement revised standards of performance arrangements for electricity distributors

We would like to thank Ofgem for the opportunity to comment on the above letter. British Gas supports Ofgem's proposals to change the existing Standards of Performance on DNOs and we have the following comments on the issues raised in the letter.

In particular we support the following:

- bringing together the existing two schemes (GS2 and licence condition for exceptional events) into 2 GSs will maintain the high profile/visibility of GSs and reduce possible supplier/and customer confusion;
- no pass-through of costs below the DNO cap of circa £4m will ensure that DNOs are appropriately incentivised to reduce the impact of these kinds of events on customers; and
- application of standards to DNOs out of area and IDNOs is essential for protection of customers from de-facto monopoly service provision.

British Gas supports the proposal to separate out the supply restoration standard as this provides greater visibility to the industry of how networks are performing, and prevents DNOs being able to hide behind the Force Majeure clauses.

We support the need to cap compensation for individual customers for exceptional events though believe that the compensation for domestic customers i.e. £25 then £25 per additional 24 hour period is not appropriate for I&C customers and should be increased to £50 plus £25/24hrs (in line with the higher compensation for I&C customers for many other GSs including GS2 that is being modified). The I&C individual customer cap should be increased accordingly, i.e. to £225.

As mentioned above, the £4m cap would appear to be a reasonable balance between incentivising DNOs and protecting them against risk. Although we support additional compensation pass through to customers in general, we note in the following paragraph that there should be some upper limit to their pass through costs to avoid potentially significant increases in customers bills.

Severe weather banding, including the proportionate relaxation of Category 3 events, appears to provide reasonable protection for companies and so it appears unnecessary to additionally cap the size of events covered as this may place little incentive on DNOs to manage these potentially, at least in part, controllable events. However, we consider the major concern to be that as total customer compensation levels are not capped (though individual customer compensation is) that the rise in distribution charges identified by Ofgem would inevitably lead to increased customer charges which could be very large in certain circumstances. This scenario would result in a large cross-subsidy from unaffected customers to affected customers. Presumably, this is likely to be a cross-subsidy from urban to rural customers. We don't believe that this was supported by the customer willingness to pay study carried out for Ofgem. Moreover, a substantial cross-subsidy would appear to be a matter reserved for government rather than Ofgem policy. Consequently it would appear that there is a need for a cap on total customer compensation at some level perhaps £4.5m and or carrying forward some proportion (say 25%) of the DNO's unused annual liability. Were the upper cap to be hit then customer compensation would either have to be reduced proportionately or be set to zero.

SSE's proposals for the Hydro area are particularly unwelcome as they would amount to a move back to the previously discredited arrangements. It is curious that SSE wants a more favourable treatment than other DNOs when it had no objection to being treated the same as other DNOs for the purposes of the 'interim' arrangements. Moreover, there is additional evidence to suggest the same treatment for the Hydro region as for other DNOs as GS2 applied equally to all DNOs, as did the related OS1 for restoration of supply. Surely, if there were fundamental differences that needed to be addressed that these two standards would also have been different for the Hydro region. Further evidence is found in existing performance as well as future targets for the CI and CML incentive scheme, where though Hydro has worse than average performance its performance is not an outlier.

As stated above we welcome the application of standards to the IDNOs but would question under scenario B (planned interruptions) whether five days notice from host DNO to IDNO will be sufficient. The IDNO under this proposal will only have three days to gather the information and get it out to its customers.

Please do not hesitate to contact me on 07979 567717 or e-mail me at Alison.beard@centrica.com if there are any questions.

Yours sincerely

Alison Beard
Regulatory Issues Manager