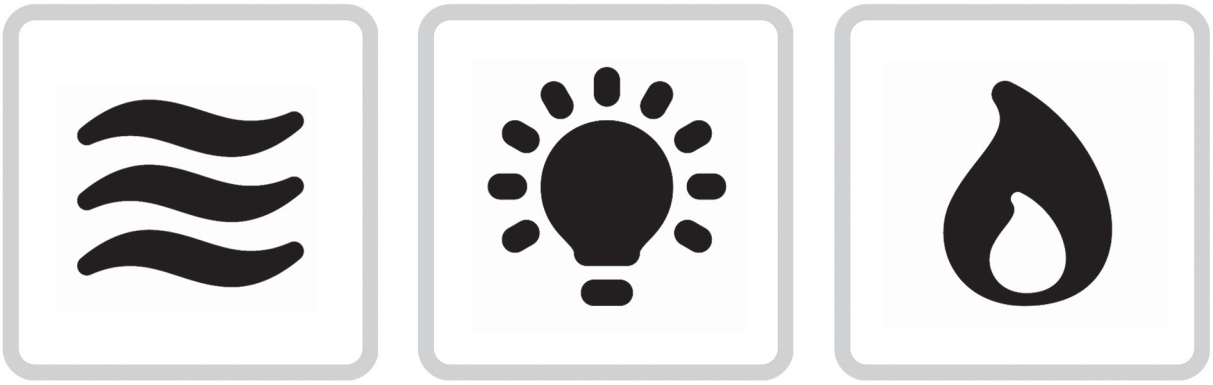
Building People, Building Companies, Building Futures

NFB
National Federation *of* Builders



Utilities Survey 2008

The report of a major survey into the utilities' connections service

September 2008

www.builders.org.uk

Acknowledgements

We would like to thank, first and foremost, every member company that sent in a completed survey. We would also like to thank non-member companies for participating. Together, your responses have given us a clearer, more representative picture of the state of the connections market. We would also like to thank those people who gave their time to be interviewed and those who provided us with details of their dealings, good and not so good, with the utilities. We would particularly like to thank

Chris Burgess, John Burgess and Co.
Phil Harris, Worcestershire County Council
Stephen Morris, Cruden Construction
Steven Scott, Cruden Construction
Martin Woodhouse, Benfield Construction

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65% The proportion of respondents having problems caused by poor communications.

55% The proportion of sites experiencing delays with electricity companies.

54% The proportion of sites experiencing problems caused by delays in issuing quotations.

48.9% The proportion of companies aware of competition in connections.

314 The number of sites that felt that having a single team, or single point of contact, dealing with applications would improve the situation.

Foreword

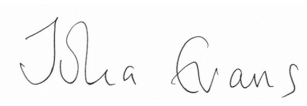
Since the late 19th century, the National Federation of Builders has taken pride in being the voice of the smaller builder. During the months that we conducted this survey, the message we received was clear: the service is getting worse. The big numbers speak for themselves: around half the companies surveyed experienced delays when requesting connections and around a fifth incurred financial losses through delays. Compared to our 2006 survey, fewer respondents think there have been improvements across water, electricity or gas connection services.

Why can't utilities consistently provide something as basic as a contact number? Why can't companies receive a cost breakdown so they know what they are being asked to pay for? Why are companies still forced to pay, in full, £1000s of pounds in advance for a service that has so much room for improvement?

Why should we have to deal with such limited competition in the electrical connections industry? Host distributed network operators (DNOs) enjoy a continuing monopoly of non-contestable works that frustrates real competition from independent connections providers.

When you are working on the coalface, the solutions to some of these issues seem simple and taking drastic measures to change a frustrating and costly situation may appear to be the best way forward. On the other hand, the NFB recognises that regulation can be complex and the change programmes being managed by the regulators – service level agreements, pricing, competition – need time to prove themselves. However, the pace of change is clearly not satisfying the requirements of developers and builders. In addition, Independent Connection Providers (ICPs) that are affiliated to DNOs do not provide a level playing field for real competition with non-affiliated ICPs in terms of access to the network or economic design. This leads to less favourable contract terms for the customer. Until the DNOs recognise that developers and builders are customers, this situation is unlikely to change.

Utility connections are the cause of the worst operational problems experienced by NFB members on-site. The time has come to draw a line in the sand and instead of just talking about improvements, actually challenge the utilities to provide a reliable service and also demand that the regulators take action.



Julia Evans,
Chief Executive

Executive summary

This report looks at the levels of service that contractors experience when seeking new connections from electricity, gas or water companies.

The report draws from a site-by-site survey for work undertaken in the first half of 2008. The survey closed on 3 July 2008. In total, 352 different companies returned 575 responses.

The contractor experience

The most serious problem with utilities is the one that does not necessarily require any additional technical expertise to put right: poor communication. Most members listing a problem expressed difficulty in finding the right person or in receiving a response, with calls going unanswered or unreturned for days. This is mirrored by the 77.5% of respondents who suggested that a single point of contact would improve the customer/provider relationship. The poor level of service experienced when submitting applications for quotations or making complaints calls into question whether they recognise developers and builders as customers.

Competition in connections

Competition is not working to the extent that it was envisaged. Even when sites do use an independent connections provider, there is not always an improvement in the level of service. 71.7% of electricity customers using an independent connections service reported a problem, as did 52.8% of gas customers and 52.5% of water customers. Independent connections providers in the electrical industry are largely dependent on host DNOs for network information, points of connection, quotes for non-contestable works and the provision of non-contestable connections service performance. This level of dependence will stifle real competition as long as the DNOs maintain a monopoly on non-contestable work and further protect that monopoly by providing favoured access to network and economic design to affiliated ICPs.

While OFGEM's efforts to bring competition to the electricity market have made changes, those changes have only been incremental. Voluntary codes and minor interventions are simply not making change happen at a pace that satisfies the builder and developer customer base.

Service improvements

All the complaints we received came with suggestions as to how to improve the situation. There were several calls for single teams and a named contact to deal with the entire process from order to completion.

