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Dear Roger

**Review of Competition in Gas and Electricity Connections Proposals
Document: Proposals and Impact Assessment**

energywatch welcomes the opportunity to respond to the issues raised by this consultation. This response is non-confidential and we are happy for it to be published on the Ofgem website.

We fully support the use of formal obligations to ensure that all distribution network operators (DNOs) provide a better service to consumers when they apply to connect to any gas or electricity distribution network. Consumers seeking a connection can shop around for a suitable provider to undertake the work but, ultimately, the connection requires considerable input from the host DNO. Poor service increases costs unnecessarily, causes projects to be significantly delayed or abandoned, and results in consumer detriment. All types of end consumer can be affected – individuals, developers and builders and local authorities. Consumers only benefit from lower costs and a high standard of service when there is open, transparent and effective competition.

The document highlights how a formal regime has improved the competitive situation in gas connections. We believe that a licence obligation, backed by effective regulatory monitoring and enforcement, will provide the necessary impetus to host electricity DNOs to ensure that service levels for competitive connections on their networks are raised considerably higher than currently. The aim must be to increase the user-friendliness of the connections process, providing more relevant and timely point of connection (POC) information to applicants including accurate quotes for the work, reducing delays in the process and keeping applicants fully cognisant of progress, and providing effective notice of, and avenues for, dispute resolution.

A formal approach does not mean that a 'lowest common denominator' level of service will develop in all DNO areas. Increased competition should stimulate rather than stifle innovation. No special incentives are required to improve service levels as DNOs should carry out connections as part of existing activities. A fair but effective

licence obligation, monitored and reported upon, should provide sufficient encouragement.

Gas connections

While we agree that competition in gas connections may be healthier because of more involvement from independent connection providers (ICPs), we are still aware of various examples of consumer detriment which have much in common with the problems in electricity connections. These include:

- a lack of information about progress on connections work and whether there are dispute resolution processes available in case of disagreement between the consumer and the provider;
- failure to provide clear, accurate and informative quotes for connections work;
- cherry-picking of connections projects by ICPs which could raise the overall operating costs of the host gas DN, impacting on all consumers; and
- the additional transportation costs levied on consumers by their suppliers simply because they are connected to an ICP's network.

Consumers have told us about the difficulty of obtaining alternative quotes in the event that the original quote from a host gas DN is considered too expensive, or if the work to be carried out does not meet the consumer's requirements. Alternative providers sometimes inform consumers that they are unable to provide a connections service within an area and refer the consumer back to the host DN.

This highlights the lack of objective and easily accessible information available to consumers which can lead to delays and unnecessary frustration when connections works are sought. It also illustrates how limited an influence some consumers have on providers depending on the size of the project – large consumers may be able to exert greater pressure to achieve progress on the timeliness and cost of works compared to an individual consumer.

We will comment further on specific aspects of gas connections in the context of the gas distribution price control review. There are clearly areas where current service ought to be improved further, regardless of the number of alternative providers, which by itself is not a good indicator of the effectiveness of competition.

We agree that the scope of competition in gas connections could be increased further, although some of the existing problems with competitive connections must be addressed effectively first. One area where further competition may be beneficial is that of network extensions. Competitive connections can provide the fuel poor and off-gas communities with an alternative cheaper source of heating and cooking fuel. Appropriate use of discretionary rewards providing additional funding for innovative forms of network management with consumer interests at the heart of any scheme, could be considered. Any future network investment must meet the

criteria of economy and efficiency for the benefit of all consumers. In addition, full regard must be given to matching need to the range of help available to consumers.

Electricity connections – a formal licence condition

The current voluntary standards of service provide no real incentives on host DNOs to progress connections in a timely and effective manner. This has resulted in a lack of competition from ICPs and high costs for consumers. Whether consumers use an ICP to carry out work at lower cost or apply directly, any benefit can be wiped out if the consumer or ICP finds that the host DNO is slow in progressing applications and responding to queries, provides limited POC information and fails to either complete necessary works to an appropriate standard or provide accurate quotes, resulting in frustration for the end consumer.

