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Dear Martin

### **DPCR 5 – Looking ahead (open letter)**

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

Consumers expect the delivery of safe, secure and reliable electricity supplies in an efficient and economic manner. In meeting those expectations, the distribution network operators (DNOs) have licence obligations that they must observe. Where the DNOs are failing to meet their licence obligations, Ofgem, as the industry regulator, has a responsibility, particularly through its primary statutory duty to protect the interests of consumers, to take action.

### **The interface between consumers and DNOs**

We note that Ofgem has sought to encourage improvements in the interface between consumers, particularly the most vulnerable, and the DNOs through financial incentives for better customer service. However, our concerns are that, when the new arrangements following the changes in consumer representation begin, these initiatives may fail to bear fruit. For instance, will the DNOs who have been rewarded maintain the standards that they have set to obtain the reward and how will this be monitored and, if necessary, enforced by Ofgem? Are improvements by some being reflected in other DNOs' approach to customer service and, if not, why not? How will Ofgem ensure that improved service will be adopted by all DNOs as soon as possible rather than waiting for the outcomes of DPCR 5? Does Ofgem believe that better service always requires a financial incentive – why should consumers not expect improvements as of right?

The future of complaint handling is a particular concern in this respect. It is not clear at the moment how effectively any ombudsman service will handle more complex issues relating to the interaction between consumers and DNO activities which go beyond routine enquiries. It is the complaints brought to energywatch by consumers requiring energy sector knowledge and expertise which may not be effectively

addressed in a post-energywatch world. It is also these issues which tend to be highlighted in surveys of consumers regarding the poor quality of customer service. We note Ofgem's intention to commission more research, as part of the Consumer First project, into consumers' impressions of the DNOs. We support this approach but believe that the findings of the consumer survey undertaken for the gas distribution price control review may, to some extent, be replicated. Ofgem should explore, and ultimately implement, an effective compliant handling performance standard which relates back to the price control. DNOs' revenue allowances should be linked to their ability to deliver effective performance on resolving consumers' complaints. DNOs do respond positively to energywatch's complaints data which is linked to their price control. If Ofgem believes it is appropriate to reward improvements in customer service, the opposite should also hold true.

One of the key issues is engagement by DNOs with consumers – are they taking an effective approach to consumer education and raising awareness of their role? This can be particularly important when loss of supply events occur because it avoids the problems of poor communication which give rise to many consumer complaints and enquiries, especially as these events impact on vulnerable consumers.

Consumers have told us of the poor communication issues that arise when they contact DNOs about obtaining connections, alterations of supply and meter relocations. After quotes are obtained and paid for, the DNOs sometimes fail to communicate effectively, or at all, about the works unless prompted by consumers. Although Ofgem now intends to address the issue of connections through a formal licence condition (SLC 4F), the DNOs' performance to date has been somewhat variable, and can also depend on where consumers live.

Similar issues arise where consumers have been affected by intermittent losses of supply over a number of years. These consumers may hear about improvements to the local network but may not experience the benefit nor is the remedial action which DNOs are taking communicated effectively by the DNOs themselves.

Consumers recognise that restoring supplies during severe weather can require them to be patient. However, it is the lack of good communication from DNOs during such events which cause consumers, particularly the most vulnerable, considerable frustration – DNOs must look towards improving this in areas where they are found wanting.

Consumers would only be willing to pay for improvements to service where these are real and quantified, and not for elements of customer service which any customer-facing business ought to have in place as a matter of course. We look forward to commenting on Ofgem's further work in this area.

In furthering engagement with users, the idea of transparent business plans and regional workshops is a good start. However, transparency is not enough. Users or their representatives (including local authorities and regional development agencies) will need to be provided with information in an accessible and understandable format. Clear explanations will be required of why the DNOs consider that their plans represent the most efficient way to deliver users' expectations. We look

forward to improvements in engagement as a more effective process than the periodic issuing of consultation documents which can be more burdensome. Early and continual access to updated cost data should assist the process of presenting clear and effective explanations of the DNOs' plans.

The early announcement of performance standards for future years (on customer interruptions and minutes lost, for instance) should help establish benchmarks which the DNOs should aspire to meet early if possible, or at least work towards in the interim. We believe that the DNOs can more effectively achieve targets when they are focused on these as early as possible.