Members wanted clear service level agreements with penalties for missing targets. While the regulator prefers voluntary standards to encourage the host DNOs towards more competitive behaviour, that approach does not come close to satisfying the pace of change that these survey results call for and that the construction industry needs. There has been little change in two years; the regulator now needs to take a different approach as their efforts to provide full transparency of costs and effective competition are yet to bear fruit.

Recommendations

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

Service level agreements
Regulators have defined a set of voluntary 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.

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.

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:

1. 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.

2. 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 premises, 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.

Background

The National Federation of Builders is one of the longest-established trade bodies in the UK and is the major trade federation for small and medium-sized enterprises (SMEs) in the construction industry in England and Wales, providing a voice for small business in key policy areas.

Members of the National Federation of Builders cited gaining connections as one of the most serious operational problems they face. The Federation ran a scoping survey in 2005, in response to member calls, and ran a major survey in 2006. This 2008 survey aims to determine if there has been an improvement in the connections service since we conducted the last one.

Objectives

This survey had two main objectives. The first, and most important, was to quantify the extent to which companies experience problems with the connections service provided by utility companies. By providing more than purely anecdotal evidence, we can help policymakers, regulators and utility companies work to improve the connections service. The second aim was to see what, if anything had changed since we last conducted this survey in 2006.

Questionnaire

We distributed a survey of 12 questions with Newsline, our monthly member newsletter. The survey was made available at member meetings and was also available to download from the Federation's website at www.builders.org.uk, or on request.

The survey opened on 28 February 2008 and closed on 3 July 2008. The responses have come from individual sites, rather than individual companies because each site could, potentially, report a different experience. In total, 352 different companies returned 575 site responses.

In 2006, the survey was limited to members of the National Federation of Builders, the Major Contractors Group and the National Contractors' Federation. In 2008, we publicised and circulated the survey among the National Federation of Builders' membership. However, we also received a significant number of enquiries from non-member companies who actively wanted to participate. This suggests that the influence of the survey, being run for the third time, transcends the Federation's membership and now has a much wider influence.

Findings

The contractor experience

"There is no recourse to sort problems out. Contacting any utility is a living hell."

Have you experienced problems when seeking new connections to the utility networks?

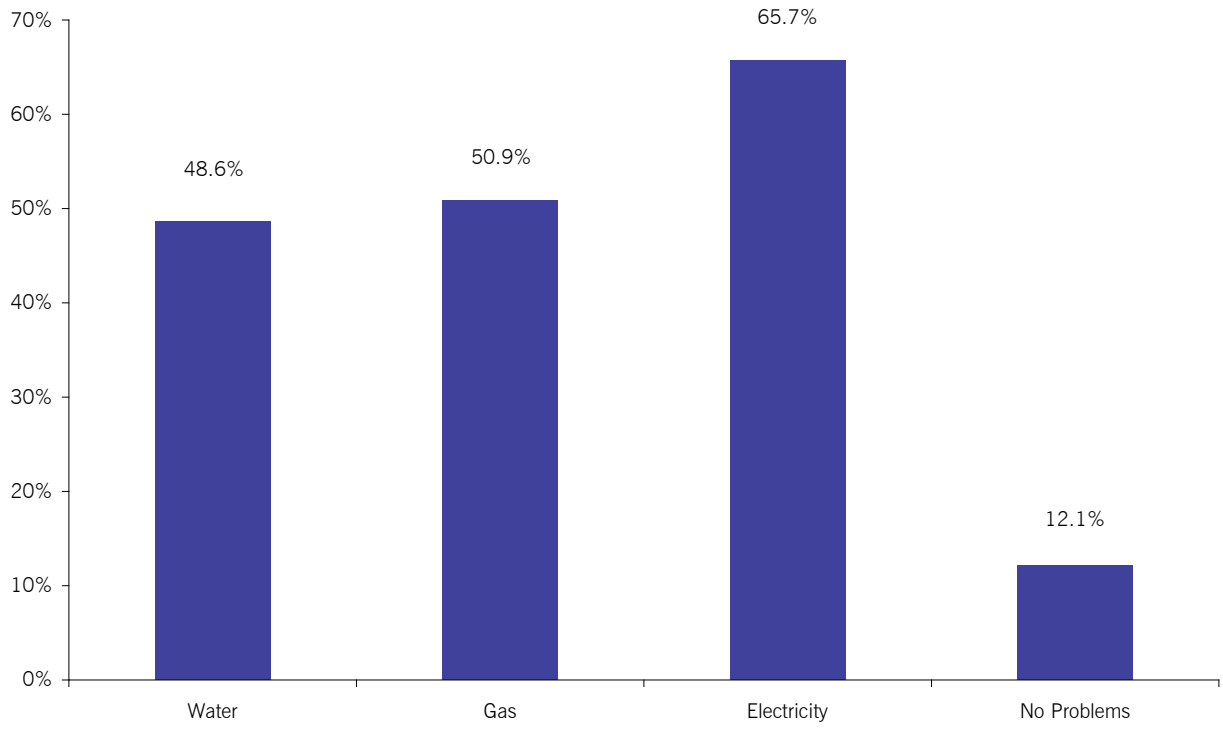


Figure 1: sites experiencing problems when seeking new connections

The results show that 65.7% of responses, or 266 sites, reported problems when requesting a connection to the electricity network. Gas and water customers had fewer problems, with 50.9% and 48.6% reporting problems.

Only 12.1% of sites requesting a utilities connection reported no problems with the process, but the major point to take away from these figures is that all three utilities are performing worse, with regard to connections, than they were two years ago.

	Problems in 2006	Problems in 2008
Water	41.4%	48.6%
Gas	43.7%	50.9%
Electricity	63.8%	65.7%
	No problems in 2006	No problems in 2008
Overall	14.1%	12.1%

Table 1: percentage of sites experiencing problems when seeking connections

Cause of problems

If respondents recorded that they had experienced problems, they were asked if their problem fitted into one of six areas. If not, they were asked to provide additional detail.

