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Rachel Fletcher
Director - Distribution
OFGEM
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Dear Rachel,

## DPRC5 Consultation

Following Ofgem's release of the Policy Paper on 5th December 2008 we are pleased to provide the following feedback. Just as a reminder of who we are, Premier Energy is a specialist utility infrastructure consultancy that works with developers and contractors to ensure that utility services are delivered effectively and at least cost.

On a general note we feel that certain electricity companies' performance has seriously deteriorated since we first started dealing with them some 14 years ago. This has reached such a level that the introduction of competition is generally the only way to start to see improvements in services levels and charges, as witnessed in the gas industry. However, due to the differences in the way gas and electricity markets have been established in terms of regulation, funding, ownership of networks etc., we do not see competition as being the best route to improvement unless fundamental changes are considered to funding mechanisms, such as in the area of reinforcement and service level penalty payments. In the absence of such a radical change, whilst competition may deliver some improvements we believe a more rigorous setting of service levels needs to be introduced.

We do have more specific views on the information we expect from DNO's, iDNO's and ICP's in providing their services and I will break these down in the following sections. The sections are not in any specific order and may not necessarily tie up with your document as we have introduced other areas to review.

### 1) DESIGN & ASSESSMENT FEES

We understand these fees had been deemed illegal by Ofgem and this was welcomed by our clients, iDNO's and ICP's. However, we understand that amendments to the latest Energy Act may enable these to be re-introduced.

In principle we did not have a problem with the design fees concept because if we were involved with a project the client was normally serious about the likelihood of proceeding with it or they would not have employed us in the first place. My problem however was the difference in fees charged between DNO's and other utilities in general and the service we received. I think EDF has some of the largest fees and the worst levels of service.

If design fees are charged then I would wish to see reasonable fee levels set and agreed standards of service that went with them, which I understand is proposed to be the case.

**2) STANDARDS OF SERVICE (Connections)**

At the moment there is only one standard that DNO's have to achieve and that is SLC12, providing a quote within 90 days. Whilst we would not wish to lump all DNO's into a poor category there are some which use this as a measure of their success rather than worst case. My understanding is that 90 days should be the worst case for the most complex job, which I would support, but we believe this is not the case in practice.

We note your proposals to bring the service level standards in line with SLC15 but if we read this correctly, even we do not think the proposals are practical. It is OK just pricing for the CiC connection point to LV (15 days) and HV (20 days) for a demand connection but this does not seem to take into account the time it will take the DNO to design the on-site mains and services. It could also encourage DNO's to have a sub-station on each site so they get at least 20 days to do the quote.

We believe that your assertion that the figure of 'only up to 4 connections is not attractive to new entrants' is too low and that this figure is much higher. One DNO who is active in this area is currently interested at a level of 300 units or 500kva of load and iDNO's say they look at anything, but in reality typical sites are for 25-50 units and larger. So we believe that on average it is say a site of 50 connections before it becomes most interesting for new entrants. This should have an effect on the standard of performance measure and in addition we would expect the standards of service to apply to all providers, DNO's, iDNO's and ICP's although we understand that it is in the interest of iDNO's and ICP's to offer the right level of service anyway.

In order to make this simpler we would propose different service levels for different quotes. We are not discriminating on LV, HV or EHV. Instead it is done on size of development and suggestions shown below.

Temporary builders supply up to 100amp 3phase = 10 days
Temporary builders supply over 200amps = 15 days
Simple service connections up to 5 units = 10 days
Developments from 6 units up to 50 units = 20 days
Developments from 51 units up to 200 units = 30 days
Developments from 201 units up to 500 units = 40 days
Development above 501 units up to 90 days
Commercial units up to 1MVA = 20 days
Commercial units from 1MVA up to 3MVA = 40 days
Commercial units over 3MVA = up to 90 days depending upon complexity

The above list can be refined even further but as a starting point it shows a potential way forward.

If these targets are not met we suggest a financial penalty be introduced. We used to regularly receive cheques from National Grid (Transco) for failing to supply quotes in time. This enabled National Grid to put a cost to them for failing and then justify extra resources to be able to meet their targets properly.

## 3) SEGMENTING THE MARKET

As explained above we do not believe that the majority of works below 50 connections will be attractive to competition or that developers will actually take up the competitors offers due to inertia in the market. As such we believe this is the level that the regulated margin should kick in, if at all as it will penalise most developments.

What we would like to see is more supervision by Ofgem of DNO prices. If a DNO was proposing to increase prices by 20%, which has happened in the last few months, they would have to discuss with Ofgem the reason for the price rise in order to get the authority to do so. Most clients just want a fair price and a good level of service.

## 4) STANDARDS OF SERVICE (Diversions)

Again, this is an area where an improvement could be made. It can start from the initial budget enquiry where the standard of information provided by the DNO's varies. We would like to see C3 budget enquiries and C4 detailed estimates bought into the service level standards. We had several projects where the estimates took longer than 90 days and the DNO said it was not a SLC12 standard. Diversions can cause as much headache to programmes and budgets as new connections can.

## 5) STANDARDS OF SERVICE (Budget Enquiries)

There is a vast difference between DNO's in the level of information shown in budget enquiries. Some DNO's treat it as an enquiry and more or less do a full Section 16 quote. Others appear to see it as a waste of time and just give standard responses without any consideration for the site.

