

Electricity Distribution Price Control Review

Appendix – Developing Regulatory Impact Assessments

June 2004 145d/04

Summary

This document sets out Ofgem's initial view of the issues and questions for developing a Regulatory Impact Assessment (RIA) for revised price controls for electricity distribution network operators which are due to come into effect from 1 April 2005.

The document also sets out revised questions for developing a RIA for quality of service for the revised price controls. This builds on an initial RIA that was published in the March 2004 document on the price control review.¹

Responses to this document should be received by 9 August 2004. They should be sent to:

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Unless marked as confidential all responses will be published by placing them in Ofgem's library or on the website. It would be helpful if responses could be submitted both electronically and in writing.

¹ Electricity Distribution Price Control Review, Policy document, Ofgem, March 2004.

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1. Introduction

Regulatory Impact Assessments (RIAs)

- 1.1. Ofgem is required to produce RIAs by the Sustainable Energy Act (SEA) which amends the Utilities Act 2000.
- 1.2. The SEA introduced a new section 5A to the Utilities Act which requires the Authority to carry out an RIA or publish the reasons why it considers that an RIA is unnecessary before implementing its proposals:
 - ◆ whenever it proposes to do anything for the purposes of, or in connection with, the carrying out of any function exercisable by it under or by virtue of Part 1 of either the Electricity Act or the Gas Act; and
 - ◆ where it appears to it that the proposal is 'important'.
- 1.3. Ofgem considers that policy decisions are important if they are likely to lead to significant costs and/or benefits for consumers; if they are likely to result in significant transfers between consumer 'groups'; if they have a significant impact on licensees; if they have a significant impact on the environment; and if they represent a significant change in Ofgem's approach to carrying out its functions.
- 1.4. Where appropriate, Ofgem will produce a RIA for new policies introduced as the price control review progresses.
- 1.5. Where possible the costs and benefits will be quantified although it should be recognised that this not possible in all cases.

Ofgem's statutory objectives

- 1.6. Ofgem's principal objective as set out in the Electricity Act 1989 as amended by the Utilities Act 2000 is to protect the interests of consumers (present and future), wherever appropriate by promoting effective competition. The Electricity Act also sets out other important duties for Ofgem², including:

² See sections 3(A) – 3(C) of the Electricity Act 1989 as amended by the Utilities Act 2000

- ◆ securing a diverse and viable long-term energy supply;
 - ◆ ensuring that licence holders are able to finance their statutory and licensed obligations;
 - ◆ having regard to the effect on the environment of activities connected with the generation, transmission, distribution or supply of electricity; and
 - ◆ having regard to the interests of individuals who are disabled or chronically sick, of pensionable age, living on low incomes, or residing in rural areas.
- 1.7. Ofgem also must have regard to the guidance provided to it by the Secretary of State on social and environmental issues.
- 1.8. The policies outlined in this document and the RIAs have been developed against the background of Ofgem's statutory objectives and are set out in further detail in the June 2004 initial proposals document and the March 2004 policy document.³

³ Electricity Distribution Price Control Review, Policy document, Ofgem, March 2004 & Initial proposals, Ofgem, June 2004.

2. Developing a RIA for revised price controls

Introduction

- 2.1. As part of the price control process so far, Ofgem has produced initial RIAs for the incentive scheme for distributed generation, the innovation funding incentive (IFI) and Registered Power Zones (RPZs)⁴ and for metering and quality of service⁵. Ofgem also set out its initial thoughts on an overall RIA for the price control package in its initial consultation document in July 2003.
- 2.2. Price controls are an integral part of the regulatory framework that provide both protection to consumers from monopoly power and appropriate incentives to companies to meet the requirements placed upon them.
- 2.3. The next five years are expected to present significant challenges to the DNOs. Investment is rising and quality of service is expected to improve. It is important that the regulatory framework provides the appropriate incentives for the companies to meet these challenges in an effective and efficient manner.
- 2.4. This initial RIA sets out questions which need to be answered in developing a full RIA for this price control package. It outlines the issues that need to be considered in order to implement revised price controls from 1 April 2005. Estimates of costs and benefits associated with the proposed policy options are important to this overall assessment. Respondents are invited to provide, wherever possible, quantitative assessments of the costs and benefits both with respect to the overall price control package and/or specific components of this package in their response to this document.
- 2.5. A revised version of this RIA will be published in the September update document and the final RIA will be published as part of the November 2004 final proposals. The separate RIAs for major new policies/policy changes will form one of the inputs to this final RIA.

