

Rebecca Langford
Connections Team
Distribution
Ofgem
9 Millbank
London
SW1P 3GE



13 November 2008

Dear Rebecca

**Gas and Electricity Connections Industry Review (CIR) – 2007/08
Consultation Document 143/08**

Thank you for the opportunity to comment on the above document. This response should be regarded as a consolidated response on behalf of EDF Energy's three distribution licence holding companies – EDF Energy Networks (EPN) plc, EDF Energy Networks (LPN) plc, and EDF Energy Networks (SPN) plc. For convenience, the three licensees are collectively referred to as "EDF Energy Networks" throughout. We are happy for this letter and the appendix to be published on Ofgem's website.

We continue to support the development of competition as a means of providing customers with choice and value in the electricity connections market, and recognise that the CIR is a fundamental indicator of progress in this area.

We believe that the principal reason why competition is developing slowly in electricity connections is the combination of two aspects of the current regulatory framework. Firstly, there is the fact that the costs recovered by DUoS tend to relate to higher voltage assets, leaving only a relatively small financial space for the IDNOs to operate in. Secondly, DNOs are prevented from retaining margins on connections work, which effectively forces ICPs to compete with an incumbent charging at cost – again leaving little or no financial space for them to operate in. Ofgem cannot do much to address the first issue without making connection charges shallower and destroying valuable locational price signals. However, it is able to address the margins question through the current price control review.

Our detailed comments are provided in the appendix to this letter, and we are committed to working with Ofgem and the industry to resolve any issues that the CIR identifies. If you require further explanation or clarification of any point in our response, please contact me on 01293 657853.

Yours sincerely

Paul Measday
Regulation Manager

APPENDIX 1

Gas and Electricity Connections Industry Review (CIR) – 2007/08 Consultation Document 143/08

Chapter 3 – GT Performance against Guaranteed Connection Standards

Question 1:

Do 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?

We understand that a particular model has developed in the competitive gas connections market which has allowed GDNs to limit their audit and inspection requirements for ICPs. For simple schemes, where it is deemed acceptable to make a new connection by reference to a table of gas pressures, the connection is made by the ICP and the GDN is simply notified of the connection five days in advance. The ICP is also responsible for dealing with quotations – and possibly multiple applications – in these circumstances. We are doubtful that these practices could be replicated in the electricity industry. Further details are provided in our response to question 1b of chapter 4.

Chapter 4 – Metered Electricity Connections

Question 1:

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 costs, whereas margins are slimmer for IDNOs?*

There are a number of possible reasons why IDNOs' margins tend to be lower than those of IGTs, including the following:

- When looking at the costs reported by DNOs in their Regulatory Reporting Packs, only a small proportion falls on the low voltage networks; the overwhelming majority of costs relate to higher voltages on the distribution system.
- Based upon information provided by IDNOs who are also IGTs, the average use of system charge to a domestic customer is higher in the gas market than in any of our three distribution service areas. As a result, margins of a similar percentage translate into a smaller monetary value in the electricity market as compared to the gas market.
- Electricity distribution charges are currently levied on a reinforcement cost basis. Much of the financial value of reinforcement work relates to the higher voltages, and this is reflected in the tariff models.

- 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?*

It is disappointing that barriers to competition are still perceived to exist in the electricity connections market. We have been continually supportive of Ofgem's drive to introduce competition in this arena and have contributed extensively to the process through our substantial involvement in various industry consultations and stakeholder meetings.

Furthermore, we have introduced some long-term initiatives with the aim of facilitating increased levels of engagement with key customer groups. Two notable examples are:

- the creation of a specialist "CiC" team to account manage all enquiries from ICP and IDNO customers through the progressive stages of quoting, design and delivery (within the service standards prescribed by Standard Licence Condition 15); and
- the establishment of a significant project team to implement the best practice initiatives set out in Ofgem's February 2007 proposals. (This now includes a workstream responsible for implementing improved stakeholder engagement and performance reporting processes within the context of unmetered connection services, known as "Excellence in UMC".)

In the electricity connections market, barriers to entry are perceived to exist in some aspects of non-contestable activity which have been successfully opened to competition in the gas connections market – principally, the determination of points of connection to the host DNO's electricity distribution system and the provision of closing joints. However, there are good reasons why such activities are treated as non-contestable in electricity, and we do not believe that any further enlargement of the scope of contestable work is practicable or desirable.