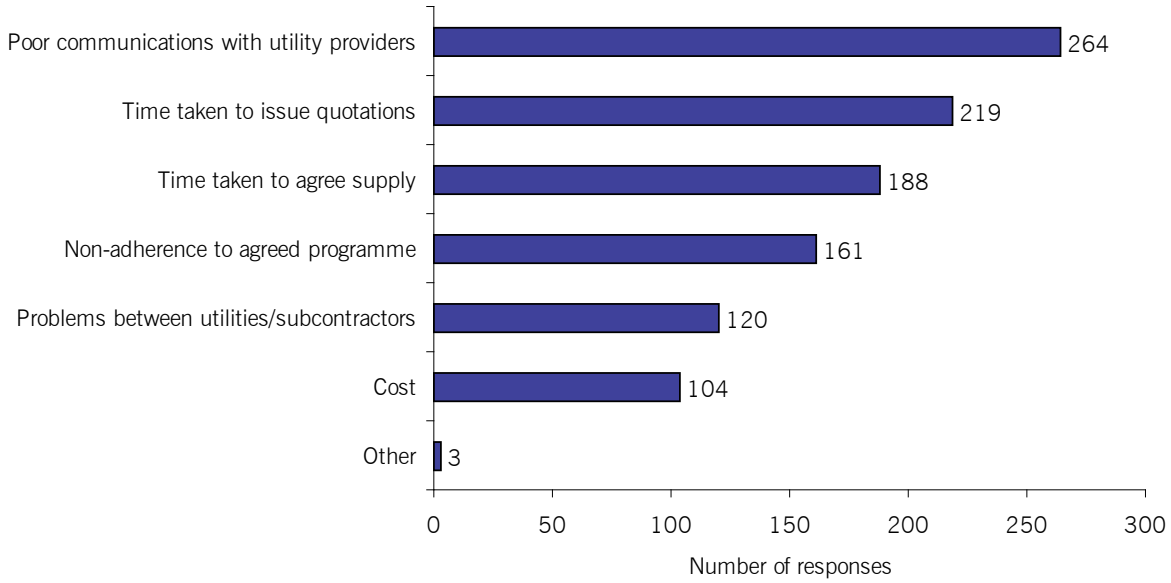


Figure 2: overall causes of connection problems

Poor communications by utility providers

"It should not take 5 days for a supervisor/manager to return a complaint phone call."

Poor communications in this context refers to the internal processes at the utility companies, how utilities communicate with contractors and whether these processes are efficient.

This was the most significant problem for participating sites with 65.2% or 264 out of 406 respondents citing this as a problem. Contractors found that while they sometimes had the name of a single contact, they rarely had a direct telephone number or email address, so they still had to navigate the call centre if they needed to raise issues about a job. One interviewee recalled receiving letters with no contact name, address, or telephone number and thought it was symptomatic of the lack of accountability and an unwillingness to own a problem. Another interviewee's experiences led him to believe that there was internal confusion over areas of responsibility and trying to reach the right person "was like shovelling water uphill."

Contractors have also complained about the length of time it takes for telephones to be answered, with "on hold" times of thirty minutes not unheard of.

Time taken to issue quotations

"Need a quicker turnaround of enquiries/quotes."

This was the second most cited problem and was raised by 54.1% or 219 out of the 406 sites. Because of the frequency with which sites thought quotations took too long, many commented that quotes from utilities should have the price fixed for three months. Typically, it takes 12 weeks to receive a quote. The work also has to be scheduled which, again, may take up to 12 weeks. In the meantime, the quote is only valid for one month, so if the work is not completed, the cycle can begin again. In some cases, the process is more drawn out. One developer requested a connection in June 2005 and did not receive a service until November 2007. Other developers report waiting 12 months for a quotation. These timeframes show a significant departure from OFGEM's voluntary time limits for non-contestable work that state that a formal quotation should be issued within 15 days for simple schemes and within 20 days for more complex work.

There is also a lack of information provided at the pre-quotation stage, for example, on design routes for cables. If a developer is requesting connections for multiple utilities and has no idea where cables run or how services will fit together until all quotations have been received, it becomes very difficult to plan and there is potential for conflict.

Utilities issue quotations when they have received an application that contains all the information they need to progress. However, if the application is incomplete, they may not return it for weeks. This has an immediate impact on the developer's ability to deliver on time. There are also implications for reporting on the levels of service, albeit voluntary ones, laid down by OFGEM, as the clock measuring the time taken to issue the quotation does not start ticking until a completed application has been received. Most utilities have stated that their systems are not able to accommodate stopping and starting the clock to take account of quotations that need to be returned for amendments.

Time taken to agree to supply

"They need to focus on delivery – it's all about non-delivery."

The time taken to agree supply was also a major issue with 188 sites, or 54.1%, declaring this a problem.

Non-adherence to agreed programme

"[They] need to do what they say they'll do and when."

Again, this is a significant issue, drawing responses from 161 sites, or 39.1% of responses. However, this is still an improvement on our 2006 survey when water, gas and electricity companies drew responses from 54%, 54% and 51.1% respectively. Contractors used by the utilities don't always turn up to complete the work on the agreed date and they do not always perform the work that was agreed, or even arrive knowing what is expected of them. This could be because the design and planning departments are separate from the delivery departments. The design process happens with little in-depth knowledge of the site. When contractors arrive on-site to deliver the programme of works, they may find that it is not possible to position pipes according to the design because cables that the designers were unaware of prevent them from installing the pipes optimally. This triggers a redesign, and an additional cost that could add £1000s of pounds.

When requesting a disconnection, for example, when a property needs to be demolished, problems can also arise. One developer has encountered delays because neither the gas nor the electricity companies had plans telling them where their cables were running below ground.

Problems between utility and the subcontractors

"Dispense with sub-contract labour that has no loyalty to the provider nor to the customer."

While there are lingering complaints about sub-contractor labour, this is another area that has seen improvement since the last time we conducted the survey, with 29.6% of sites reporting problems with sub-contractor labour. In 2006, this was an issue for 46% of sites seeking electricity connections, 43.6% for gas and 37.5% for water.