We strongly agree with formal performance targets for progressing and completing connections prescribed in a licence condition to provide the DNOs with greater incentives to adopt best practice. However, these must be monitored carefully and consumers should have the ability to enforce a material non-compliance. We welcome the setting of an initially high minimum threshold (90%) for each of the standards of service outlined in the document. The use of a 'reasonable (or better still best) endeavours' obligation ought to ensure that any failure to meet standards is exceptional, otherwise a stronger test must be applied. Compensatory arrangements for consumers – refunding a significant proportion of the initial costs of connection or subsequent charges - would provide a clear incentive if targets are not met. We endorse the initial 'switching off' of the licence obligation for independent DNOs only if consumers seeking to connect to IDNO networks are in no worse a position without the formal obligation. Ofgem must keep the situation under review.

We agree that classifying connections by voltage size for the purposes of setting the standards of service clarifies and allows streamlined timescales to apply for different types of request. Consumers must also be assured that the timescales cover the situation where amendments are made by them to applications during the process – in other words, the timescales are a **maximum** for the task to be completed. Otherwise, Ofgem should further clarify the standards of service. DNOs must not be able to claim that targets could not be met due to delays in processing caused by customer amendments. Any connections that require work by other parties should be highlighted by DNOs well within the performance timescales, as consumers should be kept fully informed on progress, or lack of it, as early as possible.

Electricity connections – other best practice measures

We believe that all DNOs should adopt a number of best practice measures beyond the targets mentioned in the proposed licence condition on a consistent but not 'lowest common denominator' basis. We have considered Ofgem's proposals and agree that a number of measures can be adopted immediately.

Increasing customer awareness and streamlining the applications process

It must be a key responsibility of the DNOs to educate consumers about the process involved in a connections application. Transparency and timely action are important elements of more effective competition and yet these are lacking once an application is submitted. The DNOs fail to provide consumers with a user-friendly means of obtaining access to relevant information about the process of applying, how to obtain competitive quotes, the progress of applications after they have applied, and how to query the information provided by DNOs. The tendency is to leave it to consumers to work through the process by trial and error.

We believe that general standard information about the connections process should be accessible (available on DNOs' websites or with links to relevant websites where necessary), easy to understand (plain English information packs are a good first step), and point out clearly to consumers which options they have and how they may exercise them. The DNOs' own responsibilities should be clearly outlined so that they can be held accountable by consumers for failing to apply procedures effectively and expeditiously. Specific information about applications in the process ought to be accessible on a dedicated website platform and should be updated as necessary to keep applicants informed as well as conveying this information by other timely means. This would increase transparency and allow consumers to compare and contrast costs and service.

It must be recognised that different consumers have differing needs. An approach to managing connections applications which suits a large housing developer is unlikely to suit a domestic customer. We agree that large consumers with multiple applications (local authorities and housing developers for instance) could be provided with dedicated account management, while individual applicants require a more personal service. In a competitive market, DNOs cannot use a 'one size fits all' approach. DNOs must manage consumer expectations, not expect consumers to fend for themselves. Innovative approaches which place consumers' interests at the heart of managing applications could be subject to discretionary rewards but only if real measurable progress is shown.

We believe that elements of the process can be standardised where appropriate – including greater consistency in the design of, and information requested in application forms – but innovation should also be encouraged. Quotations for work, including how long it took to prepare them, are a particular area where detailed, accurate information is required. Consumers cannot compare the costs of work without clear itemisation. DNOs can work together to develop some uniform practices to limit excessive costs. We believe that consumers will also benefit from these changes by stimulating increased competition between DNOs and ICPs.

Dispute resolution

Ofgem is right to support inclusion of customer disputes about connections in the consumer redress arrangements to apply after the replacement of energywatch and that energywatch's successor should have direct involvement in the process. We have come across instances where consumers are not made aware of any query

process and whether they are able to dispute information on connections work provided to them as applicants.

Consumers tell us that when they receive quotations from DNOs, there is nothing to indicate whether the quotation can be queried, whether there is a query process, and who to contact in this instance. Essentially, this is a 'take it or leave it' process. Sometimes the query process is given an obscure title without further explanation which may also deter consumers from raising a query. The disputes process can be quite long even for routine queries and lacks timely resolution. Consumers also find it difficult to get a DNO to change a quotation unless the original quotation was based on incorrect information. This usually leads to an increased cost provided in a revised quotation.

