

# CONSULTATION RESPONSE



Electricity Distribution Price Control Review

20 June 2008

## **HBF Response to the OFGEM Initial Consultation on the Electricity Distribution Price Control Review – Re. 32/08**

The HBF welcomes the opportunity to respond to the above mentioned consultation and, having circulated this document to our members, the key comment is that the electricity industry still has difficulty in understanding how to be customer-focused. The Distribution Network Operators (DNOs) are still unwilling to work with developers and this consultation covers the same issues as previous consultations in spite of there being little evidence of any changes since the last one.

From the HBF's perspective, although progress has been made through the Electricity Connections Steering Group, there still seems to be an "us and them" situation. Our efforts to instigate change are continually opposed and detailed issues that were highlighted in the last Ofgem Proposals document 26/07 remain unresolved. For instance, why are the DNOs still making excuses for not providing a breakdown of costs for a Section 16 application? It would seem that DNOs retain a level of influence with the Industry Regulator in spite of the introduction of the License Conditions last autumn.

### **Comments on – 1. Introduction and Summary**

We are obviously pleased to see that this Consultation for DPCR5 focuses on the three areas of environment, customers and networks. The Government's objectives in combating climate change are an area in which the house building industry is playing an active role. Indeed, the Government aspiration of Zero Carbon Homes by 2016 places our Industry at the forefront of the introduction of new technologies and attitude change ahead of any other industry in the United Kingdom.

In relation to customers' priorities we are supportive of the objective set out in 1.4.

**“An over arching object is to encourage DNO’s to be active in setting the priorities and strategies for their businesses based on an assessment of their customers’ current and future needs”**

This is a phrase which Ofgem has used over the last eight years in different guises but with the repeated objective of making DNOs more customer focused. Unfortunately there has been no appropriate action to support this objective so it has not been achieved. Unless Ofgem adopts a more assertive approach and DNOs are held to account when issues are not resolved, or completed, it is unlikely that things will change in the foreseeable future. However the abolition of EnergyWatch and the formation of an Ombudsman Scheme should present an opportunity to create an organisation which will make DNOs more accountable and transparent.

## **Comments on 2. Environmental Issues**

**Question 1: Do you think that evolutionary or revolutionary changes are required to the role of the DNO’Ss to ensure that distribution networks remain fit for purpose? If the latter, in what specific areas does this apply?**

Yes, changes are definitely needed. Whether these are evolutionary or revolutionary will depend on how the DNOs can adapt, in our case to the 2016 objective of all new homes being zero carbon. However, until there is a workable definition of zero carbon it will be difficult for developers and DNOs to work towards it.

**Question 2: Do you think that we have identified the key areas where DNO’s can facilitate activities that have a positive impact on the environment?**

Yes, you have.

**Question 3: How do we ensure progress is made on the issues identified with the connection of DG? Should progress be facilitated through a working group or should more formal obligations be developed?**

Ultimately formal obligations need to be established and this is probably the major drawback in Competition in Connections. If formal obligations had been set out after the Final Proposal Document in 2004 there would have been more competition taking place.

While initial discussions in a working group could be helpful, it is essential that any actions or objectives should have a time scale and DNOs should be held to account if they do not meet these targets. This is another lesson which can be learnt from Competition in Connections.

**Question 4: Do you agree that DNO's should have stronger financial incentives to reduce their carbon footprint? Do you think that we have identified the key areas where it may be possible to do this?**

Given that the figures show that DNOs have already significantly reduced their GHG emissions there seems little need for stronger incentives.

**Question 5: How can the Long Term Development Statements be made more useful for DG and other users of the network?**

These Statements will dictate the strategy of the DNOs and it should be possible to benchmark their activities on the principles set out in these Statements.

**Question 6: Is the current regulatory framework constraining a DNO's ability to facilitate low/zero carbon technologies and if so, what could be done to address this?**

There is no financial incentive for any commercial company to facilitate low/zero carbon technologies.

**Question 7: We have raised more detailed questions throughout the chapter. We welcome views on these issues.**

We have no particular comments on these questions as the key element for us is the attitude of DNOs towards our industry.

### **Comments on 3. Customers**

**Question 1: Do the current regulatory arrangements deliver the levels of service that customers expect?**

No, because there is limited scope for DNOs to report on Section 16 levels of service. In fact the 90 day period is inappropriate and does not reflect the size of a development's application. We would expect that a 20 unit development application reply would be a lot quicker to procure than one for 500 units. However the DNOs take 90 days for all sites, regardless of size.