Bearing in mind developers make financial judgements on these, a little more thought is expected. One ray of light was that as A&D fees had been removed, full applications are now being made which increases the DNO's workloads. There must be a compromise here somewhere with the possible re-introduction of A&D fees against levels of information supplied at certain stages of a project.

A standard of service to provide a budget response for possible connection, diversion and reinforcement costs is required. Suggest 15 days as maximum period for all enquiries.

## 6) STANDARDS OF SERVICE (Disconnections)

This area needs a complete overhaul. The processes that have been set up between DNO's and suppliers mean the timescales to organise a disconnection are far too long (can be 8 weeks or even longer). We understand there is a balance between a supplier's right to ensure meters are read and monies recovered and the Health & Safety issues of demolishing buildings.

At the moment, as there are no set time limits on information flow or any responsibility by DNO's or suppliers to chase the flows through in a timely manner which means the whole process is far too lengthy, especially in high-rise blocks with multiple suppliers.

Again some standards need to be introduced. We believe a reasonable time for a disconnection should be a maximum of 4 weeks between making a request and disconnection. The flow process from supplier to DNO needs to be abolished and it should be the DNO's responsibility to remove the meter and advise the supplier of meter readings. The applicant could send, with the request for

disconnection to the DNO, a copy of the request to the supplier to remove the meter for information and between them they can sort it out.

One problem may be that disconnections are a non-chargeable item and they are just built into the DNO's obligations. As other utilities charge for this service I do not see a problem with taking this element out of the DNO's obligations and enabling them to make a charge, coupled with service level agreements.

## 7) COST APPORTIONMENT FACTORS (CAF) / REINFORCEMENT

This is probably one of the biggest areas of concern amongst my clients. This is also one of the biggest areas where costs can come out of the blue for clients with no apparent redress with DNO's.

We understand the necessity for upgrading networks if capacity does not exist but this is the most difficult area to obtain information on how a DNO comes to the conclusion that reinforcement is required and how much should be attributed to the developer. I cannot remember a project where any sort of CAF has been offered even though our clients have had significant reinforcement costs to pay.

Following the National Grid presentation at the ECSG meeting on 8th October, National Grid ran through what happened to them during the years following the introduction of competition. Without going over this ground the result was that National Grid now carry out the majority of reinforcement works at their own cost, following a process called the "economic test". We believe a similar process needs to be introduced within the electricity industry.

This is probably a radical move as it means that the DNO's will need to start investing in their own industry again following years of doing this at the expense of developers. This will involve changes to their Capital Expenditure allowances, just in time for this DPRC5 review, but it could also be tied in with upfront investment from Development Agencies. A study is about to commence with the East of England Development Agency (EEDA) regarding this subject as they are carrying out a project to look at the Power Infrastructure in the East of England up to 2050. The EEDA see the electricity industry as a barrier to development in that location and want to do something about it.

More clarity and openness in this area would help us work with DNO's in the future. At the moment it seems that we request a connection and the DNO just tells us what it costs without the need for any justification or CAF.

Our vision of CAF should be that if for instance an HV cable was laid to a development that needed 2MVA of load but the cable was able to provide network capacity of 4MVA of load then the whole cost of laying that cable should be split 50:50 with the developer and DNO, especially when it is known to the DNO that they have power problems in the area.

Another example would be if a sub-station is to be installed to serve a development with 500kVA capacity but the DNO installs 1000kVA to help with their network. The cost apportionment again should be 50:50 for the works not just the difference in cost between a 500kVA and 1000kVA transformer.

## 8) POINT OF CONNECTION

There is a need to ensure that the Non-Contestable charges shown on a Section 16 quote are the same as a Point of Connection quote's Non-Contestable charges. This is to enable comparisons to be made with DNO's and ICP / iDNO's quotes. We have an example of a Section 16 quote indicating the non contestable costs at £25k and the CiC quote costing the non-contestable at £134k. Not very helpful.

## 9) ACCESS TO ORDNANCE RECORDS

At the moment we can gain access to various companies' utility records via internet or CD-ROM. Certain utility companies do not allow access to their records to all even though they are available on-line to certain parties. Can there be some consistency in this area?

## SUMMARY

The DPRC5 document is extremely comprehensive and is very detailed as to how this market works and operates. Most of the document deals with subjects way outside our remit at this stage. The feeling amongst my clients however, is that this market is in effect a private monopoly and as such needs some heavy handed regulation in areas of customer service and price control.

The usual measure of assessing the financial performance of large plc companies is not there as many DNO's are foreign owned and therefore not scrutinised by the financial markets in the same way as say Scottish & Southern or United Utilities. The share price was one method of comparing the financial performance of companies but this has now gone.

DNO's are very good at interpreting the regulations in their favour, as one would expect, and at making excuses about why they can't deliver. This is not good enough as their lack of investment since privatisation, especially inner city areas, is costing our clients in terms of development opportunities, delays on site and money whilst the DNO's appear to be making large profits.

I was hopeful that when Ofgas and Offer merged to become Ofgem some of the lessons learnt through Ofgas could have been used to drive competition in the electricity industry but at the moment it has not been the case. Lets hope DPRC5 goes someway to improving the situation.

We would be pleased to discuss these comments in more detail with you if required.

Yours sincerely

**Jason Raymond**
Managing Director

For and on behalf of
Premier Energy Services Ltd