



Central
Networks

Quality of Service Incentives and Target Setting

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Outline

Worst Served Customers

Guaranteed Standards

Incentive Rates

Target Setting

- General Process
- Refinements

Exceptional Events

Worst Served Customers

Focus in this area is welcomed

Clear Definition



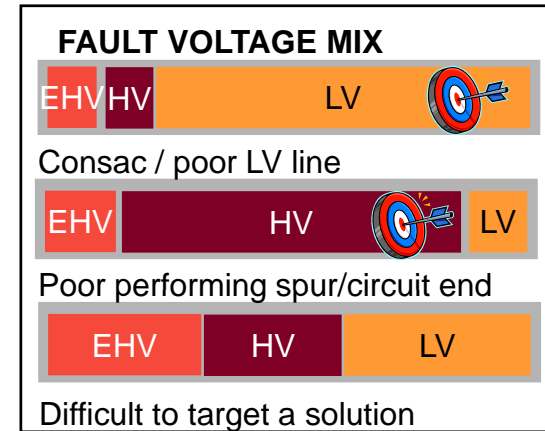
Aimed at Identifiable Issues



Value for money actions

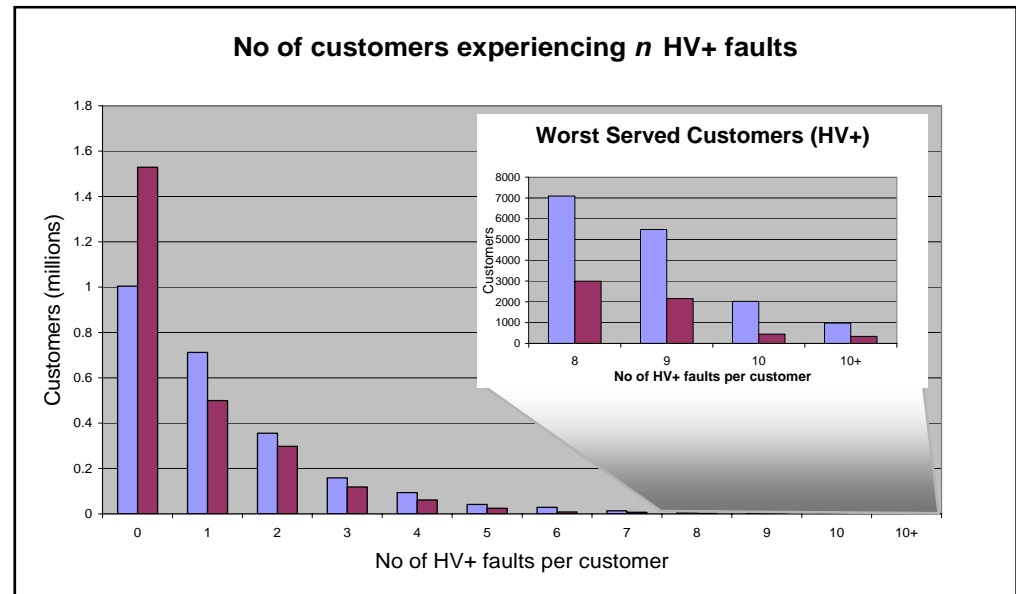
~~**GS Changes**~~

'Less than average performance'
– Consultation Document



AONB style approach

(e.g action on 5% of worst served, identified projects, financial limit £ per customer)



Who is worst served? Should costs restrict service improvements?

Guaranteed Standards

GS2 – 18-12 Hours

- Resource implications (jointers, linesmen, SAPs)
- Higher generation costs
- Planning standards – time of repair for <1MW
- Limited technological opportunity

Cumulative Duration Standard (e.g. 12 hours)

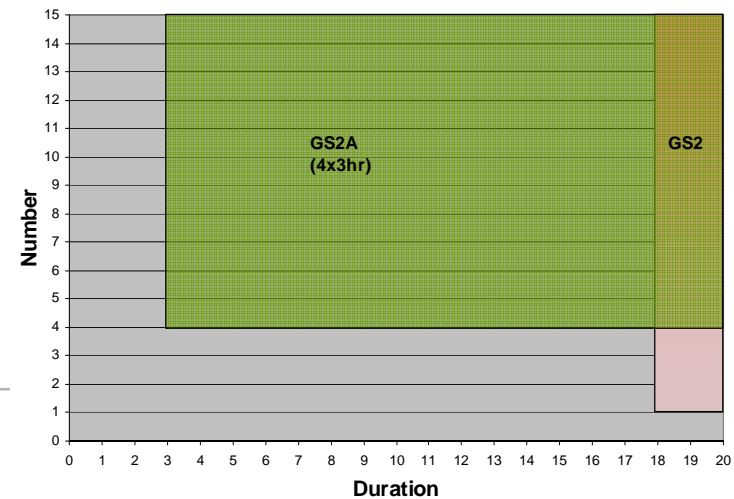
- Difficult to target avoidance
- Risk of creating compensation machine

