

Proposal 7 - Business Plan Incentive Early Proposal: Long Duration and Repeat Interruptions Incentive Scheme (IIS+)

Section	Submission
<i>Licensee name</i>	UK Power Networks Ltd. including three distribution license holding companies: Eastern Power Networks plc (EPN), London Power Networks plc (LPN), and South Eastern Power Networks plc (SPN).
<i>Proposal name</i>	Long Duration and Repeat Interruptions Incentive Scheme (LD/ RIIS)
<i>Type of proposal (confirm all that apply)</i>	New or enhanced service Stretching commitment <input checked="" type="checkbox"/> Delivery accountability mechanism <input checked="" type="checkbox"/>
<i>Proposal summary (Max 200 words)</i>	<p>A targeted mechanism with three elements, known in combination as IIS+. More details on the structure and operation of IIS+ are found in the appendix to this document:</p> <p>1. <u>LD Long durations (LD)</u> Upfront funding aligned with the tightening of the 12-hour EGS to 10 hours from the start of ED3, so customers who are impacted by a LD fault see an immediate benefit. Initially the delta of payments between 12 and 10 hours is covered via DUoS but this ramps down, so by the end of ED3 shareholders pay for this delta, having been funded to improve performance.</p> <p>2. <u>HV repeats (HV-RIIS)</u> A points-based mechanism (similar to NARM) where DNOs are set a target to reduce the number of repeat interruptions. Includes a higher weighting on higher numbers of interruptions to encourage focus on the biggest impact first and uses data already reported to Ofgem in the duration and frequency band tab of the annual IIS pack. A reward and penalty mechanism with upfront funding.</p> <p>3. <u>LV repeats (LV-RIIS)</u> A UIOLI mechanism for the installation of LV reclosers where installation is focussed on higher risk PSR customers and LCT customers who are disproportionately impacted by a power cut.</p>
<i>Which ED3 outcomes does the proposal support? (confirm all that apply)</i>	Investing for the energy transition Responsible and sustainable business <input checked="" type="checkbox"/> Smarter networks Resilient networks <input checked="" type="checkbox"/>
<i>Which Consumer Interest Pillars does the proposal support? (confirm all that apply)</i>	Low-cost transition Fair prices Quality and standards <input checked="" type="checkbox"/> Resilience <input checked="" type="checkbox"/>
<i>Summary of key reason(s)/driver(s) for the proposal (Max 200 words)</i>	<p><u>LD</u> Analysis of our BMCS scores shows that LD outages drive customer dissatisfaction – at a UKPN level the 2024/25 score for unplanned was 92.8 vs a >12-hour score of 88.9. Duration is clearly a driver of satisfaction and is correctly in scope for review for ED3. Without a focus on customers experiencing LD outages they will become even more adversely affected as society becomes increasingly reliant on electricity, including for travel.</p> <p><u>LV and HV-RIIS</u> The existing framework focuses on the average customer (IIS) and the most poorly served customer (WSC). This proposal fills in some of the gap between those. Analysis of our BMCS scores shows that repeat (or multiple) interruptions increasingly drive customer dissatisfaction – at a UKPN level over the last three years the power cut scores remain high at an average of 92.8 but the scores for customers</p>

	<p>experiencing repeat outages have dropped from 92.7 to 91.4. A targeted incentive to reduce repeats interruptions is appropriate.</p> <p>When duration and frequency are considered in the context of customers having a greater reliance on electricity (e.g. EVs, HPs and working from home), it is right that these are areas of focus and targeted changes to the IIS mechanism are appropriate.</p>
<p><i>Summary of supporting evidence (Examples could include references to sector specific intelligence, innovation projects, ISG engagement, wider consumer research, endorsement from third parties) (Max 200 words)</i></p>	<p>Our deliberative panel research reaffirmed our existing knowledge (see above) that there are two key factors that customers consider about power cuts – duration and frequency:</p> <ul style="list-style-type: none"> • Duration – the duration of an outage is clearly linked to its disruptiveness to everyday activities (the inability to prepare meals and the risk of the loss of food in fridges/freezers) and our customers' ability to access alternative options (as their EV will not be able to be charged). • Frequency – multiple outages of any length can result in stress, but customers found it hard to articulate a threshold beyond which the number of outages becomes unacceptable.
<p><i>Summary of potential benefits (Max 200 words)</i></p>	<p>The key benefits from this proposal are:</p> <p><u>LD</u></p> <ul style="list-style-type: none"> • An increased focus by DNOs on longer duration interruptions resulting in the reduction in the number of customers impacted by them. • An EGS payment made to customers where the standard has been failed, ensuring those directly impacted by the longer duration outage are provided with a payment quickly and directly. <p><u>HV-RIIS</u></p> <ul style="list-style-type: none"> • An increased focus by DNOs on HV repeat interruptions resulting in the reduction in the number of customers impacted by them. These benefits will mainly accrue to customers on overhead HV networks, which predominate in more rural and remote locations and are often those areas impacted by adverse weather, both areas that Ofgem have asked DNOs to focus on. <p><u>LV-RIIS</u></p> <ul style="list-style-type: none"> • An increased focus by DNOs on LV repeat interruptions resulting in the reduction in the number of customers impacted by them. These benefits will mainly accrue to customers on underground LV networks. • In all three cases the scale of the impact is proportional to the scale of the cost allowance provided, hence the scale has not been provided here.
<p><i>Where the proposal relates to a new or enhanced service or to stretching commitments, explain why the proposal is not already business as usual or incentivised either through the existing RIIO-ED2 framework or under ED3 proposals that we are consulting on (Max 200 words)</i></p>	<p><u>LD</u></p> <p>Ofgem sought views in the SSMC on how to implement changes to the reliability incentives to account for long duration outages. Any changes to the guaranteed standards require coordination with DESNZ to change the relevant statutory instrument – our proposal identifies a mechanism to implement a one-off change to this with DESNZ, but avoids push back from other DNOs that they will be paying out against a tighter standard without funding to improve their network to meet that standard.</p> <p><u>HV and LV-RIIS</u></p> <p>A repeat interruptions incentive has not formed part of the DPCR or RIIO frameworks to date, but Ofgem have sought views in the SSMC on how to implement changes to the reliability incentives to account for repeat interruptions. The existing reliability framework focuses on the average customer (IIS) and the most poorly served customer (WSC). This proposal works to reduce the gap between those mechanisms.</p>

