

CONSULTATION RESPONSE



Electricity Distribution Price Control Review

9th September '09

HBF Response to the Ofgem Consultation on the Electricity Distribution Price Control Review Initial Proposals – Incentives and Obligations – Ref. 93/09

Introduction

1. The HBF welcomes the opportunity to respond to the above-mentioned Ofgem Consultation. The comments in our response have been produced having consulted with our Members. As the main trade federation for the House Building Industry where our Members build over 80% of the new homes in England and Wales, we would ask that Ofgem take this into consideration when you are assessing the impact of this consultation in how issues are to be progressed.

General Comments

2. We are obviously pleased to see that Ofgem have recognised that as an Industry our relationship with Distribution Network Operators (DNO) in general is one of them providing our Industry with poor levels of service and increasing costs for making connections. It does seem somewhat ironic that as an Industry we have been in recession for nearly two years yet as our costs are decreasing the DNO connection costs appears to be continually spiraling up.
3. In relation to our response we will focus on the parts of the consultation that directly affect our Industry where the consultation with our Members has highlighted specific issues.

1. **Low Carbon Network Fund**

No comments

2. **Provision of Information to Distributed Generation**

Question 1: Have we correctly captured the customer's information needs?

Yes, we fully support Ofgem's proposals for Section 16 Standards of Performance.

Question 2: Do you agree with the scope for proposed licence obligations?

Yes, such a requirement is important to enable Ofgem to be aware of DNO that fail to meet the Standards and to take the appropriate action.

Question 3: Do you agree with our proposal to request DNO's to commit to a strategy for information provision?

Yes, subject to the information that is being requested by Ofgem as being relevant and in a format which is understood by Customers.

3. **Distribution generation incentive framework**

No comments.

4. **Use of System charging to pre-2005 connected Distributed Generation**

No comments.

5. **Transmission exit charge incentive**

No comments.



6. Losses Incentive

No comments.

7. Treatment of DPCR4 losses rolling retention mechanism

No comments.

8. Business carbon footprint reporting

No comments.

9. Undergrounding in Areas of Outstanding Natural Beauty and National Parks Mechanism

No comments.

10. Connection Incentives and Obligations

Question 1: Do you agree with the scope, timeframes and the level of penalties proposed for the guaranteed standards regime?

The overriding consensus of our Members is that the scope of the guaranteed standards captures all of the key areas where DNO need to be made accountable for in the development cycle. The time frames seem fair and reasonable in relation to complying with the Electricity Act and more importantly for our Members in being able to make DNO adhere to our development requirements.

The main issue of disagreement from our Members is with regard to the penalties. It is universally felt that these are not reflective of the actual cost to a Developer for a DNO missing a guaranteed standard and these need to be increased considerably as in many cases these penalties are punitive and will have little or no effect on the DNO behaviour. It is felt that the greater the penalty the more focused the DNO will be in meeting the guaranteed standard. Although our Members see that adherence by the DNO to the guaranteed standard is the primary objective rather than seeking penalty payments.



Question 2: Should we develop a mechanism to ramp up the level of the proposed penalty payments?

Yes, if a DNO is persistently paying penalties due to not meeting the guaranteed standard. A threshold should be set where they are ramped up or double/trebled for that penalty.

Question 3: Should we cap the penalties that apply to each of the proposed standards?

No, quite the opposite, if guaranteed standards are to be met capping the penalties will not motivate DNO to meet this standard. Such a principle we would openly oppose.

Question 4: Should we apply in aggregate a 90 per cent performance target to apply to the standards and measure this on a quarterly basis?

It is an overwhelming view of Members that the performance target should be 100% and measured on a time period which is manageable. We would suggest that this should be measured on a half-yearly basis.

Question 5: Do you agree with our market segmentation strategy for metered and unmetered connections? Are there any segments other than those identified that should be exempt from earning a margin?

Yes, we would agree with Ofgem's proposals for the market segmentation for metered connections.

Question 6: What are your views on the proposed level of regulated margin and is there any further evidence we should take into account in setting the level of regulated margin?

In theory allowing DNO regulator margins on contestable charges seems acceptable subject to them meeting the relevant competition tests. It is difficult to understand how applying any increase in margin will be to the advantage of the DNO because this will enable ICP's to be more competitive than the DNO and will subsequently mean that the DNO will not be able to be competitive with the ICP's. Although this will be dependant on the transparency of information in relation to contestable and non-contestable costs which is stated in the DNO quotations. **The transparency of the quotations under Section 16 and the Point of Connect details will become even more important than the guaranteed standards. This is an issue Ofgem need to be mindful of.**



Question 7: Do you have any comments on the scope of the proposed competition tests?

No, we have no comments on the scope of the proposed competition tests.

Question 8: We invite views on the relative weighting of market share compared to the price and service tests? What level of lost market share would be appropriate to deem the market competitive?

We would suggest that this would best be determined by Ofgem in comparison with say how the Gas Sector introduced competition.

11. Broad Measure of Customer Satisfaction

Question 1: Do you agree with the proposed scope of the broader measure?

The HBF obviously welcome Ofgem's objectives in seeking to understand if DNO are customer focused and would support any Ofgem measures in this area.

Question 2: Do you agree with the revenue exposure and the incentive weightings proposed for each element?

We feel unqualified to make a comment on this question.

12. Telephoning Incentive Scheme

No comment.

13. Worst Served Customers

No comments.

14. Interruptions Incentive Scheme (IIS)

No comments.



15. Guaranteed Standards of Performance

No comments.

16. Customer Service Reward Scheme

No comments.

17. Network Output Measures

No comments.

18. Innovation Funding Incentive (IFI)

No comments.

19. Equalizing Incentives and the Information Quality Incentive

No comments.



Appendix 8 – Impact Assessment: Connections Incentives and Obligations

A. In relation to the Impact Assessment for the guaranteed standards and the evaluation of penalty payments, it would be true to say that under the present system we would suggest that this will be at a substantial cost to DNO. However the HBF would state that we do not see the penalty payments as the main objective for our Members in this area. The aim is for DNO to structure their business to see Developers as Customers and to be made accountable for key tasks the Industry is dependant on, where the latter is driven by a joint responsibility for all parties to work together.

B. We would openly express our disappointment that the Energy Networks Association do not seem to realize the severity of the situation the House Building Industry has with DNO on this matter. To support only the use of a Licence Condition will not rectify what we see as a systematic failure of many DNO's to adhere to the existing requirements of the 1989 Electricity Act let alone the more detailed criteria being asked of them. Therefore we see it is fundamentally important that penalty payments exist as the option of the last resort which will drive DNO to instigate the vigorous changes required in their businesses to accommodate the key areas of accountability which affect our Members development process.

Conclusion

We obviously welcome Ofgem's proactive approach in taking forward the guaranteed standards for Section 16 Applications. Although we do feel that clear guidance and generic documentation for making a Section 16 Application as well as a universally acceptable DNO quotation format is essential for making this whole process acceptable to all parties. The HBF would also pledge its support to Ofgem over the coming months in helping to take forward the detail that will be required to take these issues to a satisfactory conclusion.

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