Agreement on cost

"When challenged over costs, they are unable or unwilling to provide any breakdown. They basically hold a gun to our head as they know we have no alternative."

There is an imbalance between the need to plan costs early on in the project, and the time taken to complete the project, which can last for months or years. It is almost impossible to reconcile these two factors when the quotes that are issued expire before the work is carried out. There is a sense of resignation that the work being carried out costs whatever it will cost and that developers requesting connections will have to bear that cost upfront. If this continues to be the case, developers feel that asking for transparency of costs is not unreasonable.

Exacerbating the situation of upfront costs are attempts by some DNOs to charge in advance for assessment and design fees for high voltage work in non-contestable areas. This is a practice that OFGEM has spoken out against as there is no provision for conditional upfront charging in Section 16 of the Electricity Act 1989.

Following a positive intervention from OFGEM, DNOs will provide point of connection information and a simple cost for non-contestable work from January 2009. It has taken 18 months to reach agreement on this issue. The NFB hopes that this signals the start of greater transparency of costs.

What were the implications for the project?

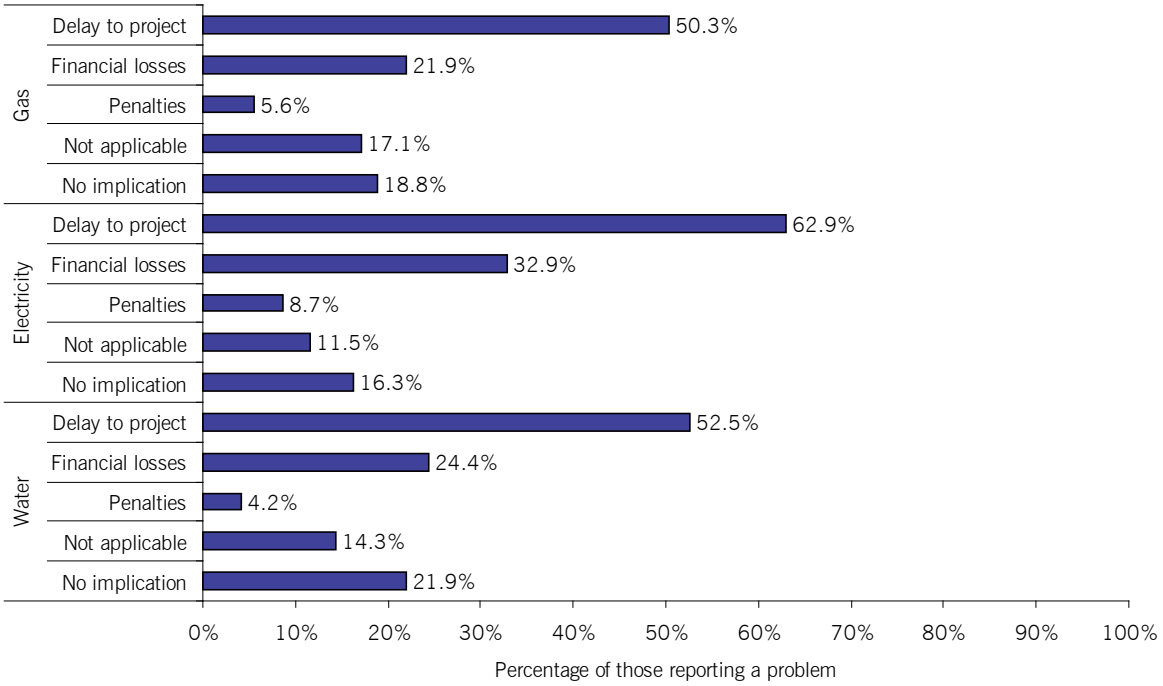


Figure3: overall implications of connection problems

By far the biggest implication for sites reporting a problem was a delay to the project, followed by financial losses. While firms are able to quantify penalties imposed, there are other costs involved. One firm conservatively estimated that working with the utilities, and mainly with electricity companies, to provide connections costs his firm £100,000 per year in penalties and other financial losses as well as staff costs. There are at least two people who are hired directly to micro-manage the inefficient processes and to chase utilities because the only way they can complete projects is by assuming the burden of responsibility themselves. This is not how they would like to see their customer – service provider relationship continue.

How does it compare to 2006?

"The electricity service is far worse. Need better service through regulation and fines."