As we have previously stated, many of the issues raised in this Consultation have been identified to Ofgem since 2000 and as far as developers are concerned DNOs' accountability, transparency and levels of service have not improved. Competition in Connections is not working and until Ofgem accepts that they need to drive competition the DNOs will not need to be customer-focused or embrace competition.

**Question 2: Is the focus and scope of the current regulatory arrangements correct and are there any gaps that need to be addressed?**

Our main issue is that Section 16 levels of service need to be revised from the 90 day period. It should not take more than 5 days for a DNO to confirm that all details of site information supplied by a developer are sufficient for them to proceed. Our members complain that some DNOs take weeks just to confirm that they are prepared to proceed with a Section 16 Application.

We would also refer Ofgem to our previous comments on the Section 16 breakdown of costs and DNOs continuing to resist providing details of costs. We would suggest that the Section 16 procedures should include KPIs for DNOs' levels of service.

**Question 3: Are DNO's customer focused enough or should they be doing more to improve communication with customers?**

No, they are not! Some of our members have responded to us saying that **any** communication from a DNO would be an improvement on the current situation.

**Question 4: Is DNO's financial exposure set at the right level and/or do we need to change the emphasis in certain areas?**

There has to be a change in emphasis - DNOs should be accountable and there should be penalties for those that fail to meet certain KPI's, especially for Section 16 Applications. In relation to Competition in Connections it will not be possible to evaluate the situation until the DNOs start to report on the License Conditions of Autumn last year.

**Question 5: Do you think we have identified the right issues and appropriate areas for development with the existing incentives?**

Apart from our previous comments, another issue for the house building industry is whether we are getting value for money and to date it is clear that the DNOs are reluctant to show what their charges reflect in both non-contestable and contestable costs. For us the issue is not the incentives but the lack of transparency and accountability.

**Question 6: We have raised some detailed questions throughout this chapter. We welcome views on these issues.**

In relation to connections, the Consultation is succinct in the issues it has raised (which are replicating previous Ofgem consultations). On the matter of DNOs wanting to be able to "extend margins" on contestable costs we would argue that if true competition were in

place there would be no question of “extending margins” since everybody would have to compete on a level playing field.

In paragraph 3.43 issues are raised about the DNOs’ business structures and anti-competitive behaviour. The HBF would argue that one of the main reasons competition is not taking place is the confused relationship between DNOs and the affiliated connection business. Such a relationship is open to abuse and DNOs should be structured to deal exclusively with their existing infrastructure. No associated business of a DNO should operate in both Section 16 and Competition in Connections.

The last issue we would raise is that all of the matters we have set out in our response to this and previous Ofgem consultations indicate that regularity of connections or Competition in Connections are an achievable objective subject to Ofgem driving the process.

#### **Comments on 4. Networks Questions 1 to 12 and 5. Financial Issues**

##### **Questions 1 to 10:**

The detail and information contained in these sections of the consultation relate to issues on which the HBF does not feel it appropriate to comment.

#### **Comments on 6. Process and Timetable**

**Question 1: do you agree with the range of consultation approaches we intend to use throughout DPCR5?**

Yes, these are appropriate.

**Question 2: Do you believe that we should utilize a consumer oriented challenge group to inform DPCR5**



Yes, this is a good idea.

**Question 4: Are there any other ways in which we should look to consult with interested parties?**

We feel that it would be advantageous for Ofgem and the house building industry to work together to enable Ofgem to hear directly from our members about the issues they encounter when dealing with DNOs.

**Question 5: do you agree with our approach to publish specific impact assessments for key “important” decisions?**

Yes, this would be helpful.

**Question 6: Are there any other key milestones that you believe we should consider for DPCR5?**

No, we think you have covered them all.

**Conclusion**

The HBF would again thank Ofgem for the opportunity to respond to this consultation. Our comments have been compiled from views expressed to us by our members as well as drawing on our own experiences. We would reiterate that the overriding issue for our industry is whether Ofgem has the motivation to take Competition in Connections seriously; to make DNOs accountable; and to apply a more robust attitude towards the DNOs’ regulatory obligations under Section 16. HBF would be most happy to talk to Ofgem about ways in which our industry can assist in this process and indeed about ways that our industries can work more closely together in the future.

**D F Mitchell**

