

utilities survey 2011





The National Federation of Builders (NFB) is one of the UK's oldest trade federations, having been created in 1876. Built on solid foundations, the NFB provides representation and business solutions to builders, contractors and housebuilders across England and Wales. Our members range from the sole trader to large, multi-million pound construction companies.

For companies involved in the building and construction industry, the NFB provides vital resources in key areas and saves our members time and money, enabling them to focus on their primary business of construction.

The NFB campaigns hard on behalf of its members and for the industry on key issues such as procurement, utilities connections, sustainability and funding. We meet regularly with politicians, legislators, government departments, ministers and industry opinion formers to ensure that members' views are represented at the highest level.



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Introduction

The NFB conducted its 2011 utilities survey in a very challenging economic climate. During 2010 and 2011, when the survey was being conducted, the construction industry was recording the highest rate of compulsory company liquidations of any industry¹.

Housebuilding, generally a good barometer of the state of the economy, is about 40% lower than its 2007 peak and the industry is building fewer homes now than in the 1920s. The value of the housebuilding market has fallen from £19.8 billion in 2007 to £10 billion.

The overall trend in construction, certainly in those areas that require utilities connections is downward. Excluding infrastructure and housebuilding, new orders for construction were valued at just over £6 billion in Q2 2011, compared with £7.6 billion in Q2 2010.

Despite the challenges and lower demand for utilities connections, the issue of utilities connections continues to elicit very strong views and is a source of huge frustration to members.

¹ Insolvency Service, compulsory liquidations by industry in England and Wales: <http://www.insolvencydirect.bis.gov.uk/otherinformation/statistics/201105/table1a.pdf>

Background



The NFB work on utilities started in 2005 with a scoping survey to determine the extent of the issues faced by developers when requesting connections for all four utilities services: telecommunications, electricity, water and gas.

At that time, the service for telecommunications connections was less problematic in relation to the other utilities, so it did not form a part of the surveys conducted in 2006 and 2008, nor in 2011.

Executive summary

This report looks at the levels of service that developers and contractors experience when seeking new connections for water, gas and/or electricity services and what, if any, improvements have been observed since the 2008 survey.

The report is compiled from the results of a site-by-site survey for work undertaken in the first half of 2011.

While the headline figure representing the percentage of sites that experienced problems when requesting a connection has fallen from 88% in 2008 to 73% in 2011, there are still underlying issues that have remained more or less unchanged.

The issue that stood out in previous utilities surveys conducted by the NFB and which remains a significant issue in 2011 is that of communication. Over 70% of respondents called for single teams to deal with applications from beginning to end. This is a slight increase from the 68% reported in 2008.

When the level of service received does not match expectations or causes developers to incur financial losses, developers will question the terms under which they must do business with the utilities. It is for this reason that the 2011 survey introduced a question to gauge how respondents felt about paying in advance for what was not a predictable or reliable service. Payment on delivery of the service was cited as a potential improvement by 70% of respondents.

Costs are an issue of contention with around 40% of respondents calling for greater transparency of costs. Coupled with this is the sense that there is an imbalance in the customer-service provider relationship. One of the ways in which this manifests itself is in the requirement to pay for work in advance, but financial losses resulting from delays to the connections service are borne by the developer or contractor. Also, while there are penalty payments in place for failing to meet service levels, the losses borne by the developer or contractor are far greater than the penalty payments.

The penalty payment regime introduced for electricity companies on 1 October 2010, while welcome, is not yet widely known about by those most likely to benefit from claiming. When respondents were asked whether they were aware of compensation available to them when connections service levels were not met within a given timeframe, 73% were not, but 33% would have claimed had they been aware.

Recommendations

It is unlikely that there will be a change to the practice of charging in advance for certain works. However, the position of Ofgem, the regulator for electricity and gas industries, on charging for assessment and design fees is clear². Network operators should not charge fees for statements of work or for design studies as a pre-condition to providing a connection offer.

We recommend that charging in advance for statements of work or design studies stop and that the practice be brought under the financial penalty regime so that costs incurred by developers and contractors because of this practice may be recovered.

