

**All Distribution Network
Operators and interested
connection stakeholders**

Email: connections@ofgem.gov.uk

Date: 11 October 2021

Dear all,

**Outcome of our assessment under the 2021 RII0-ED1 Incentive on Connections
Engagement**

The Incentive on Connections Engagement (ICE) is an annual process which encourages Distribution Network Operators (DNOs) to identify, engage and deliver on the needs of larger connection customers.¹ If they fail to do so, DNOs can face a financial penalty.² Following the conclusion of this year's process, we believe the DNOs have met the minimum criteria under the ICE for this year and as such we have decided to not consult on potential penalties. This letter sets out the reasons for our decision and next steps.

Background

Connecting new customers to the electricity network is one of the most important services provided by DNOs. We expect DNOs to provide a consistently high quality service to all their customers.

The RII0-ED1 price control contains a package of connection outputs and incentives to ensure DNOs focus on continuously improving the connection experience for all customers. As part of this, the ICE specifically focuses on the larger connections customers and pushes

¹ There are 14 licensed distribution network operators (DNOs) in Britain and each is responsible for a regional distribution services area. The 14 DNOs are owned by six different groups.
<https://www.ofgem.gov.uk/information-consumers/energy-advice-households/finding-your-energy-supplier-or-network-operator>

² See the ICE Guidance Document at:
https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/ice_guidance_doc_010415_0.pdf

DNOs to identify, engage and deliver on the particular needs of these customers. If they fail to do so, DNOs face a penalty in particular segments of the connections market where the ICE applies.³

The ICE requires DNOs to submit evidence to us (by 31 May each year) that demonstrates how they have improved their service, including by:

1. engaging effectively with larger connection customers
2. developing plans which adequately address all reasonable requests, and
3. delivering on these plans.

Evidence of such actions is provided in two parts:

- a Looking Back report on their activities during the previous year demonstrating how they have met the needs of larger connection customers, and
- a Looking Forward plan for the coming year describing the activities they plan to undertake.

More information on how the ICE works is available in our ICE Guidance Document.

In July this year, we issued a consultation to seek feedback on the 'Looking Back' and 'Looking Forward' sections of the submissions from each DNO.⁴ We assessed DNO performance by reviewing the 'Looking Back' sections of their submissions, alongside the stakeholder responses to our consultation.

In our July consultation, we highlighted some areas where we would expect continuous improvements from DNOs in delivering a service that meets large connection customers' needs (see Annex). We also mentioned that we were specifically interested in hearing from relatively new types of connection customer categories (eg, those seeking to connect EV (Electric Vehicle) charging points, storage facilities or flexible demand users).

We have now finished our assessment. Overall, feedback relating to the level and type of engagement from all DNOs has been positive, with the majority of respondents to our consultation indicating a general level of satisfaction with DNO performance. We note that all DNOs have mechanisms in place to ensure engagement from a wide range of customers and capture a good cross-section of stakeholder needs.

³ See Electricity Distribution Licence – Charge Restriction Condition 2E (Incentive on Connections Engagement) <https://www.ofgem.gov.uk/ofgem-publications/92964/crcslowtrackmaster.pdf>

⁴ <https://www.ofgem.gov.uk/publications/incentive-connections-engagement-consultation-distribution-network-operators-2021-submissions>

Some stakeholders, in particular, expressed positive comments about DNOs' engagement performance being comprehensive and responsive to feedback, as well as noting improvements made on a number of deliverables over the last year (eg, creation of an Independent Connection Provider (ICP)/Independent Distribution Network Operator (IDNO) escalation guide and increased clarity on connection offer expenses). These improvements were seen as being beneficial in helping customers make informed decisions.

We did receive feedback of concern in some areas, with stakeholders identifying where it may be appropriate for DNOs to work together to improve the connections process. We discuss this further in the letter and we expect the DNOs to take these into consideration when developing their ICE plans for next year.

On DNOs' EV strategies specifically, the feedback received is that the DNOs' connection service to EV stakeholders still needs improvement. Specifically, DNOs' ability to maintain a consistent level of performance while facing an ever increasing demand in EV connections (eg, response times varied across DNOs). We expect DNOs to avoid any adverse impact on enabling quick and efficient connections to the network for EV connection customers, and, more generally, on the customer service provided to these stakeholders.

We will continue to engage with large EV connection stakeholders over the next year to identify key issues and gather feedback on DNO performance. We also expect the DNOs to reach out to these stakeholders as part of their engagement plans. Information on this will allow us to assess the extent to which DNOs have engaged with these large connection stakeholders and responded to their needs.

Reasons for our decision

In reaching our decision, we reviewed each DNO's ICE submission (Looking Back section) for 2020-21 and considered stakeholders' responses to our consultation.

We can apply penalties where a DNO has failed to meet the assessment criteria relevant to the 'Looking Back' section of its submissions. We can only apply penalties in market segments where the DNO was judged not to be open to competition, which varies between DNO regions.

The assessment criteria are as follows:

- the licensee published a Looking Forward section in its previous ICE submission, in accordance with paragraph 3.4 of the ICE guidance document

- the licensee has implemented its comprehensive and robust strategy for engaging with connection stakeholders; if not, then the reasons provided are reasonable and well justified
- the licensee has undertaken a comprehensive work plan of activities (with associated delivery dates) to meet the requirements of its connection stakeholders and, if not, the reasons provided are reasonable and well justified
- the licensee has delivered its relevant outputs (e.g. key performance indicators, targets etc.) and, if not, the reasons provided are reasonable and well justified; and
- the licensee’s strategy, activities and outputs have taken into account ongoing feedback from a broad and inclusive range of connection stakeholders and, if not, the reasons provided are reasonable and well justified.