From statistical work on DNOs' adherence to the performance standards, a number of issues are highlighted:

- inconsistencies in how data is recorded, particularly in relation to how payments made to consumers are interpreted. Some DNOs will treat goodwill payments, as opposed to automatic payments under guaranteed standards, as a reason not to record data on instances of failure to restore supply within the relevant timescales, interpreting the failure to provide an automatic payment as outwith the standard;
- there is inadequate checking of the DNOs' data before it is passed by Ofgem to energywatch to ensure automatic payments are being recorded correctly;
- the use of goodwill payments can be 'abused' as a way around accurately recording data under guaranteed standards;
- if the statistics tend to show few automatic payments are made, the DNOs could argue that standards are being met and seek their revision or removal;
- there is a real need for effective auditing processes to be established to ensure monitoring reveals whether data is recorded accurately, interpreted correctly and consistently and, if not, what action Ofgem intends to take to tighten processes.

## **The approach to incentives in the future and other issues**

We recognise that the DNOs must manage consumers' expectations in the next price control period while also working within an overall framework of government objectives which require them to assist in meeting climate change and renewable energy targets. The DNOs must be alert to, and flexible in, their approach to these challenges. In particular, their incentives must reflect the ability to deliver flexible and actively managed networks while maintaining efficiency and value for money for consumers. An approach to incentives which rewards the DNOs for expanding networks, but which leaves stranded asset risks with consumers, is not appropriate.

We believe that the wider and early roll-out of smarter meters to all consumers has positive benefits, empowering them to recognise the level of their energy usage and take action to improve their energy efficiency but, above all, ensuring that they are provided with accurate bills for usage by their suppliers. We do not see a significant

role for DNOs in promoting smarter meters but they will need to manage the consequences, perhaps in terms of developing different tariff structures for distribution charges as part of active network management. The DNOs must show flexibility while maintaining a fair and transparent approach towards all users.

We agree that DPCR 5 should build on previous price controls in terms of continuing to identify efficient operation and the associated costs. This can be done through the use of forms of benchmarking that are best suited to this objective. The results can be developed into the baseline for further improvements. The DNOs' approach must evolve as circumstances evolve. The vast majority of consumers are passive users of the networks and will remain so for the foreseeable future. Significant changes to network operation and to the charging structure in the very near future are unlikely.

However, where there are some significant changes to network operation, through increased connection of distributed generation for instance, the DNOs must learn to manage this situation in a way that ensures fair, stable and transparent charges for all users. There may be a tendency for the DNOs to argue that increasing distributed generation will require more cost reflective charging. However, while consumers may have to pay more for access to localised generation which improves security of supply, these costs should be efficiently incurred in the first place. It is Ofgem's role through DPCR 5 and thereafter to identify how the DNOs can most efficiently and effectively manage any transition to increased connection of distributed generation.

We recognise the issues arising from common ownership of generation, supply and distribution. We are opposed to the continuation of bundled ownership as there is a residual risk, despite licence obligations to the contrary, of discriminatory behaviour which stifles competition. The lack of effective competition in electricity distribution connections has already led to the proposed introduction of a licence condition by Ofgem. Ofgem must undertake effective monitoring and enforcement action of DNOs' behaviour in any case. However, ownership unbundling provides consumers and potential new entrants with the greatest comfort in terms of transparency.

While we see benefits in retaining the five-year price control for the periodic setting of revenue allowances, there is a good argument for balancing this approach against the long-term perspective. Network assets have much longer lives than the regular price control and so the efficiency of all DNO expenditure does require long-term consideration. The current price control process provides all relevant parties with a snapshot of progress but may become less useful with increased regular cost reporting. The full benefit of cost reporting requires the presentation of information in a useable, accessible and understandable format.

We are currently taking part in discussions with Ofgem and the industry on the review of the electricity distribution licences. We agree with the need for clearer and more accessible wording in the licences, while retaining all the current obligations on licensees subject to further discussion. The licences must be robust in providing essential protections to consumers affected by the DNOs' activities.

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 look forward to further engaging in DPCR 5 prior to the beginning of new arrangements following the changes in consumer representation.

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