There is still not enough transparency of costs for electricity connections. Connections are divided into contestable or non-contestable works. Contestable works may be carried out by a distribution network operator (DNO) or an independent distribution company and non-contestable works may only be carried out by a DNO. The non-contestable element of the connections service has no breakdown of costs which makes it unclear whether the DNO is charging only a reasonable amount for the work involved or whether it is also passing on the cost of reinforcing their network to the customer. **We recommend that costs of the non-contestable elements of the connections service be broken down to provide a more accurate understanding of the cost of the service.**

² Open letter clarifying Ofgem's position on upfront charges levied by electricity distribution network operators (DNOs): www.ofgem.gov.uk/Networks/Connectns/CompinConn/Documents/1/upfront%20charges%20letter%20final%20Nov%202010.pdf



The contractor experience

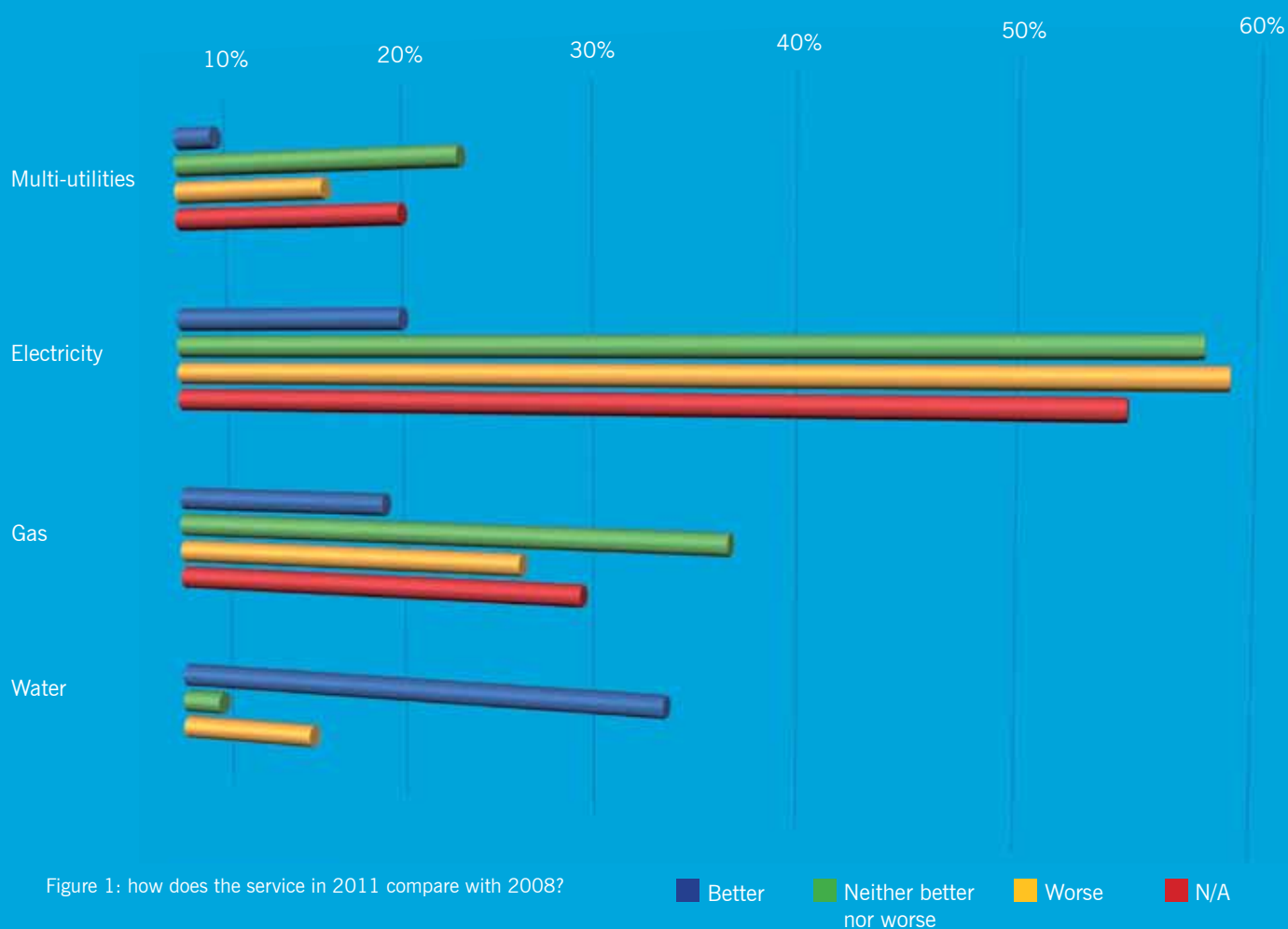


Figure 1: how does the service in 2011 compare with 2008?

