



Making a positive difference
for energy consumers

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

Email: connections@ofgem.gov.uk

Date: 4 April 2023

Dear all,

**Outcome of our assessment under the 2022 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, we³ believe the DNOs have met the minimum criteria under the ICE for this year and as such we have decided not to 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.

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

³ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work. This decision is made by or on behalf of GEMA.

The RIIO-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 larger connections customers and pushes 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.⁴

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 2022, we issued a consultation to seek feedback on the 'Looking Back' and 'Looking Forward' sections of the submissions from each DNO.⁵ We assessed DNO performance by reviewing the 'Looking Back' sections of their submissions, alongside the stakeholder responses to our consultation.

In our July 2022 consultation, we emphasised that we would expect continued improvements from DNOs in delivering a service that meets large connection customers' needs, including (but not limited to) the areas identified in the Annex (reproduced in this letter) on which we were seeking specific views from stakeholders. We encourage DNOs to keep these areas under review and take them into account in delivering their future connection offerings as appropriate.

We have now completed 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

⁴ See Electricity Distribution Licence – Charge Restriction Condition 2E (Incentive on Connections Engagement) <https://www.ofgem.gov.uk/ofgem-publications/92964/crcslowtrackmaster.pdf>

⁵ <https://www.ofgem.gov.uk/publications/incentive-connections-engagement-ice-consultation-distribution-network-operators-2022-submissions>

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.

Some stakeholders expressed positive comments about DNOs' engagement performance being comprehensive and responsive to feedback, as well as acknowledging the improvements made on a number of deliverables over the last year (eg, holding engagement sessions to inform stakeholders about recent industry developments with an impact on connection processes, or establishing a working group to facilitate dialogue between stakeholders connecting low carbon technologies ('LCTs')). These improvements were seen as being beneficial in helping customers make better informed decisions.

We did receive feedback of concern in some areas, with some stakeholders identifying where it may be appropriate for DNOs to keep improving the connections process. We discuss this further in the "Concerns raised" section further below.

In particular, on LCT connection strategies (eg, EV chargepoints and heat pumps), the feedback received is that, in spite of the improvements seen in the last year, the DNOs' connection service to stakeholders still presents challenges. In particular, there are still concerns about DNOs' ability to maintain a consistent level of performance while facing ongoing increased demand for EV connections (eg, customer service response times varied across DNOs with apparent cases of understaffing). We expect DNOs to avoid any adverse impact on enabling quick and efficient connections to the network for LCT connection customers, and more generally, on the customer service provided to these stakeholders.

We will remain open to engagement with large LCTs' connection stakeholders to identify any outstanding key issues and gather feedback on DNO performance over the final year of ICE, as we approach the end of RIIO-ED1. We would also expect the DNOs to reach out to these stakeholders as part of their delivery on final ICE 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 2021-22 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 competition was judged not to be effective, which varies between DNO regions.⁶

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 (eg, 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 in summer 2022 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, there were some issues raised that, while not being sufficient to mean the DNOs did not meet the minimum criteria, could become of concern if not addressed in future years. We expect DNOs to engage further with stakeholders on these issues where appropriate.

⁶ <https://www.ofgem.gov.uk/publications/decision-review-competition-electricity-distribution-connections-market>

Concerns raised

Improvements needed to support increasing demand for EV and heat pump connections

One major stakeholder reiterated its concerns about the ability of DNOs to deal efficiently with an increasing volume of EV chargepoint and heat pump connection requests. The stakeholder highlighted the following areas for improvement to the current DNOs' processes:

- in spite of some progress made on Service Level standards and communication over the past year, some DNOs are not sending regular updates on progression of the approval process, or any work required for connection (ideally, these updates should be automated);
- some DNOs still need to increase resourcing dedicated to LCT connections to reduce time of responses and required works;
- some DNOs still don't have accurate information on their LV network and fuse sizes, thus creating delays to connections;
- there is still inconsistency across DNOs in charging of non-residential customers for works needed to enable their installations;
- industry-wide solutions to develop portals where stakeholders can self-serve should be incentivised (eg, ENA's work to build on SPEN's iIdentify project).

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 to continue to work together to improve and standardise processes for EV and heat pump connections.

Distributed generation and the interface with Transmission

Some respondents highlighted that the rapid growth in distributed generation (DG) connection requests is posing specific challenges to DNOs, particularly in relation to the interface requirements between Distribution and Transmission (eg, any upgrade works/reinforcements required at Transmission level to accommodate those DG connections). The main issues identified were related to:

- episodes of severe delays from DNOs in submitting Statement of Works/Project Progression applications to the National Grid ESO⁷ (NGESO); and

⁷ The Statement of Works (SoW) process is set out in the CUSC. The DNOs are obligated to follow this formal process to assess any impact of DG on the transmission system and the extent of any reinforcement works that

- inconsistencies across DNOs in actively implementing the ENA Queue Management (QM) Guidelines⁸ and lack of transparency in application thereof.

These issues were seen by respondents as detrimental to the effective delivery of their DG projects. We note that these issues may not affect all DNOs to the same extent and that in certain respects they are beyond DNOs' control (eg, transmission system constraints are not DNOs' responsibility, although we would be expecting them to engage effectively with customers, the NGESO and transmission operators in relation to relevant connections and take steps to improve coordination processes as needed). We are satisfied by DNOs' responses that they are taking actions to address the issues raised by stakeholders in this area. We are encouraged by DNOs' offers for further engagement to discuss specific feedback with individual customers and take remedial actions when required. We encourage direct engagement, and we also expect DNOs continue to work together, and with wider industry parties more generally, including the NGESO and TOs, to better meet the needs of customers seeking to connect DG.