Where the proposal relates to a new or enhanced service, explain why DNOs are best placed to undertake the activity described under the proposal (Max 200 words)	As this relates to power cuts on the DNO networks that serve DUoS customers, it is only the DNOs who this change could apply to.
--	--

Appendix – Additional Details on the Structure and Operation of the Proposed IIS+ Incentives

Our proposal is for a targeted incentive mechanism based on upfront funding for network investment across three elements:

1. Long durations (LD)
2. HV repeats (HV-RIIS)
3. LV repeats (LV-RIIS)

LD

The upfront funding would be aligned with the tightening of the 12-hour guaranteed standard to 10 hours from the start of ED3 which would mean that customers who are impacted by a longer duration fault see an immediate benefit in terms of receiving a payment. This could be achieved by a simple one-off change to the statutory instrument replacing 12 hours with 10 hours.

Noting that in electricity distribution guaranteed standard payments are fully funded by DNOs, our proposal is that to avoid DNOs being penalised against this tighter standard before they had been given a chance to improve their performance, a licence based true-up mechanism would be created whereby in the first year of ED3 customers fund the additional payments between the original 12 hour and the new 10 hour standard (through DUoS). Then, as each year of ED3 progresses the percentage of the payments' delta paid for by all customers drops such that by the end of ED3, 100% of these failures are paid for by the DNOs' shareholders. This percentage would be set out in the relevant licence condition therefore avoiding the need to change the statutory instrument each year. Our proposal has regulatory precedent in there is a mechanism for the socialisation of guaranteed standards payments across all DUoS customers in RIIO-ED2 (this is by way of a maximum revenue exposure per licensee for severe weather payments).

HV-RIIS

A points-based mechanism (similar in concept to NARM but where lower is better) where DNOs are set a target to reduce the number of repeat interruptions experienced by customers. To ensure DNOs' efforts are focussed customers who are affected by higher numbers of repeat interruptions, the higher the number of interruptions would be weighted more heavily in the calculation of points. As illustrated in the example table below (the figures in yellow are adjustable to set the strength of the incentive):

No. of HV interruptions	Volume	Weighting	Total Points	Target
0	1,620,261	0	N/A	N/A
1	386,763	0	N/A	N/A
2	124,438	0	N/A	N/A
3	53,713	1	53713	51027
4	26,316	1.1	28947.6	27500
5	17,171	1.5	25756.5	24469
Over 5	15,616	2	31232	29670
3 or more	112,816	N/A	139,649	132,666
Improvement percentage:	5%			

This incentive would cover a section of customers who do not meet the definition of worst served but are experiencing issues with their supply and would use data already reported to Ofgem in the duration and frequency band tab of the annual

IIS pack. DNOs who outperform their target would be able to earn a reward per point, and conversely DNOs who exceed their target would be penalised per point. Upfront funding for the incentive would be required.

LV-RIIS

When an LV fuse operates (and therefore causes a power cut for customers) for the first time in a specified time period and there are any LCT customers or higher risk Priority Service Register customers (known as PSR2 and PSR3) affected, we will install a LV recloser to ensure a targeted deployment of a solution to those most at risk and most impacted by a further operation of the LV fuse. The costs of the reclosers and installation/ongoing maintenance will be calculated and an estimate of the numbers required to be deployed would drive a UIOLI funding request.

Scale

In terms of the scale, in our SSMC response we proposed that overall reliability incentives were set at 120 RoRE bps (both for rewards and penalties), out of an overall upside incentive pot of 340bps with 335bps on the downside. Our current thinking is that given our proposals give rise to new incentives in ED3, the bulk of the 120bps revenue exposure should be on the established main IIS mechanism, with a smaller portion devoted to our new proposals. The table below sets out our current thinking and rationale:

Reliability Incentives for ED3	Proposed incentive strength in ED3 (RORE bps)		Rationale
	Upside	Downside	
Existing IIS incentive	100	-100	<ul style="list-style-type: none"> Traditional core incentive mechanism. Needs to remain high-powered given all customers value reliability.
IIS+ (i.e. HV-RIIS)	10	-10	<ul style="list-style-type: none"> New mechanism, therefore, keep revenue exposure relatively low for initial price control.
Short Interruptions	10	-10	<ul style="list-style-type: none"> Increasing importance to customers, therefore introduce incentivisation. Some historical challenges over data, therefore, keep revenue exposure relatively low whilst mechanism beds in.
Total	120	-120	