■ Better
 ■ Neither better nor worse
 ■ Worse
 ■ N/A

	Problems in 2011	Problems in 2008	Problems in 2006
Water	48%	41%	49%
Gas	37%	44%	51%
Electricity	55%	64%	66%
Multi-utilities	7%	Not recorded	Not recorded
	No problems in 2011	No problems in 2008	No problems in 2006
Overall	21%	12%	14%

Table 1: percentage of sites experiencing problems when seeking connections

Results

While there is still a significant percentage of respondents experiencing problems when requesting a connections service, the overall trend is one of improvement. Perhaps we are starting to see the performance targets set by the regulators acting as a driver for improving service.

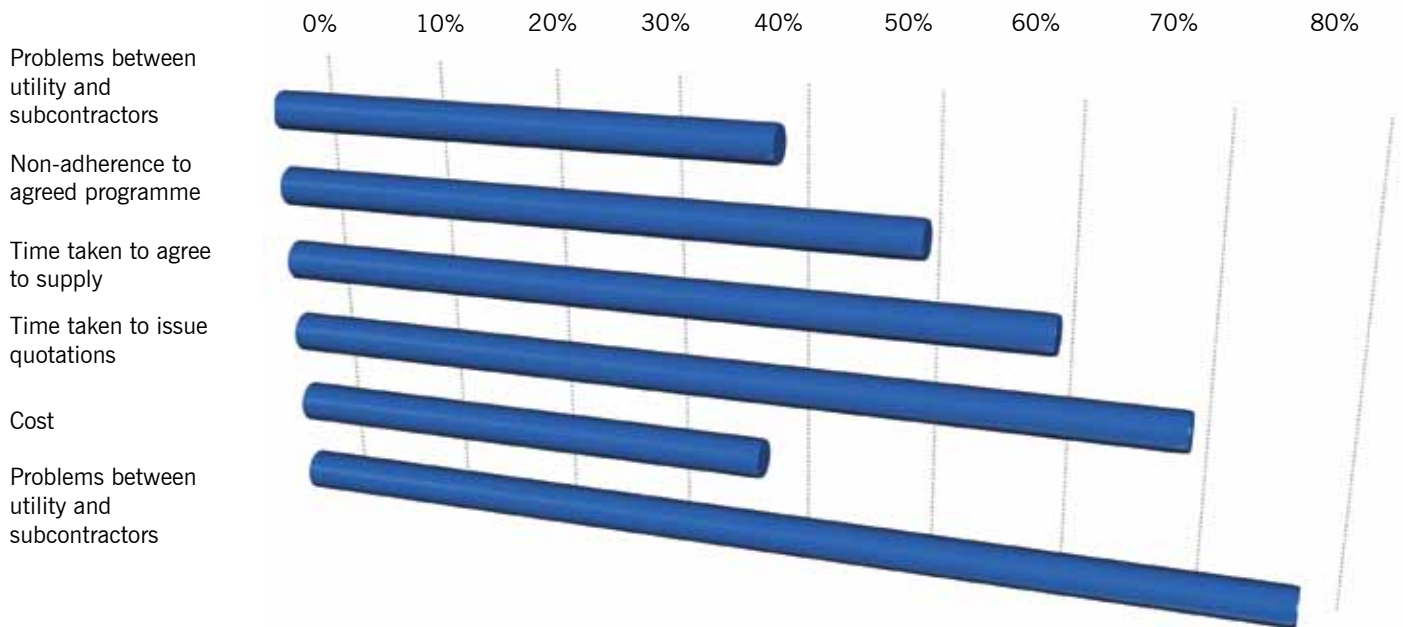


Figure 2: causes of connection problems - water