⁴ As published in an appendix to the October 2003 and December 2003 consultation documents

⁵ As published in appendices to the March 2004 document

Objectives

2.6. The initial July 2003 initial consultation document⁶ set out the main objectives for the price control review as:

- ◆ providing appropriate incentives to DNOs to develop and operate their networks in an economic, efficient and co-ordinated manner;
- ◆ providing clear and consistent incentives to DNOs to help ensure they provide an appropriate quality of service to consumers – including incentives for timely and efficient investment in the network;
- ◆ seeking to ensure that the DNOs can finance their licensed activities commensurate with an efficient level of expenditure;
- ◆ providing DNOs with appropriate incentives to connect and utilise distributed generation;
- ◆ providing appropriate incentives to help to ensure that longer term security of supply is maintained;
- ◆ reflecting Ofgem's responsibilities with regard to environmental and social issues; and
- ◆ ensuring that competition is promoted in the provision of supply, connection and metering services and in generation.

2.7. The price controls form an integrated set of arrangements rather than a range of separately proposed policy options. The purpose of this RIA is to assess the proposed price control package against the above objectives, which reflect Ofgem's principal statutory objective and general duties in carrying out its statutory functions, as well as the DNOs' statutory duties and licence requirements. However, whereas companies can reject the package - resulting in a referral to the Competition Commission - consumers do not have this option and hence the focus should be first and foremost on the interests of consumers when assessing the overall package.

⁶ "Electricity Distribution Price Control Review, Initial consultation", Ofgem, July 2003.

- 2.8. One of the main issues is the trade-off between the 'short-term' interests of consumers – in the form of lower prices now – and the 'long(er)-term' interests of consumers – in the form of a reliable and robust network now as well as in the future.

Key issues and options

- 2.9. This initial RIA aims to assess the implications of the overall price control package. Individual issues and options underlying the proposed changes have been set out in previous consultation documents and are summarised in Table 1.

Table 1: The main issues and options for the price controls

| Issue | Main options | Ofgem proposal | Rationale for proposed approach |
|-------------------------------|---|---|---|
| Duration of the price control | <ul style="list-style-type: none"> ◆ “do nothing” (5 years) ◆ lengthen price control period ◆ shorten price control period | “do nothing” (i.e. remains 5 years) | Given uncertainty with respect to DG and the impact this will have on DNOs’ costs, it is appropriate not to change the duration of the price control period for DPCR4 but this might be reviewed as part of DPCR5 |
| Inflation measure | <ul style="list-style-type: none"> ◆ “do nothing” (RPI) ◆ CPI | RPI | Consistency with basis of cost projections and with Ofwat |
| NGC Exit charges | <ul style="list-style-type: none"> ◆ “do nothing” (pass-through) ◆ incentive mechanism | Pass-through | Given the limited scope for DNOs to influence NGC exit charges and their reduction through the implementation of PLUGS, they will be treated as a pass-through |
| Rates | <ul style="list-style-type: none"> ◆ “do nothing” ◆ incentive mechanism | Pass-through, subject to further review | DNOs are expected to use their influence to reduce rates. However, if DNOs have acted efficiently and appropriately rates will be treated as a pass-through |
| EHV charges | <ul style="list-style-type: none"> ◆ “do nothing” ◆ include in price control | Include in price control but any new EHV connections made during DPCR4 will be treated as excluded services until DPCR5 when Ofgem expects to include them in the price control | To increase transparency and provide greater protection to EHV customers |
| Revenue driver | <ul style="list-style-type: none"> ◆ “do nothing” ◆ review weightings plus components of driver ◆ capacity driver | Retain 50:50 split Use actual consumer numbers Zero weighting on EHV Revised weightings for LV1, LV2, LV3 and HV | Given the interaction between structure of charges and the revenue driver, the weights are being revised to better reflect the cost drivers |
| Losses | <ul style="list-style-type: none"> ◆ “do nothing” ◆ simplify mechanism ◆ review incentive rate | Simplify mechanism - remove all adjustments except modified generation adjustment 5 year rolling incentive Incentive rate of £48/MWh | Losses target taking account of 2003/04 outturn performance. The incentive rate is more closely aligned with the cost of lost energy. |
| Uncertainty | <ul style="list-style-type: none"> ◆ “do nothing” ◆ some form of reopener ◆ comfort letter | No general mechanisms for dealing with uncertainty | Specific re-opener for ‘lane rentals’ and ESQCR costs |
| Cost categorisation | <ul style="list-style-type: none"> ◆ “do nothing” | Equalise incentives to reduce scope for | Remove the unequal treatment of different types of |

