



Consumers and their
representatives, distribution
network operators (DNOs) and
any other interested parties

*Promoting choice and value for
all gas and electricity customers*

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Date: 17 December 2009

Dear Colleague

Annual stakeholder report on electricity distribution

The electricity distribution operators (DNOs) provide us with information on an annual basis to help us monitor performance against their price control obligations. We publish some of this information through various annual reports¹. These are by necessity comprehensive and fairly technical documents written largely with the industry in mind. As part of the fifth electricity distribution price control review (DPCR5) we committed to providing some of this information in a more customer friendly format. This will enable stakeholders, such as consumer groups, local businesses and local development agencies, to track and compare how the DNOs are performing in areas such as customer service, connections, tackling climate change, and making network investment.

We hope that by publishing this annual report, stakeholders will be better informed about the services they pay for, and that the information will help them as they engage with their DNO about the service they want. This should help stakeholders to play a more active role in shaping the DNO business decisions and influencing our price control reviews and other important regulatory work.

This letter sets out, for consultation, the types of information that we think we should publish. Appendix 1 provides a summary of what we propose to publish, the rationale for publishing the data and when this information will be available. We are seeking comments on the types of information that stakeholders are likely to find useful and why. The deadline for responses is 22 January 2010. We will also seek the views of our 100 strong Consumer First panel in March 2010. We intend to publish a template of the stakeholder annual report in early summer 2010 based on these views, to get further feedback on the format of the report. We intend to publish the first annual report in 2011.

Information for stakeholder report

Ofgem collects a vast quantity of data from DNOs on an annual basis and the challenge for us is to focus on the data that stakeholders are likely to find useful and not overwhelm the reader with information. This section sets out our initial thinking on what information should be included in the stakeholder annual report.

Customer service

The current price control provides the DNOs with incentives on:

¹ See 2007/8 Electricity Distribution Quality of Service Report, 19 December 2008. Ref 166/08, and Electricity Distribution Cost Review 2007-8, 18 December 2008. Ref:165/08

- interruptions,
- quality and speed of telephone response performance, and
- the customer reward scheme.

Performance against these incentives is included in the electricity distribution quality of service report².

As part of DPCR5 we have also proposed:

- a worst served customer (WSC) fund,
- incentives on DNOs based on how they perform against a broad measure of customer satisfaction, and
- new guaranteed standards for connections.

DNOs' performance against interruptions targets

The interruptions incentive monitors the number of customers interrupted per year (CIs), the duration of interruptions to supply per year or customer minutes lost (CMLs), the number of customers interrupted by short interruptions per year, and the number of customers re-interrupted per year.

We propose focusing on the two key interruptions targets, CIs and CMLs, by DNO, for annual report. We would highlight key trends in the data as well as annual performance.

Quality and Speed of telephone response

For DPCR5 DNOs will be assessed on the quality of their telephone service through a monthly customer survey. Performance is measured against three key areas on a scale of 1 to 5. We will also take into account the proportion of unsuccessful calls to the DNO. We propose including the overall score for each DNO. DNOs are also required to report on the speed of its telephone response. We propose to include the average speed of telephone response by DNO. The broad measure is intended to replace the telephony incentive so this will only be monitored for performance in 2010-11 and 2011-12 only.

The Customer Reward Scheme

The customer reward scheme provides a reward for DNOs whose performance in meeting certain customer service categories exceeds their price control obligations. We will provide a summary of those DNOs who were rewarded under the scheme and an explanation of what they achieved to receive the reward.

Worst served customer fund

DNOs have each been allocated an allowance for schemes to improve the service to worst served customers. In order to qualify for this allowance DNOs must ensure that there is a 25 per cent reduction in the average number of high voltage interruptions for worst served customers which is measured over three full reporting years post expenditure. We will report on the extent to which the DNOs have used this allowance and met the target however given that it is measured over three years we will report against DNO performance from 2013-14.

Broad Measure

The broad measure is intended to provide a wide measure of customer satisfaction over a range of services and activities that the DNO provides. We have decided that the broad measure will be piloted for the first two years of the price control and after that will replace the telephony incentive. We therefore propose including the broad measure in the stakeholder annual report for DNO performance from 2012-13 onwards.

² See 2007/8 Electricity Distribution Quality of Service Report, 19 December 2008. Ref 166/08

Guaranteed Standards of Performance for connections and non connections

DNOs currently have a set of guaranteed standards of performance that they are required to meet. If a DNO fails to meet these standards it is required to pay compensation. As part of DPCR5 we have added a number of guaranteed standards associated with connections.