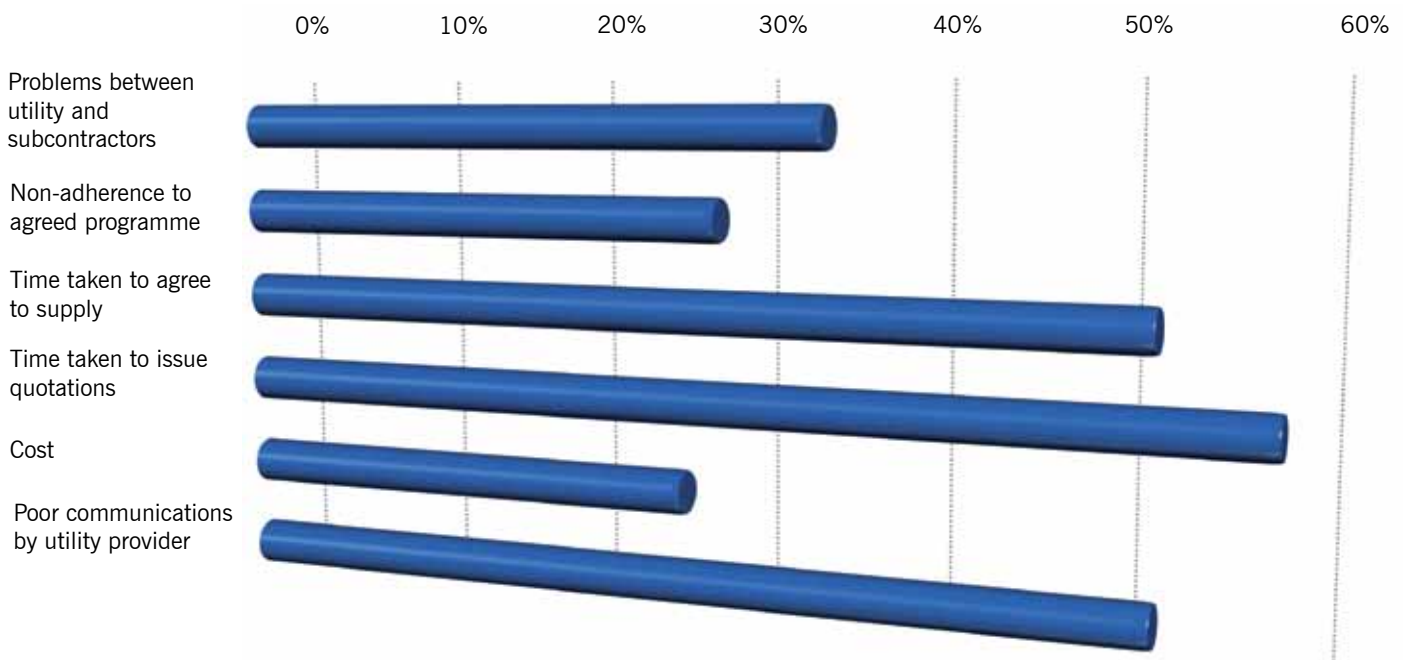


Figure 3: causes of connection problems - gas

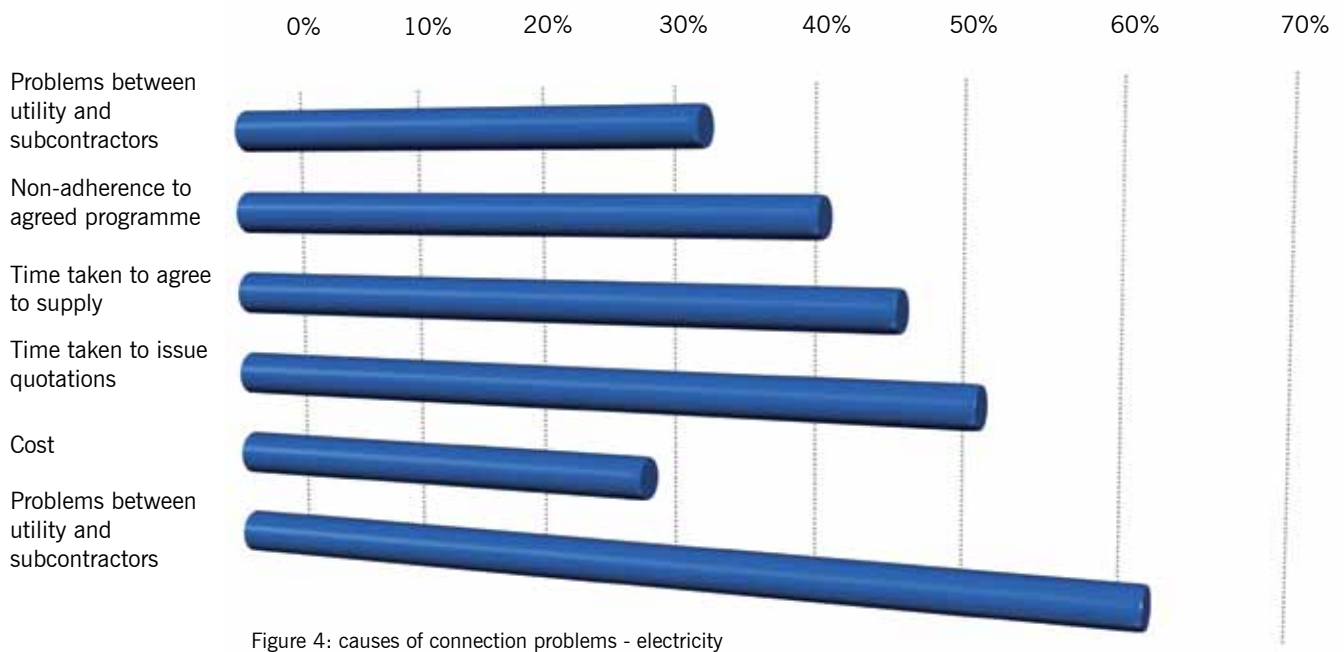


Figure 4: causes of connection problems - electricity

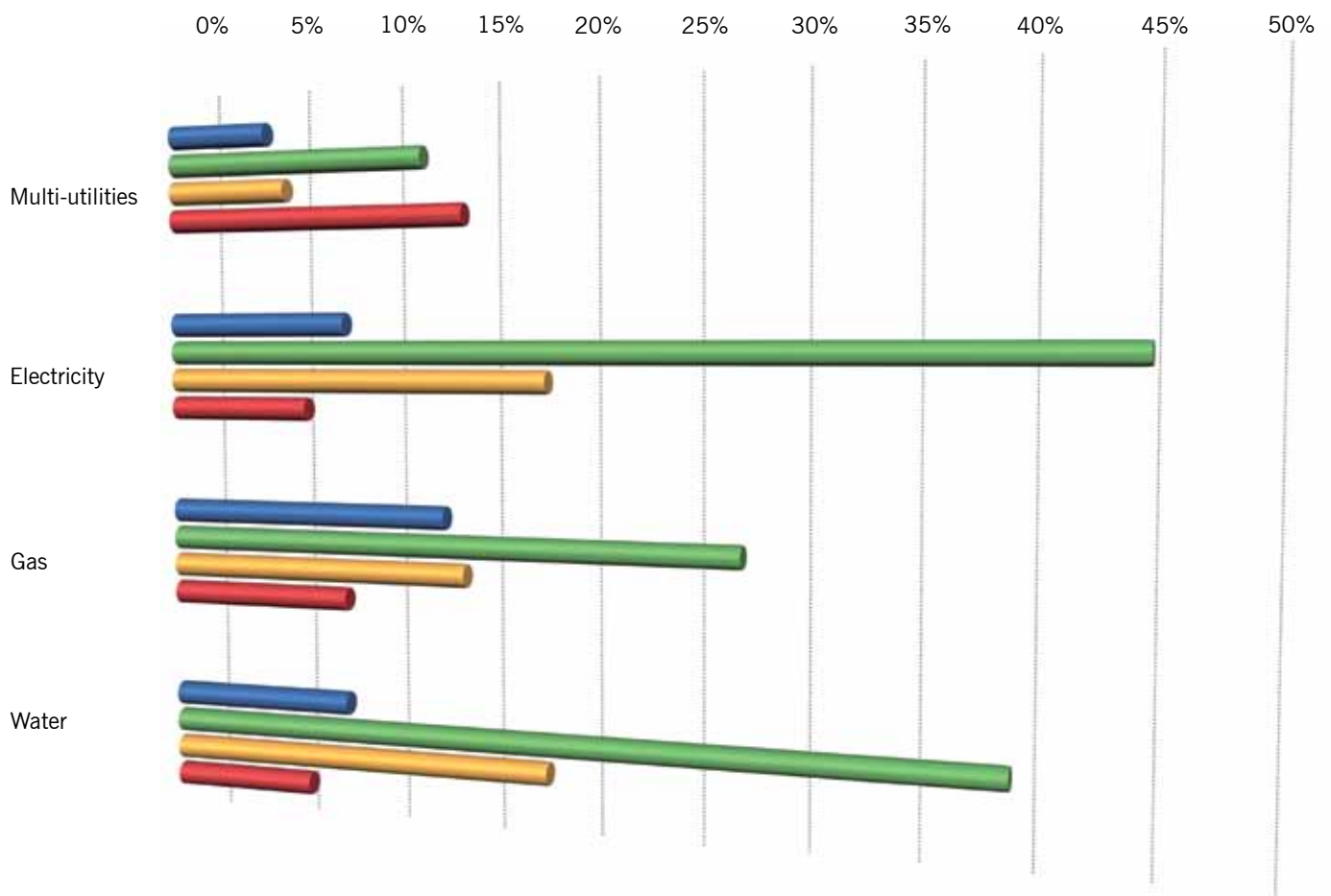
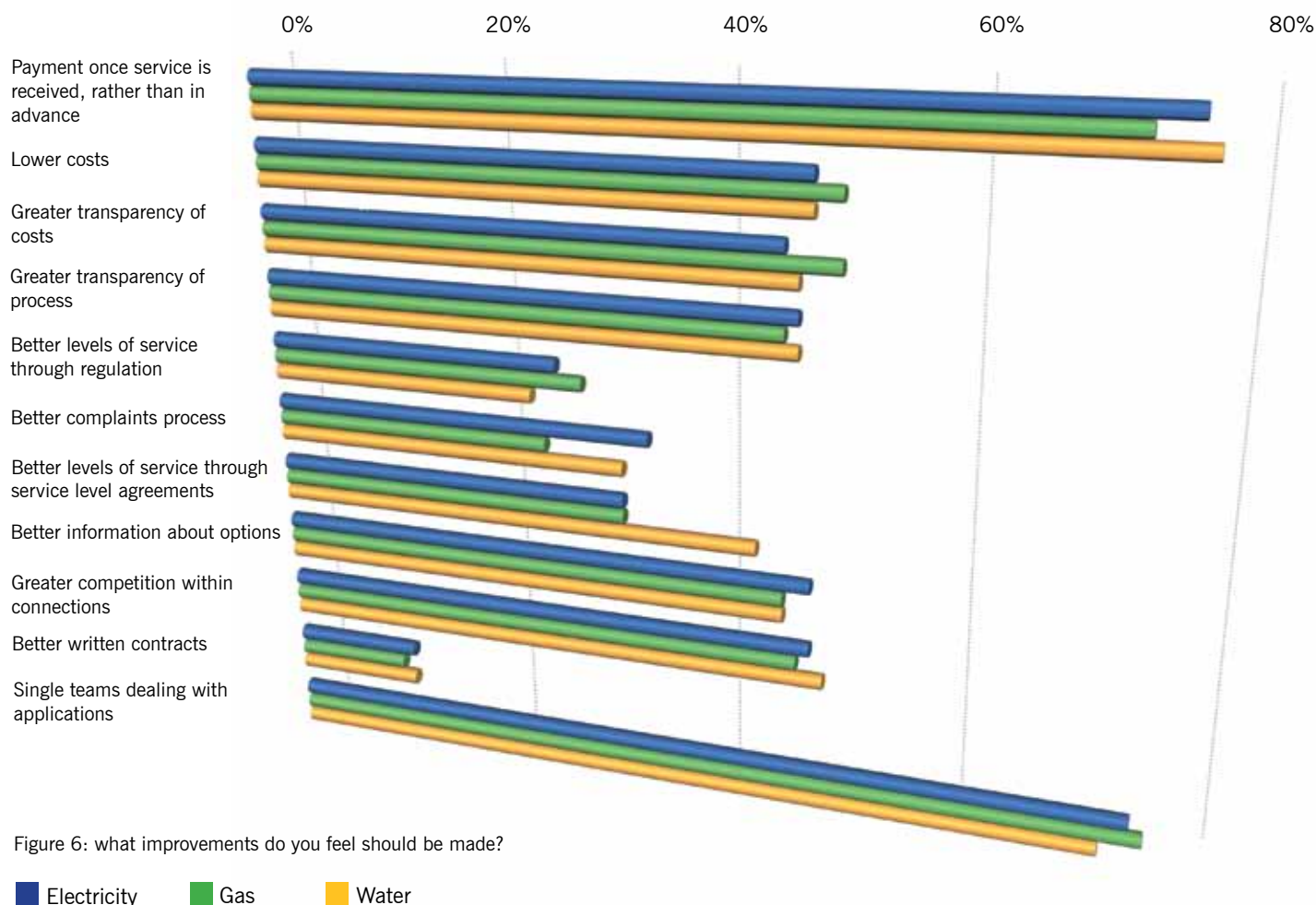