| | | | |
|------------------------|---|---|---|
| | <ul style="list-style-type: none"> ◆ equalise opex and capex incentives | gaming cost categories | costs |
| Strength of incentives | <ul style="list-style-type: none"> ◆ “do nothing” ◆ weaken capex incentives for all companies ◆ sliding scale mechanism | 5 year rolling retention mechanism Introduction of sliding scale mechanism for investment incentives | Reward companies which have provided realistic forecasts and provide incentives which reflect the effort involved in making efficiency savings. More flexible treatment of overspend |
| Metering | <ul style="list-style-type: none"> ◆ “do nothing” ◆ separate from distribution price control | Separate from distribution price control | Promote development of effective competition |
| Cost of capital | <ul style="list-style-type: none"> ◆ “do nothing” ◆ post-tax approach | Post-tax cost of capital | Treat tax efficiency savings as other cost efficiency savings by passing the benefits to consumers at the next review. |
| Approach to tax | <ul style="list-style-type: none"> ◆ “do nothing” ◆ base tax calculation on company’s actual gearing level if higher or equal to the cost of capital gearing assumption, if actual gearing level is lower than the cost of capital gearing assumption then adopt the cost of capital gearing assumption | base tax calculation on company’s actual gearing level if higher or equal to the cost of capital gearing assumption, if actual gearing level is lower than the cost of capital gearing assumption then adopt the cost of capital gearing assumption | Cost of capital gearing assumption is in line with companies having a credit rating comfortably within investment grade. |
| Financial ring-fence | <ul style="list-style-type: none"> ◆ “do nothing” ◆ cash-lock up mechanism ◆ maximum gearing level ◆ strengthening credit rating requirement | Cash lock up mechanism | Clarify how the existing financial ring-fencing arrangements would be enforced when a licensee’s investment grade credit rating is in doubt through codifying a cash lock up mechanism in the licence |
| Pensions | <ul style="list-style-type: none"> ◆ “do nothing” ◆ clarify treatment of pension costs through setting out guidelines | Apply guidelines | To improve transparency and protect consumers by ensuring that consumers only pay the efficient costs of providing a competitive package of pay and other benefits |

Costs and benefits

- 2.10. There is a need for increased investment. In Ofgem's view, these higher costs in the short to medium term, are necessary to maintain and where necessary improve the condition of the network. There are other outside pressures on costs such as pensions, business rates and tax that are pushing up costs. Working the other way, companies have already made significant efficiency savings under the existing price control and Ofgem has assumed that some further improvements in efficiency are achievable in the future. Ofgem has also proposed improvements in quality of service.
- 2.11. Ofgem would welcome views on its initial proposals package and in particular a quantification of, and the balance between, the costs and benefits that would arise from the price control.

Ofgem and DNO costs for the price control review

- 2.12. Ofgem's direct internal costs for the price control review are around £3 million. This includes an allowance for consultancy support. The DNOs will also incur costs as part of the price control review, including those associated with management input to the process and collating information that Ofgem will need to set the price controls. **Ofgem would welcome evidence from the DNOs on these costs.**

Distributional effects

- 2.13. Ofgem does not expect that there will be any significant new distributional effects between different 'types' of consumers.

Risks and unintended consequences

- 2.14. The main risk in any price control is that the regulator sets the maximum allowed revenue either (materially) too high or too low. If the revenue allowance is materially different from the company's 'true' costs this could ultimately result either in excessive profits or the company getting into financial distress.

- 2.15. Given the information asymmetry between companies and the regulator (with the companies having a much greater insight into their 'true' costs compared with the regulator), the regulator is unlikely to be able to set the price control at exactly the right level. The regulator therefore needs to consider the trade off of setting price controls either slightly too tight (i.e. maximum allowed revenue is too low) or slightly too loose (i.e. maximum allowed revenue is too high).
- 2.16. If revenue allowances are much too high companies will make excessive profits at the expense of consumers. This would clearly be to the detriment of consumers. If revenue allowances are slightly too high, companies would in the short-term make slightly higher profits than they would otherwise have done. However, given the 5 year duration of the price control, companies' out-performance would be taken into account at the next review when efficiency benefits will be reflected in the new allowances.
- 2.17. If the revenue allowances are set considerably too low, companies might not be able to attract sufficient funding to finance their operations, with potentially negative implications for consumers in the short-term, also, companies might not be able to finance necessary (longer-term) investments, with potentially negative implications for consumers in the long(er)-run.
- 2.18. Another important issue is whether the price control provides appropriate incentives to companies to deliver the outputs required of them and to continue seeking out efficiency savings.
- 2.19. If the balance of incentives was not appropriate there could be a risk that companies either achieve efficiency savings at the expense of quality of service (or network performance) or that operation of, and investment in, the networks is inefficient.
- 2.20. **Ofgem welcomes views on whether the price control achieves an appropriate balance in these areas.**