Data provision and self-serve

A few respondents stressed the importance of DNOs facilitating customers' access to data. This means enhancing the provision of network data in the pre-application phase via digital tools or portals that allow the customer to progress their application without waiting on the DNO to respond (eg, in the production of connection quotations) – also referred to as the ability to "self-serve". This would in turn avoid unnecessary delays in connection processes. In particular, some issues and points raised related to:

- DNOs varying in level of access to specific technical inputs (eg, earthing data)⁹ granted to ICPs/IDNOs for data self-service, which can unduly slow down processes;
- Increasing scope of contestable activities to ensure ICPs and IDNOs can access data self-service where they are sufficiently competitive and desire to do so; and
- Giving developers with necessary expertise and suitable accreditation the same access to data as ICPs and IDNOs. (One respondent suggested that given the scale of development of large demand projects it may also be necessary to have an Embedded Capacity Register for demand/import schemes >1MW.)

may be required. According to the CUSC, DNOs shall submit to the ESO a request for a SoW "as soon as practicable".

⁸ [https://www.energynetworks.org/industry-hub/resource-library/on21-ws2-p2-updated-queue-management-user-guide-\(30-jul-2021\).pdf](https://www.energynetworks.org/industry-hub/resource-library/on21-ws2-p2-updated-queue-management-user-guide-(30-jul-2021).pdf)

⁹ Earthing data are needed for ICP/IDNOs' studies of electrical protection relay settings and substation earthing compliance.

We encourage DNOs to engage further with their connection stakeholders on data provision and self-service, to explore how greater autonomy and more streamlined access to required inputs can be achieved. We also expect DNOs continue to collaborate to develop industry-wide consistent approaches and standardised processes in these specific areas.

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.

On 30 July 2020 we published our RIIO-ED2 Sector Specific Methodology Consultation¹⁰, 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 high quality services to major connections customers in RIIO-ED2.

On 17 December 2020 we published our final decision on RIIO-ED2 Sector Specific Methodology which included our intention to replace ICE with a new major connections incentive (MCI) in RIIO-ED2.¹¹ On 30 November 2022 we published our final determinations for RIIO-ED2 which set out our final decision on MCI.¹² This will replace ICE from 1 April 2023.

The MCI will have two parts – a financial incentive, and a reputational one:

- The financial incentive will be based on the outcome of a Major Connections Customer Satisfaction Survey (MCCSS) and will apply to all services in the Relevant Market Segments (RMS) where DNOs have not demonstrated evidence of effective competition. DNOs will face a financial penalty if they fail to meet the MCCSS target score.
- The reputational incentive will ensure that DNOs are held accountable for delivering their Major Connection Strategies within period. It will be based on the publication

¹⁰ <https://www.ofgem.gov.uk/publications/riio-ed2-sector-specific-methodology-consultation>

¹¹ <https://www.ofgem.gov.uk/publications/riio-ed2-sector-specific-methodology-decision>

¹² <https://www.ofgem.gov.uk/publications/riio-ed2-final-determinations#:~:text=Decision%20for&text=The%20current%20electricity%20distribution%20price,29%20June%202022%20for%20consultation>

of a Major Connections Annual Report published by the DNO detailing performance against the MCCSS in all RMS and against a timeliness metric, along with progress against delivery of the strategy.

We believe the MCI will strengthen the scope for ambitious performance targets and consistent metrics to support measuring improvements over time, and comparison between DNOs.

Next steps

This document concludes our assessment of the DNOs' performance under the ICE in 2021-22.

We expect DNOs to review the consultation responses and identify any areas for further improvement, as well as any common challenges or successes.

By 31 May 2023, the DNOs must submit their 'Looking Back' reports on their delivery of their plans for 2022-23. As noted above, from 1 April 2023 the ICE is being replaced by the RIIO-ED2 MCI framework. Therefore, we will not require DNOs to submit a 'Looking Forward' plan covering 2023-24. To this effect, we will soon be amending the ICE Guidance document by issuing a direction to all DNOs, according to the process set out in Part C of Charge Restriction Condition 2E of the Distribution Licence.

Once we receive the submissions from the DNOs, we will open a final ICE consultation to seek stakeholders' views on the Looking Back reports for 2022-23 only.

Yours faithfully,

Amy Freund
Head of Electricity Connections
Energy Systems Management & Security

ANNEX

We expect DNOs to continue making improvements to the provision of their connection services. Areas of particular interest include:

- Supporting large 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
 - supporting the development of local area energy planning through alignment of connection requirements (eg those of Local Authorities or community energy groups) with own strategic network planning

- delivering value for large connection 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 connection 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 adequately to the needs of larger connection customers who are aiming to connect new LCTs, with particular attention to improving processes to support the increasing demand for EV chargepoint

connections (eg ensuring appropriate resourcing dedicated to EV connections to maintain adequate response times)

- facilitating the delivery of timely and economical connections by:
 - helping connection customers identify how they could make changes to their connection requirements, that would meet still their needs
 - promoting certain types of connection 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 larger 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.