This highlights the opaque nature of the disputes process and why it must be reformed to ensure that consumers obtain adequate redress in an informative, transparent and open process which is timely and proportionate to the nature of the dispute. Routine queries and disputes should be resolved in a short period of time. Longer timescales may be required for more difficult disputes but not to the detriment of the consumer's connections application which may lead to a project being abandoned unnecessarily.

One immediate improvement that DNOs can make is to communicate clearly to all consumers, domestic and business, on their websites the disputes process for connections applications and how it can be used by them. For business consumers, it may well be more suitable, in terms of timely resolution of issues, to have a two-step process which allows referral to Ofgem if the parties fail to agree a solution.

Consumers requiring larger connections, particularly businesses, tell us of disputes relating not only to the costs being levied but also the DNOs' right to levy those charges in the first place. Recently consumers have complained to energywatch that DNOs are asking for payment for upstream system reinforcement which they believe does not form part of the connection requested. Additionally, consumers tell us that they are being charged for feasibility studies for upstream elements of the network because the DNO is unsure or unaware of the capacity available. DNOs must manage networks efficiently and effectively and must not be allowed to charge consumers for elements of work that form part of the allowed revenue within the price control process.

Alongside these issues are the SLC25 statements which should be clear and easily accessible – these statements, if designed, maintained and shared appropriately, should reduce the need for feasibility studies. Ofgem should, as part of this review, ensure that all statements are fit for purpose.

Connection charging

We agree that developing a standard template for charges for competitive connections work would assist comparison by consumers to obtain best value. However, a consistent format to promote transparency needs to be introduced as

soon as possible to maximise the benefit. Ofgem must proceed with the introduction of a format if this is not forthcoming soon.

Affiliated businesses

The licence obligations of host DNOs are clear that there must be a non-discriminatory treatment of all connectees and users. This applies to all connection services. It is critical to increasing consumer choice that if a consumer uses an ICP for a connection rather than a host DNO due to lower cost, that ICP is treated the same as the host DNO's affiliate connections business. The licence conditions must be strengthened or enforced more effectively if Ofgem believes that there is abuse.

Scope of contestability

Further competition in connections would be welcome if it increases consumer choice and lowers costs. However, the current competitive connections areas must work sufficiently well before there is an increase in scope.

Consumer protection

We believe that Ofgem has a responsibility to ensure that consumers are protected by enforcing licence conditions, not simply writing new ones without imposing a real sanction in the case of clear material non-compliance. We also believe that using customer surveys is a helpful form of feedback to DNOs in developing their connection services. However, the general principles of accessibility, transparency, timely action and consistency must be applied even before consumer expectations are assessed further. Adequate reporting will also provide a good source of feedback but real and measureable standards are required to gauge effective performance.

Impact assessment and the draft licence condition

The draft impact assessment is quite clear that electricity DNOs have a responsibility to manage consumer expectations and needs, whether the host DNO is used for a connection or not. The failure to observe voluntary standards demands that formal obligations create the environment where competition can thrive, lowering costs and increasing levels of service which in turn should increase consumer satisfaction. A 'do nothing' approach will create increased costs and cause delays to consumer connections over time. We anticipate that Ofgem should be more prepared to act to protect consumer interests under a formal regime and will do so.

We agree that the draft licence condition has been developed adequately to reflect Ofgem's proposals. However, Ofgem must take note of the concerns we have raised above and put in place much stronger worded obligations, particularly with reference to compensation if the licence provisions are not satisfied. Without being too prescriptive, Ofgem must also ensure that DNOs recognise the need to provide the relevant information about connections on their websites. Guidelines may help clarify this position but there must be a clear link in the licence condition to these.

Going forward, we will continue to keep these issues under review as and when they are raised, always considering the possible impact on consumers.

We would appreciate being kept informed of the progress of the consultation and any related issues to enable us to comment as the need arises.

If you do wish to discuss our response further please do not hesitate to contact me on 0191 2212072.

Yours sincerely

Carole Pitkeathley
Head of Regulatory Affairs