Current performance compared to 2006 by performance indicator

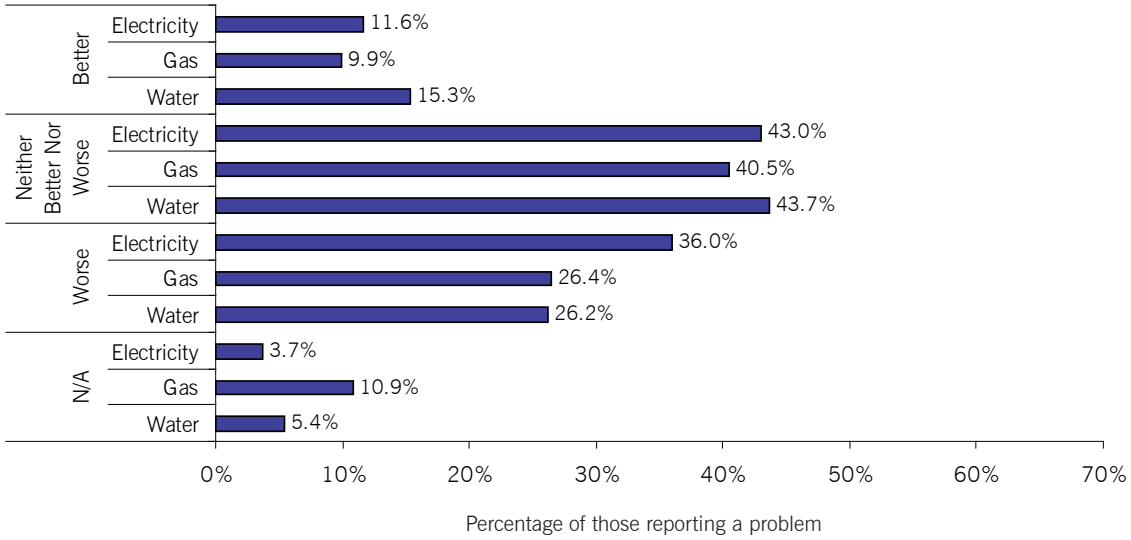


Figure 4: current performance compared to 2006, by performance indicator

Current performance compared to 2006 by utility

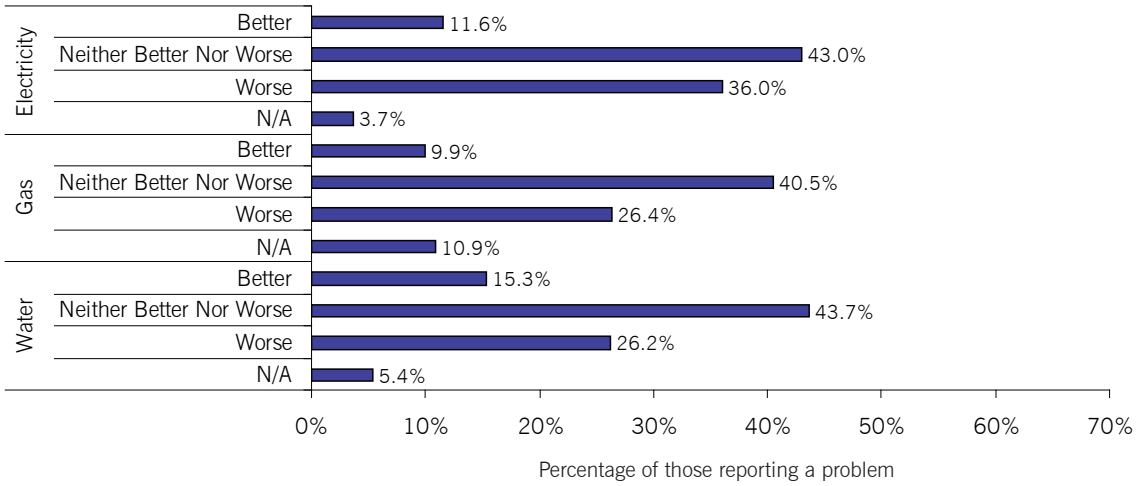


Figure 5: current performance compared to 2006, by utility

The most significant improvement of any utility was water, with a 15% rise on figures from two years ago. Between 26% (water, gas) and 36% (electricity) thought that the service had deteriorated over the same time period.

The contractor experience

Competition in connections

Have you heard of options to use independent connections providers?

"Too many parties involved to execute work means unnecessary costs."

198 respondents, or 48.9%, had heard of competition in connections. From a customer's point of view, competition should provide choice and a sense of empowerment in knowing that you have options. From a provider's perspective, competition should drive innovation and efficiency. When asked, 41% of all respondents felt that greater competition would improve levels of service. However, their optimism is not reflected in their experience.

Did using an independent connections provider result in a better level of service?

Of those respondents who were aware that they could use an independent connections provider but did not, their reasons for not doing so were because they either did not have enough information or because there was no appreciable difference, so they simply engaged the major companies directly.

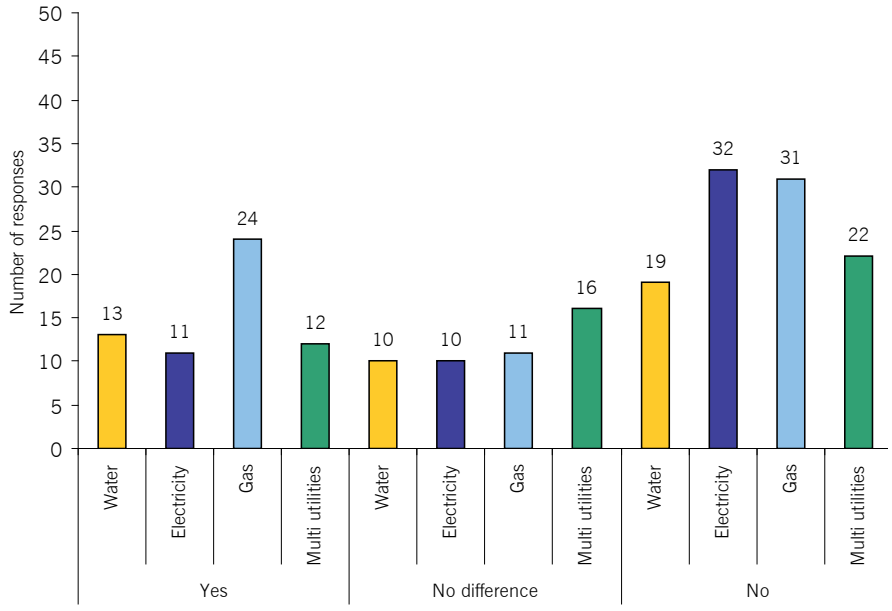


Figure 6: Does using an independent connections provider result in a better level of service?