We consulted this summer to seek stakeholder views on how the DNOs performed in the last regulatory year. We reviewed the ICE submissions along with the feedback we have received from this stakeholder consultation.

Where we required further information, we engaged bilaterally with stakeholders as well as the DNOs. Based on this exercise and considering the evidence overall, we have concluded that all the DNOs met the assessment criteria in the market segments in which they could face penalties. As such, we will not be consulting further on penalties.

However, we note that there were some issues raised that, while not being sufficient to mean the DNOs did not meet the minimum criteria, could be of concern if not addressed in future years. We also note that issues were raised in market segments not open to penalty. We expect DNOs to engage with stakeholders on these issues where appropriate.

Concerns raised

Improvements needed to support increasing demand for EV connections

One large stakeholder (with more than 17,000 EV chargepoints installed to date across the UK) raised concerns about the ability of DNOs to deal efficiently with an increasing volume of EV chargepoint connection requests. The stakeholder questioned the adequacy of current DNOs’ processes and suggested the following improvements:

- introduction of more targeted Service Level Agreements (SLAs), to give consumers more detailed and timely information on progress of approval process or any work required for an EV connection

- increase in DNO resourcing dedicated to EV connections to reduce time of responses and required works
- more transparency and consistency around upgrade costs
- more standardised process across DNOs
- clearer guidelines on interpretation of existing rules.

We note that these issues may not affect all DNOs to the same extent and we were reassured by DNOs' responses that a number of initiatives are being put in place in this area to drive performance improvements. However, we would still encourage DNOs to engage with customers to identify further ways to promote increases in service quality. We also expect DNOs continue to work together to improve and standardise processes for EV connections.

Information provision

One stakeholder highlighted difficulties in relation to one DNO's capacity to deal with data requests and provide more specific feedback on planned activities. These requests were raised in the context of local area energy planning, where the stakeholder looks to align its own sub-regional plans with DNO's forward plans.

While we understand specific requests may present individual challenges, DNOs should ensure that all relevant and appropriate information is promptly shared with stakeholders to facilitate fully informed decisions about how and where to connect.

Reforms to the ICE process

In past consultations, some stakeholders highlighted concerns in relation to the operation of the current ICE mechanism and suggested that it could benefit from reform. These included concerns that some DNOs are not setting sufficiently challenging and ambitious deliverables within their work plans.

We published our RIIO-ED2 Sector Specific Methodology Consultation last year which set out proposals for the outputs and incentives we will apply in the next price control period starting in April 2023. We acknowledged that the ICE proved to be an effective mechanism for ensuring DNOs identify connection customers' concerns and priorities, but that we were not convinced that all DNOs have sought to address these effectively. We proposed to remove the ICE and replace it with a new framework to ensure DNOs deliver quality services to major connections customers in RIIO-ED2. Most respondents agreed to our proposal.

On 17 December 2020 we published our final decision on RIIO-ED2 Sector Specific Methodology and confirmed that we will introduce a new incentive framework for RIIO-ED2 (Major Connections Strategy Delivery ODI).⁵ This will replace ICE from April 2023.

Next steps

This document concludes our assessment of the DNOs' performance under the ICE in 2020/21.

We expect DNOs to review consultation responses and identify where they can improve, or learn from each other, for future years. If licensees wish to update their Looking Forward plan, they have an opportunity to do so during the regulatory year. The licensee must explain the reasons for resubmission (eg, change in stakeholder requirements or business priorities).

By 31 May 2022, the DNOs must submit their 'Looking Back' reports on their delivery of their plans for 2021/22, as well as their Looking Forward plans for 2022/23. Once we receive the submissions from the DNOs, we will publish a consultation to seek stakeholders' views on both the Looking Back reports and the Looking Forward plans.

Yours faithfully,



Patrick Cassels,
Head of Electricity Network Access

⁵ <https://www.ofgem.gov.uk/publications/riio-ed2-sector-specific-methodology-decision>

ANNEX

We expect DNOs to continue to make improvements to the provision of connections in a number of areas. These include:

- supporting connections customers prior to application by providing accurate, comprehensive and user-friendly information, including:
 - providing access to transparent, up to date and relevant information on where to connect, including - but not limited to - network capacity and design (eg providing network data to EV connection customers to help tailor location of EV chargepoints and maximum demand capacity requirements)
 - communicating the whole connection process clearly
 - providing clear explanations of the types of connection products available and the information needed for customers to make an application
- delivering value for customers by ensuring simplicity and transparency throughout the connection process, including:
 - providing good customer service (eg handling the application process efficiently and providing prompt feedback to customers)
 - offering sufficiently flexibility to accommodate necessary changes in customers' requirements
 - ensuring that customers fully understand the implications for their connection offer of any changes that can arise, either because of changes in their requirements or because other customers are also seeking to connect in the same area
- engaging with customers to provide more clarity on how the rules and processes for connections will evolve as a result of future developments like, for example:
 - introducing new forms of LCTs such as storage and EVs
 - transitioning to Distribution System Operator (DSO)
- engaging appropriately with and responding to the needs of connection customers who are aiming to connect new LCTs (such as EV chargepoints)
- facilitating the delivery of timely and economical connections by:
 - helping customers identify how they could make changes to their connections requirements, that would meet still their needs
 - promoting certain types of customers (such as storage) in a connection queue if doing so will help others connect more quickly and or cheaply

- ensuring availability of flexible connections for all customers and providing more clarity around the conditions and circumstances of current and future curtailment associated with a flexible connection offer
- identifying where it would be appropriate for network operators to work together to improve the consistency of the connection processes across Great Britain, including collaborating to keep the approach to Assessment & Design (A&D) fees under review and provide a forum for stakeholders to raise issues.