



SP Transmission & Distribution

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Your ref

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Date

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Contact/Extension

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Dear Laura

Consumer First Research for DPCR5 – Qualitative Findings

I am writing in response to Martin Crouch's open letter of 14 December 2007 and the Access report "Expectations of DNOs and Willingness to Pay for Improvements in Service".

We think that this is a useful report, with some interesting comments made about awareness of DNOs, Guaranteed Standards of Performance (GSPs) and compensation, and environmental and other issues. We note the qualitative finding of limited willingness to pay for service or quality improvements, but this point also appears to be linked to perceptions of directors' salaries and overall pressure on electricity bills. The comments on Guaranteed Standards broadly relate to awareness of the standards, compensation levels, and procedures for claims, but do not otherwise appear to indicate significant gaps in the standards from a customer perspective.

We also recognise the increased awareness of environmental issues in relation to networks, for example in relation to severe weather events, including flooding.

Our comments on the findings and their implications are as follows.

1. Willingness to pay for improvements

It is understandable that customers link this issue to general concern over energy bills, and perceptions relating to such matters as directors' salaries. The report includes a comment that "where there was willingness to pay for improvements", businesses typically gave ranges of 2-4% of their annual bill, and for domestic customers there was a consensus that an additional £1 per month might be acceptable. We agree that such figures should be treated with caution at this qualitative stage, and that the quantitative research should explore this topic more thoroughly. We would, however, make the point that as far as possible, willingness to pay for enhanced quality of network service should be decoupled from the broader issues relating to energy bills.

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2. Undergrounding

We note that there was some willingness to pay more to place cables underground, and the report refers to a figure of 20p for each 1% of existing line in sensitive areas such as national parks placed underground. It may be more meaningful to relate this to kilometres of line. The table on page 36 of the November 2004 Final Proposals document gives figures for kilometres of line for each DNO in the areas concerned, which could be used for the quantitative research in this area.

3. GSP Compensation and Reliability

It is natural that business customers in particular should find existing compensation levels in GSPs to be relatively low. However, GSP compensation payments have never been intended to reflect the loss of business or of amenity due to an interruption, but rather to provide a meaningful payment in relation to a minimum standard of service and to incentivise licensees accordingly. If there is a significant lifting of the minimum standard or of the level of compensation involved, this in turn may have implications for DNOs' funding requirements. We think that a sense of the trade-off involved here should inform the quantitative research in relation to GSPs.

4. Realistic cost/benefit relationships

It is important that the quantitative cost/benefit relationships in the 'stated preference' questions are realistic. It is not at clear at present how the impacts on customer bills of choices to be presented will be assessed. Also, with questions that compare possible compensation levels for, e.g., supply interruptions with impacts on bills there may be a bias where the relationship between changes to compensation payments and the impact on average bills is less than unity.

We look forward to discussion of the initial pilot survey, and hope that the points made above will be taken into account in developing the quantitative research going forward.

I hope that this is helpful, but please contact me if there are any queries.

Yours sincerely



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