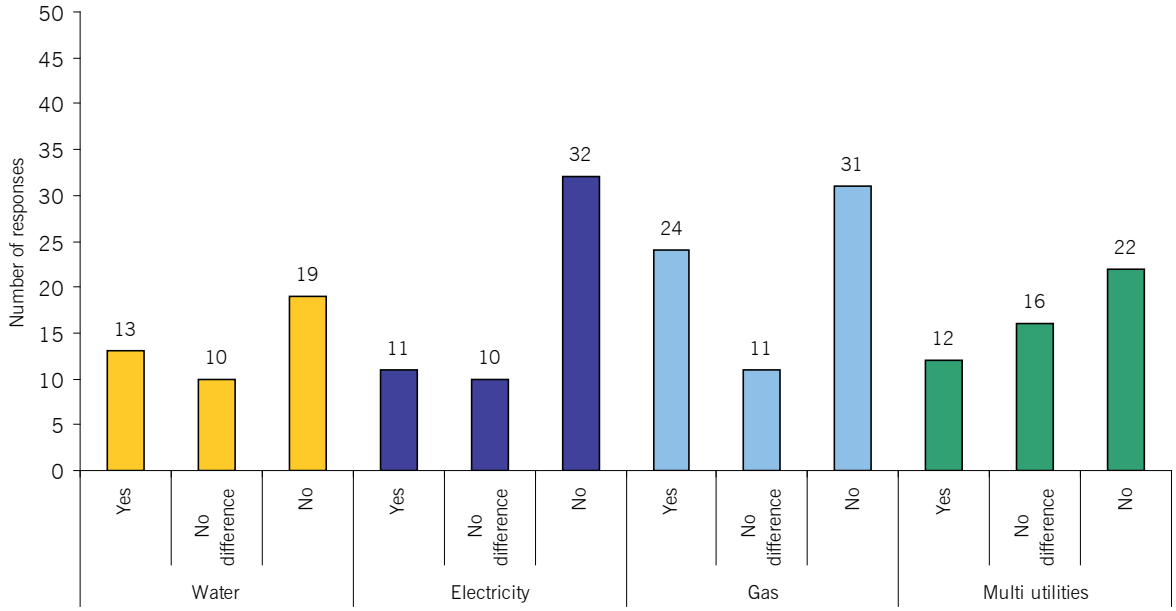


Figure 7: Does using an independent connections provider result in a better level of service?

None of the utilities posted more positive than negative response rates. More sites reported that the use of ICPs had made little or no difference to the level of service than those who reported an improvement.

Sites probably did not see an appreciable difference in service levels with an ICP because in some cases, there is little to differentiate. There are two types of independent provider – one is affiliated to a DNO and the other is truly independent. Affiliated providers have access to the DNOs network design and can, therefore, provide quotations more quickly than non-affiliated ICPs. Most customers, therefore, choose to cut out the middle man and deal with the utilities directly.

Service improvements

As well as being asked to report on problems, sites were asked to propose solutions.

What improvements do you feel should be made?

"We'd like to see a single team dealing with everything, from enquiry to installation and supply."

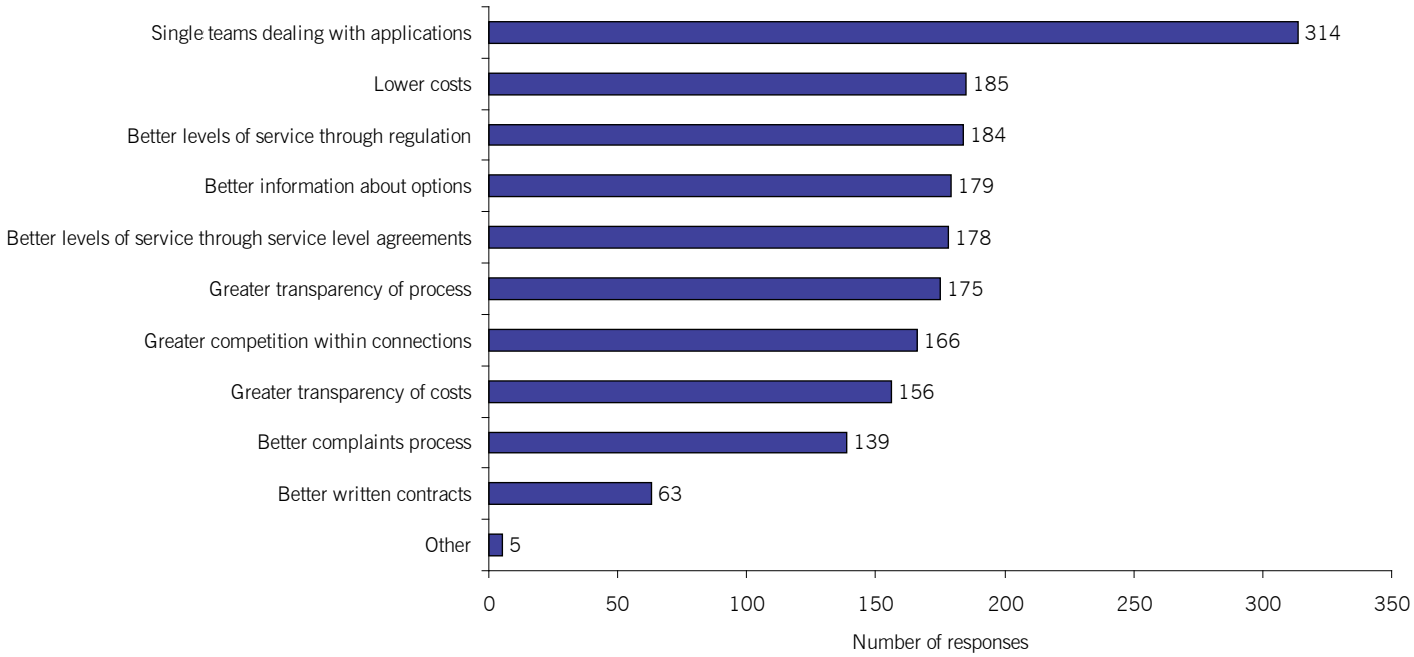


Figure 8: what improvements should be made to the service?

Single teams dealing with applications
The call for single teams to deal with connections was overwhelmingly the most requested service improvement measure. The three issues that caused the most problems were:

1. Poor communications with utility companies
2. Time taken to issue quotations
3. Time taken to agree supply.

When these issues are looked at as a whole, it is easy to see why contractors feel that a single team or a single named contact would be far more efficient at resolving issues than is currently the case.

Better written contracts
This was a measure requested by 15.6% of sites. This area has seen an improvement since the last survey when 22.5% of sites called for better written contracts.

Greater competition within connections
A significant number of respondents, 41%, asked for greater competition within connections. This is in contrast to 34.7% 2 years ago. This level of response could be attributed to the dissatisfaction with the levels of service combined with the 47.9% of respondents who said that they were not aware of competition for connections.