Figure 5: what were the implications for the project? ■ No implications ■ Delay ■ Financial losses ■ N/A

Once again, the biggest implication for sites reporting a problem was a delay to the project, followed by a financial loss. Notably, this is the first time that our utilities survey has not recorded a single imposed financial penalty by clients as a result of a delay in connections services.

Service improvements

In addition to highlighting problems, survey respondents were also asked to suggest improvements.



In both the 2006 and 2008 surveys, by far the largest percentage of respondents called for single teams dealing with applications. This was an indictment on the customer service processes of the utilities, many of which were not providing adequate contact details or timely feedback on applications. As the regulators have started to take a firmer approach to enforcing levels of service,

utilities have had to rethink their approach to customer service and focus on performance targets. The situation has started to improve, as evidenced by Ofgem's *Connections industry review 2009 - 10*³. The percentage of respondents calling for better communication has increased slightly, so those efforts are not being reflected in the survey's findings.

3 <http://www.ofgem.gov.uk/Networks/Connections/ConnIndRev/Documents1/CIR%2009-10.pdf>

Compensation

One of the key recommendations from the NFB's 2008 utilities survey report was for the introduction of financial penalties where electricity companies failed to achieve agreed levels. Penalties were already in place for gas and water companies at that time. Developers and contractors were increasingly having to bear the cost of delays, whatever the reason. The introduction of guaranteed levels of service with attached penalties would introduce an element of balance to the customer-service provider relationship where full payment was required in advance, but where there were no penalties for failing to deliver to agreed service levels.

The 2011 survey asked whether respondents were aware of compensation available to electricity customers from 1 October 2010.

The system for compensation payments had not been in place for more than ten months by the time the survey closed.

As well as calling for the introduction of service levels coupled with financial penalties, almost one-third of respondents wanted better service levels through tougher regulation. Ofgem was granted greater powers in 2010. So, while both these suggested service improvements have been introduced, there is still some way to go to achieve awareness among those who would benefit from the change.

