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12 November 2008

Dear Sir / Madam

Gas and Electricity Connections Industry Review 2007-08
Ref: 143/08

I write in response to the document above issued for consultation. As ever, thank you for the opportunity to respond to the issues raised in this document and the Electricity Connections Industry generally.

I list below the relevant specific questions asked in this document and our response:

Chapter three: Question one: We seek consultation response on whether stakeholders agree that performance standards are as high as reported, and what lessons can be learnt from the gas connections industry and applied to the electricity connections industry.

You have in your possession a comparison of the Gas and Electricity markets prepared for the ECSG committee and discussed at the last meeting. This sets out clear disparities between the gas and electricity markets, not least of which is an embracing of competition in the gas market, and an apparent resistance to competition in the electricity market.

Chapter four: Question one: Why has competition been slow to develop in electricity connections compared to gas, and what measures if any, should be taken to address this issue. In particular, we seek responses on the following theories for the relatively slow growth of competition in electricity connections: a. The relative price control operating in gas gives IGTs a relatively high revenue compared to their underlying operating cost, whereas margins are slimmer for IDNOs? b. There remain significant barriers to competition in electricity, whether real or perceived, which prevent effective competition from IDNOs and ICPs. If so, we seek consultation responses on the nature of the barriers, and what measures should be implemented to address them?

The general feeling is that competition has been slow to develop in the electricity market simply because DNO's do not generally want such competition (perhaps they feel it is a little like asking turkeys to vote for Christmas). It appears that DNO's have successfully kept

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competition at bay in most areas for the best part of 8 years. They seem to have managed this through endless meetings, prevarication and the playing of the “health and safety” card, coupled with poor or non-existent internal communication, assisted by the disparate nature of the communication of Ofgem’s decisions or wishes, and a failure by Ofgem to address action points and see these through (for example – neither the individual points in the previously issued ASLEC position paper, nor the points made in the comparison of competition between gas and electricity markets have resulted in a comprehensive set of SMART objectives / action points for Ofgem and the DNO’s to see through).

Margins for ICP’s are generally not an issue, unless the DNO is creative in its pricing structure by increasing the price of non-contestable works whilst reducing those for contestable works and one way to counter this is for the actual price *increases* for works to be proved as cost-reflective by external audit. What is an issue is the lack of industry wide agreed procedures and standard paperwork accepted by DNO’s and an over-reliance on individual DNO “trade –tests” or approvals adding cost and delays to an already expensive registration process. DNO’s are also extending this approach to something as relatively straightforward as the provision of G39/1 training, with some requiring individual “assessments / trade tests” of those trained by anyone other than themselves.

Ofgem needs to bring together all the Managing Directors of the DNO’s to create and agree a Memorandum of Understanding to set out and implement a positive framework for competition. This then needs to be detailed with time frames and cascaded through the DNO’s. All Ofgem’s decisions need to be held in one document for ease of use. Prevarication and obfuscation needs to cease.

Chapter five: Question one: Why has there been limited reporting against the SLA 15 performance standards, and what measures should be taken to address this issue?

Whilst our main concern is unmetered supplies, some DNO’s are requiring more meters to be fitted to highway electrical equipment. Therefore we have an interest in this area. The issue of limited reporting will always be an issue where respondents are asked to report on themselves. Far better that an audit regime is put in place.

Chapter five Question two: There are standards relating to the provision of non-contestable services where the connection is being provided by an alternative provider. However, the vast majority of contestable activity is still carried out by the incumbent and not all of this activity is covered by service standard reporting. Therefore we seek feedback on whether it is appropriate to extend the scope of service standard requirements / reporting to Office of Gas and Electricity Markets and if so, what form the scope extension should take? For instance, we have 30 and 40 day standards for straightforward connections, but no comparable service standards with regard to non-straightforward connections (i.e. the majority of larger connections).

This is a matter for debate in that the scope of service standard requirements / reporting should be extended, but the form needs a consensus, I would suggest, from DNO customers.

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Chapter five Question three: Data generally suggests that standards are being met. However, this is not consistent with the fact that we receive significant numbers of complaints with regard to service quality from end customers, ICPs and IDNOs. Why is there an apparent inconsistency between reported standards, and the level of complaints received? How should this issue be addressed?

The usual way to assess performance and customer satisfaction is to ask the customers in a formalized way and to supplement this with auditing.

Chapter Six: Question one: In the light of generally disappointing performance, Ofgem seeks views from interested parties on whether they believe that it is appropriate to continue with the current voluntary arrangements, or whether Ofgem should seek to introduce either financial incentives (as part of DPCR5) or specific licence conditions with regard to performance standards in unmetered connections.

We believe that you have answered this yourself in your own document – see extracts below:

- *“Given the lack of effective competition in the provision of unmetered connections”;*
- *“DNO average performance was below the benchmark standard for 10 of the 11 standards”;*
- *“In the light of this generally disappointing performance.....”;*
- *” we do expect them to offer a consistently high level of customer service in key areas”;*

We believe that Ofgem has been more than fair in allowing a period of time for voluntary arrangements to be put in place. We have reported before, and we report yet again, that we agree with what appears to be a central assertion of Ofgem, that this has simply not worked.