Better information about options
44.2% wanted better information about connections options. Providing full information about all the options available in a given area would address the needs of those respondents who were not aware of alternatives, as well as those who felt that despite the competition, there was not a lot of difference between using a utility or an independent connections provider.

Better levels of service through service level agreements
The utility connections service experience appears to have deteriorated to the point where 44% want to encourage better service through service level agreements, compared to 23.9% two years ago. A lack of success in reaching utilities by telephone, an absence of a sense of urgency and unnecessarily long lead-in times from when orders are placed are frustrating contractors who feel they have no recourse. If they are unable to effect change from without, perhaps performance triggers from within in the form of service level agreements, backed up with regulator-enforced penalties, would improve the situation.

Better complaints process
34.3% wanted a better complaints process. Respondents have commented that it takes weeks for a complaint to be acknowledged. When time is a critical factor, not only is it difficult to resolve problems through a lack of response, but respondents also bear the costs of any delay immediately. The utilities continue to earn interest on money for a service that has been paid for in full, but is still to be delivered.

Better levels of service through regulation
45.4% wanted regulators to enforce a better level of service. This is a leap from 22.5% in the last survey and is similar to the increased amount of requests for better service through service level agreements from two years ago. Again, frustration with the service, coupled with very limited effective recourse leads to calls for external forces to effect a change. However, some respondents questioned the regulators' ability to make a difference simply because they move too slowly. When time is of the essence and attempts to resolve an issue with the utility company are unsuccessful, a regulator that will arbitrate immediately would be incredibly valuable. The perception is that the regulators' efforts seem to be on long-term goals that do not have much of an effect, rather than on the more pressing day-to-day matters.

Greater transparency of process
43.2% wanted greater transparency in the process of gaining connections to networks. There is a sense of stoic resignation in that competition in connections is not really working, that the process in place is the one that will remain and that the service costs what is costs. If this is the case, respondents would like greater transparency of process. Given that 87% of respondents reported problems with connections across all utilities, it would be helpful to know what is expected behaviour so that problems can be addressed earlier.

Greater transparency of costs
38.5% wanted greater transparency of costs, especially a break down of costs involved, which utilities seem unwilling to provide, even when asked. Not knowing exactly what is being paid for would explain why there are calls for payment to be made after the work has been completed or for a part-payment in advance with the balance on completion of the work. This would act as an incentive to provide a better level of service. Currently, full prepayment causes resentment, especially when the standard of service is so uneven.

Lower costs
45.7% of respondents asked for lower costs – not surprising given the call by a significant minority (38.5%) for greater transparency of costs and the general perception of excessive charges, which must be pre-paid in full.