Consumer Focus has the responsibility for publishing DNO performance against the guaranteed standards of performance. Therefore we do not propose including this information in our report. However we will include a summary of what each standard is, the amount of compensation customers can receive if the standards aren't met and what customers need to do in order to receive the compensation. We will consider whether this information could be included on our website and referred to in the stakeholder annual report to keep the report focussed on DNO performance.

Connections

Ofgem publishes detailed information on connections in the gas and electricity connections industry review³. Our current view is that stakeholders with an interest in the connections market are likely to refer to this document which is published annually. However we consider that information about the number of connections in each DNO area that are provided by the DNO and other parties would be useful to stakeholders to provide information about the degree of competition for connections in each DNO area. We also consider that information should be included comparing the average and maximum time it has taken each DNO to provide a connection offer to give stakeholders information about how long a connection offer might take and who the best performers are.

Environment

In our final proposals we placed a number of incentives on DNOs in relation to the environment. This included:

- the Low Carbon Networks Fund,
- Reporting on business carbon footprint,
- Distributed Generation obligations and incentives,
- Transmission exit charge incentives,
- Network losses incentive, and
- An allowance for DNOs undergrounding the network in areas of outstanding natural beauty.

Low carbon networks fund

As part of final proposals we provided DNOs with a fund to enable them to fund innovative technology or commercial arrangements to minimise either their use of carbon or encourage low carbon usage by participants on the electricity distribution network.

There are two tiers of funding under the LCNF. Tier one are smaller projects that require minimal Ofgem review and tier two are significant flagship projects. We propose that the tier 2 projects are reported in the stakeholder annual report with a summary of what the project is and the costs associated with the project. This will provide stakeholders with a summary of those DNOs who are activity pursuing solutions towards a low carbon network.

Business carbon footprint

DNOs will be required to report annually on the total CO2 equivalent emissions of their company. We propose publishing an annual league table of emissions in the stakeholder annual report. Over a number of years stakeholders will gain a picture of the DNOs who are doing the most to reduce their emissions.

³ See Gas and Electricity Connections Industry Review 2007-8, 16 October 2008. Ref 143/08. Electricity Distribution Cost Review 2007-8, 18 December 2008. Ref: 165/08

Distributed generation obligations and incentives

In our final proposals we placed obligations on the DNOs to provide an adequate level of information to customers wanting to connect distributed generation to their network and with a satisfactory standard of service. There is also currently an incentive on DNOs to undertake investment on their network to facilitate these connections. We do not propose to publish this information as part of the stakeholder annual report as this information does not relate to DNO performance.

We do not propose to include DNO performance against the DG incentive as we have recognised that while there has been a low volume of DG connections this has been more as a result of the lack of commercial attractiveness of DG investment rather than problems with the DNOs' performance against the incentive. Therefore it is not clear that this information will be of use to stakeholders.

Transmission exit charge incentive

DNOs currently pay National Grid for the costs of maintaining the connection of the distribution network to the transmission system. DNOs currently pass these costs to their customers. As part of our final proposals we proposed that DNOs should be exposed to a proportion of these costs as in some cases the DNOs can avoid transmission investment by reconfiguring their network but the pass through of costs provides an incentive for the DNO to support a transmission investment solution.

The incentive ensures that the National Grid and the DNO find the lowest cost solution for investment and is therefore of benefit to customers however we do not consider that stakeholders are likely to be interested in DNO exposure to these costs and do not plan to include this information in the stakeholder annual report.

Network losses incentive

Electricity is lost as it is transmitted along the network to the end user and it is a significant source of greenhouse gas emissions. By investing in optimising network operation, influencing users, improving data accuracy and reducing theft DNOs can minimise these losses and the network losses incentive provides an incentive for DNOs to achieve an efficient level of losses on their network.

Under the losses incentive each DNO has a target for annual percentage losses and we propose reporting DNOs' actual performance and how this compares to their target to provide stakeholders with information about how well DNOs are doing in minimising their greenhouse gas emissions.

Areas of outstanding natural beauty

In final proposals we have provided the DNOs with an allowance for undergrounding the network in areas of outstanding natural beauty. We do not think that stakeholders will find information on how the DNOs spent the allowance useful so do not propose to include this information in the stakeholder annual report.

Network Investment

In our final proposals we retained the innovation funding incentive (IFI) and put forward a new output framework to ensure that DNOs meet a package of output measures associated with the investment they have undertaken.

We consider that stakeholders are unlikely to be interested in the funding that is provided to DNOs to conduct research and development through the IFI.

The output measures that DNOs are committed to providing set out the degree of spare capacity associated with reinforcement expenditure through a load index. It also includes the likelihood of asset failure for asset replacement expenditure through a health index or the level of faults.