Competition

- 2.21. Ofgem's principal objective is to protect consumers (present and future), wherever appropriate by promoting effective competition. However, many of the DNOs' activities are monopolistic and hence the price control is specifically

aimed at protecting consumers from the possible abuse of monopoly power. Ofgem is aware that the price control and related arrangements could impact on competition in other sectors of the industry, including:

- ◆ the provision of metering services;
- ◆ the provision of certain connection services;
- ◆ generation; and
- ◆ supply.

2.22. It is therefore important to ensure that the price control facilitates competition in those parts of the industry where it is appropriate and practicable and protects consumers from the possible abuse of monopoly power where it is not.

2.23. Ofgem is therefore separating metering activities from the main price control.

2.24. **Ofgem welcomes views on the impact of the price controls on the development of competition.**

Review and compliance

2.25. The new price controls will need to be implemented through modifications to the existing licence conditions or, where appropriate, the introduction of new licence conditions. Ofgem will consult on the form and detail of any licence modifications as the price control review progresses. An initial draft of the licence modifications will be published in November 2004. There will be a statutory consultation in February 2005. If companies do not accept the licence modifications, Ofgem expects to refer the matter to the Competition Commission for a decision.

2.26. Once the new price controls have been implemented Ofgem will monitor companies' compliance against the relevant licence conditions. This will be facilitated through the collection of information from companies on a regular basis. Where Ofgem is satisfied that a company is, or is likely to be, in breach of a licence condition, Ofgem would need to consider what remedial steps may be appropriate.

- 2.27. **Ofgem welcomes views on the impact of the price controls on the level and process of review and compliance.**

Questions for developing the RIA

- 2.28. Respondents are requested to comment on the following specific questions. Ofgem welcomes any other information that will assist in the development of the overall price control RIA.

- 2.29. Questions for developing the RIA:

- ◆ does the price control package strike the right balance between the short-term interest of consumers (i.e. lower prices) and the longer-term interest of consumers (i.e. sufficient investment in the network to ensure that is reliable)?
- ◆ would there be any potential costs and benefits for specific groups of consumers which could potentially result in new distributional effects between consumer groups?
- ◆ does the price control package provide the appropriate incentives in accordance with the objectives set out at the start of this Chapter?
- ◆ would the proposed price control package have implications for the competitive energy markets, and if so, in which way?

3. Developing a RIA for quality of supply

Introduction

- 3.1. The March 2004 document set out Ofgem's initial thoughts on the quality of service arrangements for the next price control period and the questions that need to be answered in developing a full RIA for quality of service. Since then, Ofgem has published the final results of the consumer research and further work has been undertaken on benchmarking quality of service performance. Ofgem has also received a number of responses to the draft RIA questions, including some initial answers and suggestions on how they could be improved. Chapter 4 of the June initial proposals document sets out Ofgem's detailed proposals for quality of service.
- 3.2. In developing a full RIA for quality of service, it will be important to take account of comments received to date from interested parties. It will also be important that Ofgem takes account of proposed revisions to the legislative framework, such as those contained in the Energy White Paper, as well as recommendations from the Trade and Industry Committee's reports into both network resilience and the October 2002 storms.
- 3.3. The revised RIA questions set out in this Chapter build on the responses received to the March paper as well as reflecting Ofgem's proposals for the new quality of service arrangements in the next price control contained in the initial proposals document. This Chapter also outlines the issues that need to be considered to implement the revised arrangements.
- 3.4. Estimates of costs and benefits associated with the proposed policy options are critical to this assessment. Respondents are invited to provide wherever possible quantitative assessments of the costs and benefits of the overall quality of service arrangements or individual components of the arrangements in response to this document as well as qualitative responses.
- 3.5. A draft of the full RIA will be set out in the September update document and the final RIA will be published as part of the November final proposals document.

As noted above, some information has already provided in response to the RIA questions. This will be taken into account in preparing the draft and final RIA.