Appendix I: profiles of responding sites

Number of responses by turnover

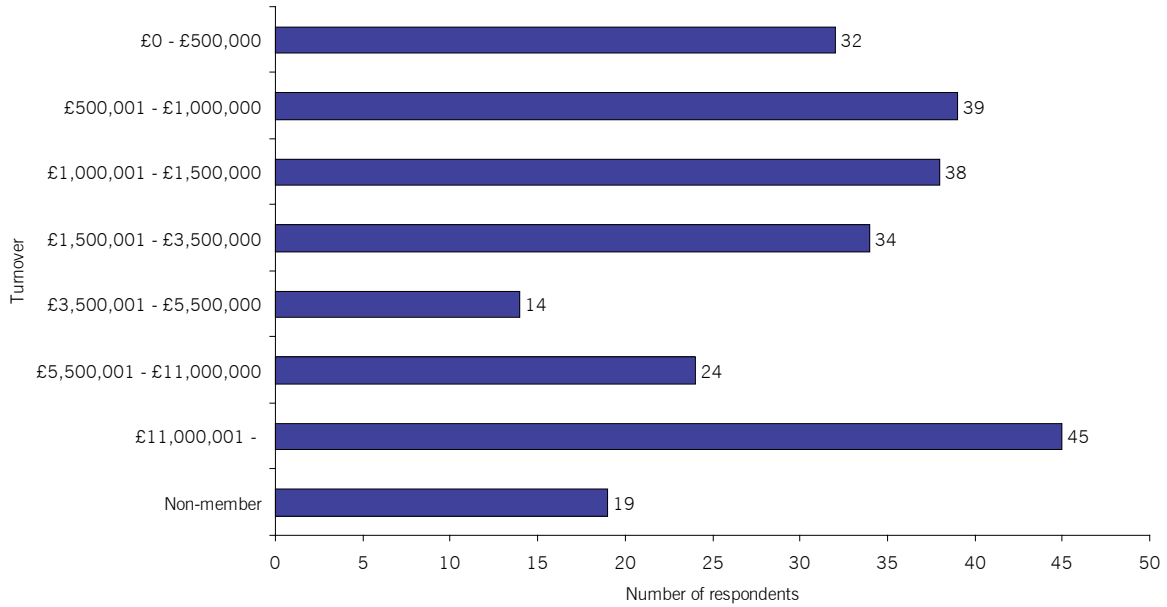


Figure 9: breakdown by respondent company turnover

Percentage of companies experiencing problems, by turnover

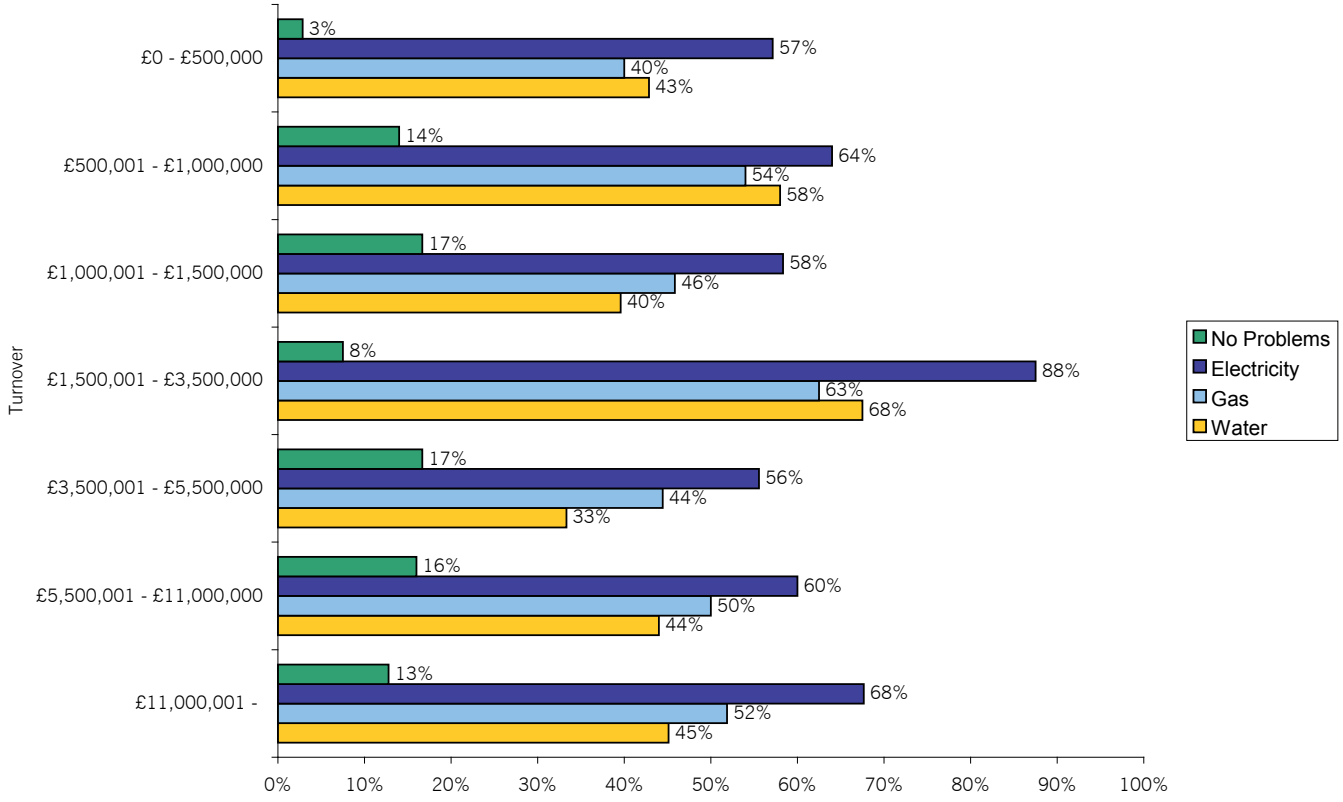


Figure 10: percentage of companies experiencing problems, by turnover

Responses by development type

Approximately half the development projects were housing, either private or social. Given the requirement for a high number of connections on these types of developments, the figures are not surprising. The figures do lend themselves to a debate as to how utilities plan for future needs and whether they should have the infrastructure in place, based on population projections, before they receive formal requests for service.

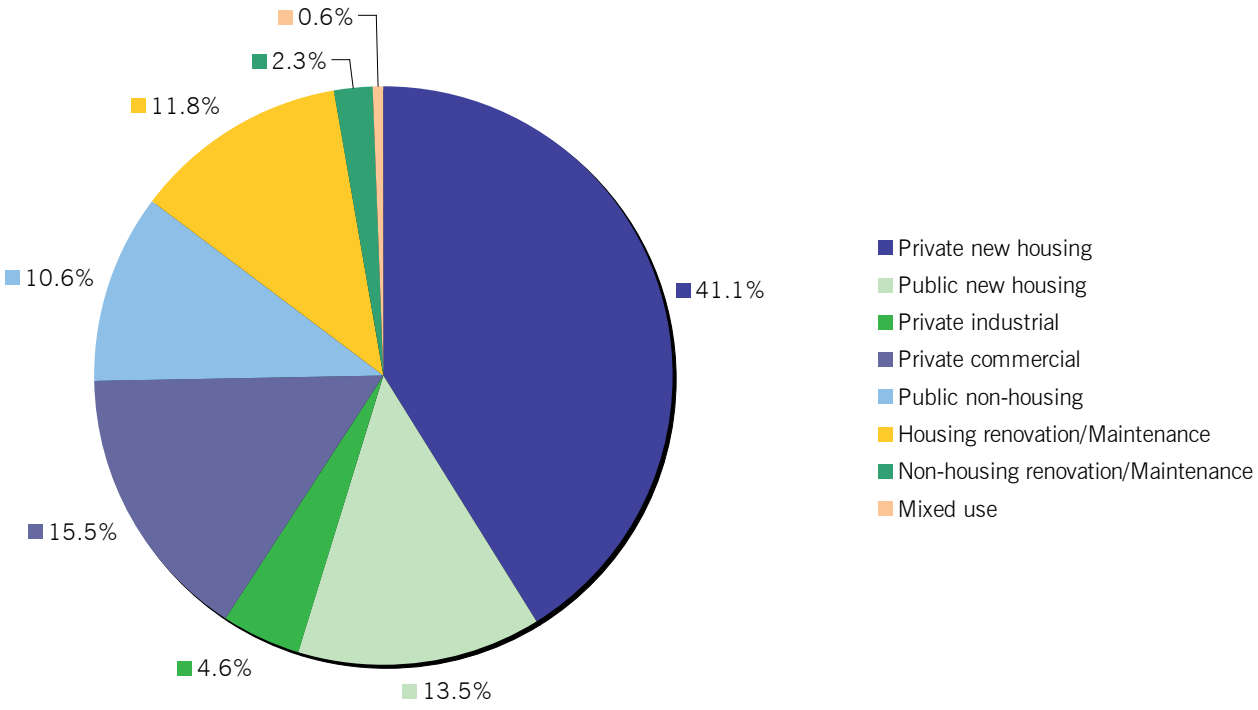


Figure 11: responses by type of development

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