While this information is likely to be highly technical and therefore difficult to digest we will look into whether it is possible to provide high level information on DNO output measures in the customer focused annual report, and how the company is performing against the output measures they have agreed to. This should help customers understand more about what they are paying for through their distribution charges. If it is possible to make this information available it will only be useful to show how the DNO's network is improving over time and it will take a couple of years of reporting before this comparison information is available so we propose reporting on it from 2012-13.

Other information

In addition to the information outlined above we consider that stakeholders might also find DNO actual total expenditure against their annual allowance useful to give a picture of whether DNOs are over or under spending against their allowance as well as a comparison of DNO total expenditure compared to the previous year. We also consider that a comparison of network investment by DNO may be useful to show how much investment has taken place on the network and also show what customers are getting for their money.

We also propose providing information about the options available to stakeholders if they are not satisfied with the service they are getting for example through the guaranteed standards of performance, by seeking a determination from Ofgem on a connections dispute or by contacting the energy ombudsman, Consumer Direct.

We sought views from Consumer Focus about the types of information that might be useful in a stakeholder report. They suggested some of the information that is set out above and also proposed the following information:

- An explanation of what the DNO does and how it is different from a supplier,
- A map of the DNO regions with names and contact details,
- The proportion of network charges that a typical domestic customer pays as a percentage of the whole bill,
- Information about priority services register, and
- The Consumer Direct contact number.

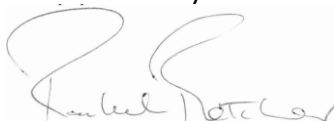
We also consider that it would be helpful to include information about each DNO including: the number of customers, units of electricity distributed on an annual basis, the length of lines and cables, number of employees and who owns them.

Way Forward

We would be grateful for your views on whether the information we have outlined above will be useful to stakeholders and whether there is other information that could be included in a stakeholder annual report. We would be grateful for comments by 22 January 2010. We also aim to get the views of the consumer first panel, who are a group of 100 domestic energy consumers who we call on to provide feedback on consumer related issues in March 2010. We will publish a template for the stakeholder annual report in early summer 2010 based on these views and will publish the first of these reports in 2011.

Please do not hesitate to contact me or Chris Watts on 0207 901 7333 if you have any queries or issues relating to this letter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Rachel Fletcher', is written over a light grey rectangular background.

Rachel Fletcher
Director, Distribution

Summary of the DPCR5 incentives and targets Ofgem proposes to publish in a stakeholder annual report

	Information to be published	Rationale for publication	Date of data collection
Customer service			
Customer interruptions per year (CIs)	Customer interruption performance compared to target for each DNO	Provides information about the DNOs that are better at managing the number of interruptions each year	Currently being collected
Customer minutes lost (CMLs)	Customer minutes lost performance compared to target for each DNO	Provides information about the DNOs that are better at managing the length of interruptions each year	Currently being collected
Quality of telephone response	Overall performance score of quality of telephone response by DNO	Provides information on which DNOs provide the best telephone response	Currently being collected
Speed of telephone response	Average speed of telephone response by DNO	Provides information on which DNOs provide the fastest telephone response	Currently being collected
Customer reward scheme	Summary of the DNOs who won the reward and why	Provides information about which DNOs have best practise in relative to certain customer service areas	Currently being collected
Worst served customer fund	DNO spend on worst served customers relative to allowance	Provides information about which DNOs are focusing on improving the service for worst served customers	2013/14
Broad measure	Overall performance score by DNO	Provides information about which DNOs have best customer service across a broad measure of services	2012/13
Connections			
Competition in connection	Number of connections undertaken by DNO compared to third party providers	Shows the extent of competition in connections for each DNO area	Currently being collected
Provision of connection offers	Average and maximum time taken to provide connection offers by DNO	Provides information on the likely timescales for providing a connection offer	2010/11

		and which DNOs are the best performers	
Environment			
Low carbon networks fund	Summary of DNO initiatives and spend	Shows which DNOs are focused on providing innovative solutions towards reducing carbon	2010/11
Business carbon footprint	Total CO2 equivalent emissions by DNO	Over time shows which DNOs are focused on reducing their carbon footprint.	2010/11
Network losses incentive	Actual volume of losses compared to target	Shows which DNOs are focussed on reducing their green house gas emissions	Currently being collected
Network Investment			
Network outputs	To be decided	Provides information on the quality of the network, essentially showing what customers are getting for their money	2012/13
Other			
DNO actual spend compared to allowance	Aggregate expenditure compared to aggregate allowance by DNO	Shows whether DNOs are over or under spending against the allowance	Currently being collected
DNO total expenditure compared to the previous year	Aggregate expenditure compared to the previous year by DNO	Shows year on year variations in DNO spend	Currently being collected
Network investment	Aggregate spend on investment compared to aggregate investment allowance by DNO	Shows the extent of spend on investment on each DNO network	Currently being collected