As a result, the millions of consumers served by local and central government appear to have been failed – which is an indictment of one of the prime purposes of Ofgem.

Clear and timed objectives need to be put in place to ensure that possible unfair delays or prevarication or barriers to competition do not continue to be tolerated. Reference to the previously identified documents (ASLEC position paper and the Comparison of Gas and Electricity connections), together with the response from Amey Infrastructure Services to the Connections Industry Review 2008 set out more detail of the industry concerns. Ofgem needs to address each of these issues in detail and facilitate their satisfactory resolution.

Finally you are already aware that the KPI returns are based on different reporting mechanisms within different DNO’s – which renders them virtually worthless.

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Chapter seven: Question one: In the light of experience, did Ofgem's Good Practice Review target the appropriate areas?

We quote from your own report below:

"Whilst it would be inappropriate and infeasible for Ofgem to dictate in detail the way DNOs manage their relationships with their customers or organise their connections businesses, we do expect them to offer a consistently high level of customer service in key areas. We sought to move forward on a consensus basis with DNOs since they should have a good understanding of customer needs in their respective distribution services areas and the way in which they can be met."

We applaud the sentiment in the first sentence and are still waiting to see if this will result in pragmatic and significant progress.

We are astonished at what appears to be a high level of naivety in respect of the second sentence. This, together with: **Chapter seven Question two: Do the DNOs' reports of their own performance in implementing the Good Practice measures (as per our checklist) accord with their customers' and other market participants' perceptions of their performance?**, is beyond belief. The accepted form of measuring customer satisfaction and performance is to carefully define clearly measurable outputs and seek responses from the customers and perhaps other interested external stakeholders /market participants. If you were to suggest to the general public that you would judge the acceptability of the price of fuel by asking the fuel companies - rather than their customers- you would be ridiculed. We feel that this is broadly equivalent.

Finally I repeat again some of the content of our previously submitted position paper and look forward to some real significant progress – if not through Ofgem, then through another body.

- *There appears to be a lack of communication or lack of knowledge about the process of competition in connections within some DNO's (Lloyd's have apparently offered to talk to DNO's about the process); and within the market generally.*
- *Generally there is wide misunderstanding of the arrangements for Competition in Connections amongst contractors and local authorities. The arrangements are seen as much more complex than the reality would suggest.*
- *The time and cost to achieve competition varies across DNO's – WPD for example have carried this out speedily and efficiently within Monmouthshire; this contrasts with EDF, for example, where contractors have been in dialogue with them since the middle of 2005, with little or no real progress to date.*
- *Availability of access to drawings varies (e.g. For contractors with e-on – 4 updates pa on CD ~£180; WPD issue DVD of records foc; UU make records available only to LA's; LA can authorise contractors to obtain drawings in EDF)*

Following OFGEM's review of Competition in Connections carried out in 2007, increases in energy costs together with increases in the costs of non-contestable works (anecdotally some DNO's have allegedly increased the cost of connections to the main by 50-100%) have placed enormous pressure on local authorities. Such is the concern that this was raised within the recent All Party Parliamentary Lighting Group meeting, held at the House of Commons.

In the light of the foregoing, there are a number of issues which require consideration:

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- 1 *There is a need for a simple straightforward document which sets out the process and steps to achieving a triangular agreement to enable competition in connections, together with sample Network Access and Adoption Agreements(including adoption on energisation) and other sample documents where applicable (e.g. letter from Local Authority to DNO requesting a triangular arrangement).*
- 2 *Charges / costs – ideally costs levied by the DNO's for inspection of works etc.. should be consistent across the DNO's; in the absence of these, they should be capped. They should also be transparent and publicised (e.g. on their web-sites).*
- 3 *"Trials" – our understanding is that the arrangements and trialling within WDP would acts a model for other DNO's to adopt, without the need for trials in every DNO area.*
- 4 *PFI contracts require consideration as to how these can be accommodated within the triangular agreement. This is because the contractor and client are essentially the same under such contracts.*
- 5 *The DNO Competition and Connections Managers responsible for the triangular agreements should be named and this information made publically available*
- 6 *There is a fear that an increase in ICP's carrying out contestable works might lead to disproportionate increases in the cost of non-contestable works*
- 7 *There is concern over possible distortion or prevention of competition in current and future PFI contracts, where the host DNO is associated with or part of the same group as one of the bidders*
- 8 *There should be a maximum time frame for DNO's to respond to requests for decisions / information (the whole process takes too long in some DNO's)*
- 9 *Emergency pot-ends should be considered for inclusion*
- 10 *Working on the Main should be considered for inclusion as it is a matter of competence. This could start with plastic sheathed mains cables to start with, providing these are identified on the drawings (they should be)*

You are, I believe, sympathetic to the high levels of frustration existing in the market place. It is time now to ensure that something is done about it.

Yours faithfully



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