For example, we have observed that fewer site-specific design considerations seem to apply in the gas arena, suggesting that the gas distribution network is inherently more resilient to the addition of new connections than the electricity distribution system. Furthermore, with regard to the final connection, we understand that all of the necessary work is undertaken by the ICP or the IGT at the point of connection, with no requirement on their part to seek access to other parts of the gas distribution network from the incumbent GDN. In comparison, the electricity connection process raises significant issues in terms of identifying the correct cable to work on, and (where applicable) de-energising the apparatus (which may require access to the incumbent DNO's substations or roadside equipment and, possibly, the customer's premises).

Chapter 5 – Metered Electricity Connections: Performance against Standards

Question 1:

Why has there been limited reporting against the SLC 15 performance standards, and what measures should be taken to address this issue?

Such instances of limited reporting may be wholly attributable to low levels of activity during the period under review. When the licence condition was first introduced, EDF Energy Networks reported relatively small work volumes in its three distribution service areas. However, we have noted a marked increase in competitor activity during the first half of the 2008/09 regulatory year and are anticipating a progressive upturn in work volumes going forward.

Question 2:

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 the provision of connections not currently covered, 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).

The existing regime is sufficiently broad in scope; we do not believe that it is appropriate, or indeed practicable, to introduce additional service standards to measure DNO performance in the delivery of non-straightforward connections. As the term implies, there is a large degree of variability in such work, and it would therefore be impracticable to define a workable and meaningful standard.

In our view, the issue would be better addressed with a customer satisfaction survey. We have used this facility for a number of years and would be pleased to share our experiences with the industry and discuss possible extensions of this activity on a national basis. Please also see our answer to question 3.

Question 3:

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?

We are concerned that Ofgem believes there is an issue in this area, as we have placed great importance on meeting the service standards prescribed by Standard Licence Condition 15. Specifically, we have put the following measures in place to ensure that we meet both the service standards and our customers' expectations:

- We track applications and have a 'warning' system in place to ensure that timescales are met
- All of our ICP/IDNO customers have a named account manager in EDF Energy Networks with whom they can discuss customer service issues
- We have a robust process for logging, investigating and resolving complaints from any of our customers
- As previously mentioned, we commission an independent customer satisfaction survey on connections jobs recently completed, and use the results to direct our improvement actions.

If Ofgem has any specific complaints regarding our customer service, we would be pleased to investigate these and respond accordingly.

Chapter 6 – Unmetered Electricity Connections

Question 1:

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.

As Ofgem is already aware, EDF Energy Networks is concerned about its performance in this area and has established the Excellence in UMC workstream to address the issues identified. Good progress has been made in introducing new data collection and reporting processes within the unmetered functions performed by the business, with some key outputs being:

- clarity with our LA customers on the definitions within the KPIs;
- a voluntary Service Level Agreement which outlines all the agreed details in respect of the KPIs and the UMC work (the definitive version has been printed and will be distributed imminently to our LA customers);
- continual engagement with our LA customers through consultation workshops and the establishment of a customer representative group;
- improved processes which have been aligned across the three distribution service areas;
- agreement on the minimum information required, as a means of improving the planning process for new works;

- placing ownership of fault reporting and new works within the same directorate, to improve accountability;
- an automated daily and weekly report for LA customers, detailing work in progress and completed works; and
- a process for validating customer data, to ensure accurate reporting.

We are confident that these and many other changes being made under the Excellence in UMC workstream will allow EDF Energy Networks to report a significant improvement in performance against each of the KPIs from the beginning of 2009. For this reason, we believe it would be rather premature to replace the existing voluntary arrangements with compulsory service standards. DNOs will undoubtedly need more time to realise the benefits of the significant change programmes they have put in place and we would therefore recommend that Ofgem keeps this area of activity under close review.

Chapter 7 – Electricity Connections: Good Practice Review

Question 1:

In the light of experience, did Ofgem's Good Practice Review target the appropriate areas?

Ofgem is aware from our letter of 8 August 2008 that EDF Energy Networks has successfully implemented most of the best practice initiatives set out in Ofgem's February 2007 proposals document. A number of the outstanding items have since been completed.

Question 2:

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?

As previously explained, in our letter dated 8 August 2008, we have put considerable effort into implementing Ofgem's best practice measures, including:

- the development and publication of written materials;
- the implementation of process and structural changes; and
- the development of supporting IT systems.

While we are committed to further improvement, we believe that significant progress has been made in meeting our customers' expectations.

EDF Energy Networks
13 November 2008