Objectives

- 3.6. The objectives in respect of the changes to the quality of service arrangements are set out in Chapter 4 of the June initial proposals and previous consultation documents.

Key issues and options

- 3.7. The key issues and options for revising the quality of service arrangements are set out in detail in the initial proposals document and earlier price control documents and are summarised in Table 2.

Table 2: The main issues and options for quality of service

| Issue | Main options | Ofgem proposal | Rationale for proposed approach |
|--|---|---|---|
| Overall financial exposure to incentives arrangement | <ul style="list-style-type: none"> ◆ Keep current level of exposure ◆ Increase exposure to arrangements | <ul style="list-style-type: none"> ◆ increase exposure to incentive arrangements | The results of Accent's survey point towards a degree of willingness to pay which could be reflected in stronger incentives. Quality of service incentives have been effective & are generally accepted by companies |
| Incentives for paying compensation under the restoration standard and storm arrangements | <ul style="list-style-type: none"> ◆ "Do nothing" ◆ DNOs more pro-active in making payments to consumers & equivalent reduction in price control revenue where they do not make a payment ◆ Require automatic payments | <ul style="list-style-type: none"> ◆ DNOs more pro-active in making payments to consumers & equivalent reduction in price control revenue where they do not make a payment | Given low awareness of standards it is important that companies are more pro-active in making payments to consumers. The proposed mechanism removes any disincentive for companies to pay out to consumers. |
| Compensation for HV connected business consumers | <ul style="list-style-type: none"> ◆ Maintain existing arrangements ◆ Introduce significantly higher compensation levels for such customers | <ul style="list-style-type: none"> ◆ Maintain existing arrangements | Business consumers are not willing to pay for improved compensation arrangements. Such customers can choose the security of their connection or buy standby generation |
| Multiple interruption standard | <ul style="list-style-type: none"> ◆ Tighten the standard ◆ Maintain the current level ◆ Relax the standard | <ul style="list-style-type: none"> ◆ Maintain current level | Customers give a relatively low priority to improvements in this standard, while there are high costs involved in improving performance further. The research indicates that consumers are reluctant to accept a relaxation in the standard. |
| Form of interruption incentive scheme | <ul style="list-style-type: none"> ◆ Maintain a similar form of scheme with penalties for failing targets in each year and rewards for outperformance over duration of the scheme ◆ Move to a symmetric scheme | <ul style="list-style-type: none"> ◆ Move to a symmetric scheme | Setting of targets for quality has become more robust as information on and understanding of quality performance has improved. On this basis, it is appropriate that DNOs have the opportunity to earn additional revenue if they perform well. |
| Treatment of severe weather events | <ul style="list-style-type: none"> ◆ Maintain existing exceptional events clause ◆ Fully exclude impact of severe weather from interruption incentive scheme | <ul style="list-style-type: none"> ◆ Fully exclude impact of severe weather from interruption incentive scheme | There is general support for fully excluding the impact of severe weather events from the interruptions incentive scheme and incentivising restoration separately |

| | | | |
|--|---|--|---|
| Interruption targets and incentive rates | <ul style="list-style-type: none"> ◆ Base all targets on current average performance ◆ Sets targets which involve some closure in performance gaps for poorer performers. | <ul style="list-style-type: none"> ◆ Sets targets which involve some closure in performance gaps for poorer performers. | The proposed targets and allowances are aimed to achieve a balance between rewarding companies that have done well and incentivising them to do better and encouraging companies who have done less well to improve. Ofgem believes the targets represent a reasonable balance between the cost and value of improving interruptions |
| Interruption incentive rates | <ul style="list-style-type: none"> ◆ Maintain existing rates ◆ Apply increased exposure and incentive rates | <ul style="list-style-type: none"> ◆ Apply increased exposure and incentive rates. | The results of Accent's survey point towards a degree of willingness to pay which could be reflected in stronger incentives. Interruption incentives have been effective & are generally accepted by companies |
| Severe Weather arrangements | <ul style="list-style-type: none"> ◆ "Do nothing" ◆ Maintaining existing interim storm arrangements ◆ Introduce revised storm arrangements | <ul style="list-style-type: none"> ◆ Introduce revised storm arrangements with new category of medium-sized events and increased revenue exposure | Rapid restoration following storm events is a key priority for customers, who show a high willingness to pay for improvements in this area. Ofgem therefore considers it is appropriate to strengthen the incentives. It is also appropriate to learn from experience of the current arrangements and distinguish between medium and larger size weather events |
| Telephony incentives | <ul style="list-style-type: none"> ◆ Retain a relative scheme for quality of telephone ◆ Introduce a scheme with fixed targets for the quality and speed of response ◆ Remove telephony incentives | <ul style="list-style-type: none"> ◆ Introduce a scheme with fixed targets for the quality and speed of response | Good information is one of the key priorities for consumers. Following the introduction of the existing scheme, there has been a substantial improvement and narrowing of quality of telephone response across companies. Ofgem believes it is important to maintain strong incentives while simplifying the arrangements |
| Environmental issues | <ul style="list-style-type: none"> ◆ "Do nothing" ◆ Introduce new environmental reporting measures ◆ Introduce new measures and incentives | <ul style="list-style-type: none"> ◆ Introduce new environmental reporting measures | Ofgem has statutory duties with regard to the environment and has made a commitment to develop a small number of KPIs in this area. Ofgem does not consider that it is the appropriate body to make decisions on undergrounding in areas of outstanding natural beauty. |
| Discretionary reward | <ul style="list-style-type: none"> ◆ "Do nothing" ◆ Introduce a discretionary reward scheme | <ul style="list-style-type: none"> ◆ Introduce a discretionary reward scheme | There was significant support for introducing a discretionary reward to cover aspects of customer care not addressed by the more mechanistic incentive arrangements. |