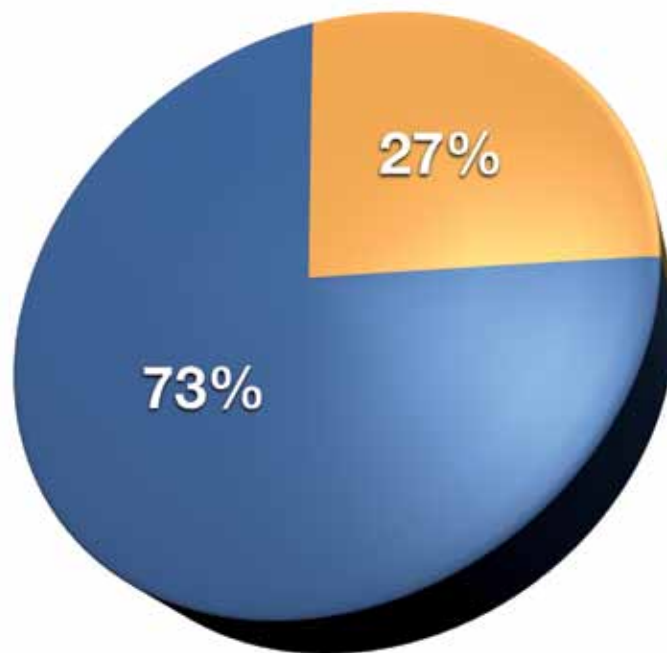


Figure 7: percentage of respondents aware of electricity compensation payments

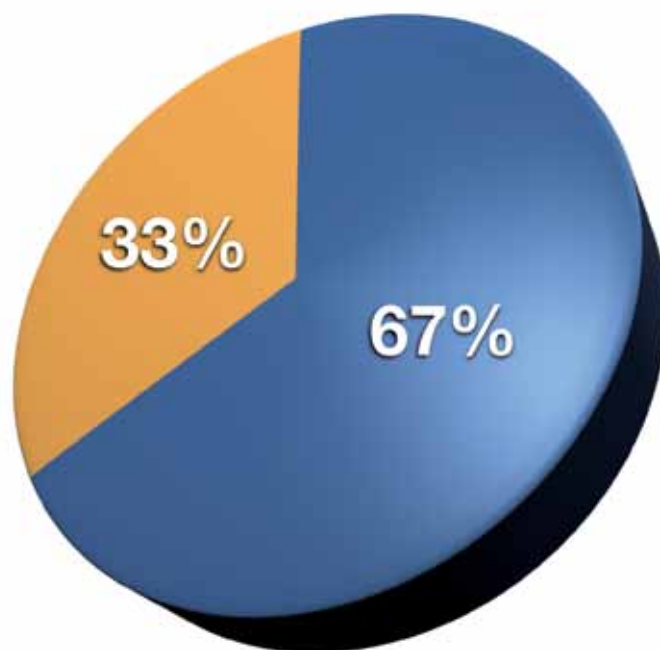


Figure 8: percentage of all respondents who would have claimed compensation

APPENDIX I - revisiting the 2008 survey

The 2008 survey made four recommendations:

1 Single point of contact

Provide contact details that are easily accessible on company websites and provided in all communications with customers.

2 Service level agreements

Regulators have defined a set of performance indicators against which the utilities can be measured. The regulators should define a set of binding standards coupled with penalties for when performance falls below an agreed threshold. The current voluntary arrangements are not effective.

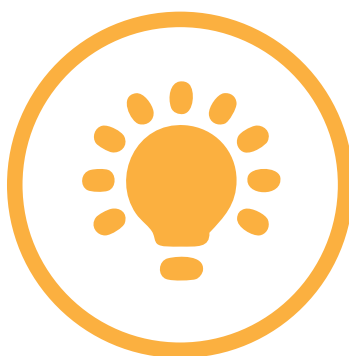
3 Better information about options in connections

Increase competition by letting customers know that alternatives in connections services exist when they place an order or make an order enquiry. There is as much a role for the NFB to play here in educating members as there is for the utilities and regulators.

4 Greater transparency on costs

Developers resent paying, in full, months in advance for a service that is not reliable. They are willing to meet utilities halfway, so we recommend:

- a that utilities accept a deposit for connections, with the balance payable on completion of the work. Not receiving full payment in advance would act as an incentive to improve the level of service;
- b that utilities provide a full breakdown of charges and costs for non-contestable work. While we are pleased to see the beginnings of price breakdowns for quotes from the point of connection to the premise, it has taken 18 months to reach this agreement with Ofgem. The non-contestable element of any work still has no breakdown of cost and this allows the host DNOs to pass on the cost of reinforcing their network to the customer.



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