Costs and benefits

- 3.8. Improvements in quality will generally, although not exclusively, be associated with higher real costs for consumers. The proposed package of targets and incentives rates set by Ofgem provides an appropriate trade-off between the cost and value of reductions in the number and duration of interruptions, as well as providing appropriate incentives for both ongoing improvements in the telephony service DNOs provide and improved performance during storms.
- 3.9. The results of the consumer research, carried out by Accent on behalf of Ofgem and published alongside this document, are an important source of information on consumers' priorities. In order to put the results into some perspective, Ofgem has also considered information from other studies carried out both in the UK and abroad.
- 3.10. The forecast business plan questionnaire returns submitted by the DNOs provide detailed evidence on the costs of improvement with regard to interruptions and other service areas. This information has been used to derive appropriate allowances for DNOs to deliver the improvements envisaged through the targets.
- 3.11. Both sources of information have been used to set appropriate targets and incentives for DNOs. However, it is also important that Ofgem takes into account a wider range of views on the impact of changes in the quality of service arrangements on consumers and DNOs. As such, Ofgem would welcome views from respondents on its initial proposals for quality of service arrangements, in particular attempting to quantify the costs and benefits of the arrangements.

Distributional effects

- 3.12. When considering the distributional effects of the proposed changes to the quality of service arrangements, it is important to consider the extent to which they will impact on different consumers groups.
- 3.13. Ofgem would welcome views of respondents on distributional effects of the proposed arrangements.

Risks and unintended consequences

- 3.14. There could be a number of risks and unintended consequences associated with the revised framework of quality of service measures. Some of these will be influenced by the value or strength of the incentives provided in the proposals. For example, if incentive rates are too strong it may encourage inefficient expenditure, but if they are not strong enough, they may not have the desired impact on DNO's behaviour and the expected benefits may not be realised.
- 3.15. Ofgem would welcome views in this area, including where possible quantification of the likely impact of the incentive rates proposed for the interruptions incentive scheme and the form of the incentive scheme for telephony.

Competition

- 3.16. Views are invited on the impact of the proposed changes to the quality of service framework on competition.

Review and compliance

- 3.17. Views are invited on the likely costs of any monitoring that would be required for each aspect of the revised framework, and in particular for the quality of service incentive scheme and standards of performance.

Questions for developing the RIA

- 3.18. Respondents are requested to comment on the following specific questions. Ofgem welcomes any other information that will assist in the development of the quality of service RIA.
- 3.19. Specific questions for developing the RIA:
- ◆ what would be the costs and benefits of each the proposed changes to the incentive arrangements? Can these be quantified?
 - ◆ what would be the impact of the proposed changes in each of these areas on other incentives in the price control framework (e.g. capex & opex rolling incentives/DG/losses)?

- ◆ are there any additional costs of the introducing the revised framework to DNOs/Ofgem/other parties? If so, what are these?
- ◆ are there any impacts on safety?
- ◆ what will be the impact of the proposed changes on the long term reliability of the networks;
- ◆ what are the potential costs and benefits of increased investment in network resilience?
- ◆ are these measures likely to benefit all consumers connected to the DNOs' networks?
- ◆ which consumers are likely to gain most or benefit least from the changes?