Business Customer Compensation Levels

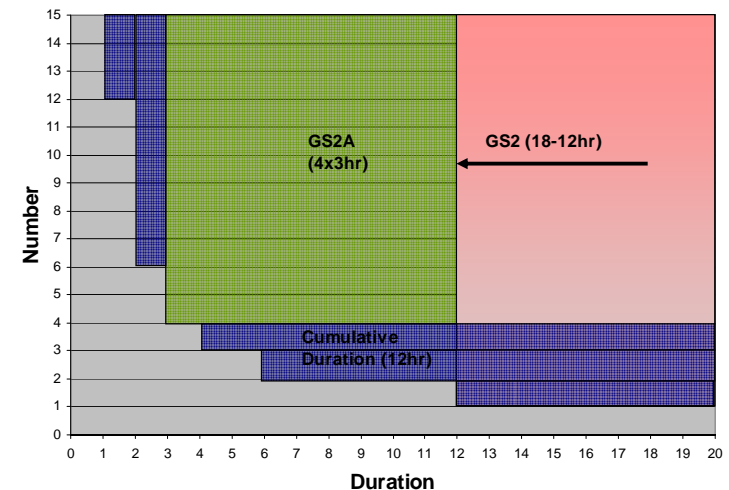
- Not aimed at consequential loss
- Businesses best placed to assess / mitigate own

**Do we want to promote a compensation culture?
Can improvements be made cost efficiently?**

Current Guaranteed Standard Payment Zones



Proposed Guaranteed Standard Payment Zones



Incentive Rates

Current Arrangements

+/-3% Revenue (1.2% CI, 1.8% CML)

Incentive bands, **Target +/-25%(CI) +/-30%(CML)**

Different £/CI & £/CML per DNO

Higher £ at lower (tighter) targets

Incentive rate equalisation

All DNOs have same £/CI & £/CML

Value linked to customer willingness to pay

Bands or revenue vary

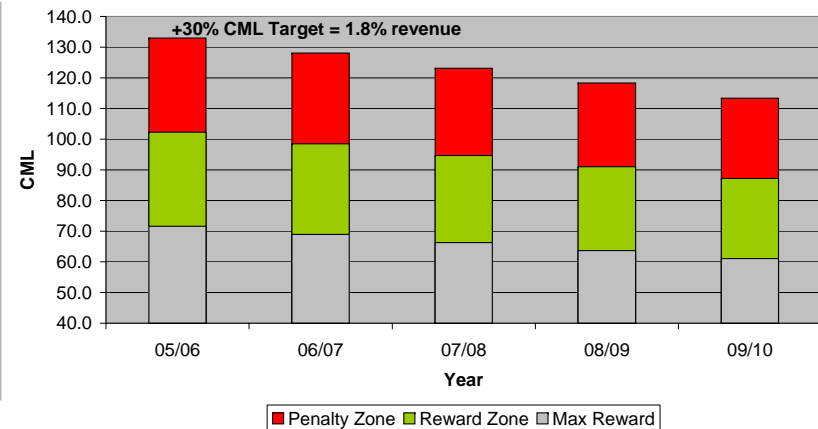
Changes to DNO exposure/risk

Outputs from Incentives

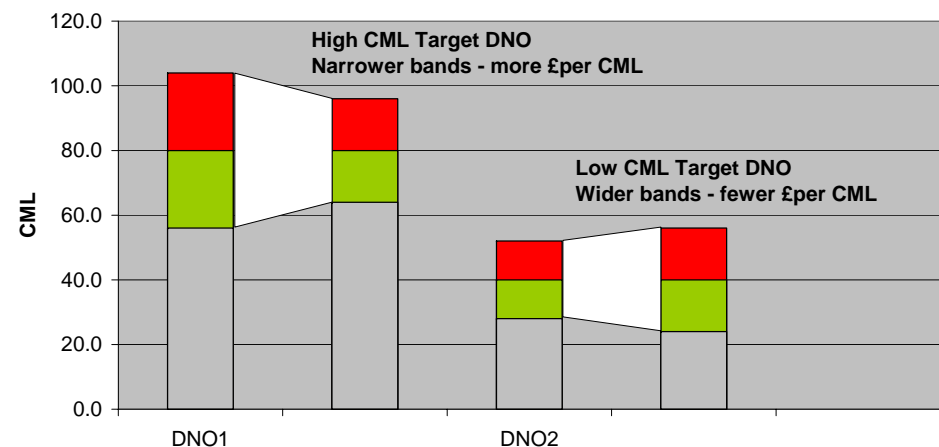
Rewarding frontier performance ?

Driving convergence of performance ?

CN West DPCR4 Targets - CML



Equalising Incentive Rates (e.g.CML)



Incentives at right levels? Is equalisation required? Frontier vs convergence?

Target Calculation

If it ain't broke...

Established methodology

Complex, but transparent

Assumes industry improvements

Long term mechanism

...only make refinements

Upper quartile calculation

Removal of dominance

Use of BM CI in calculating CML

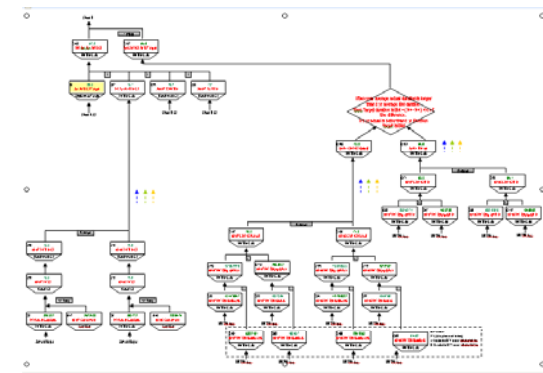
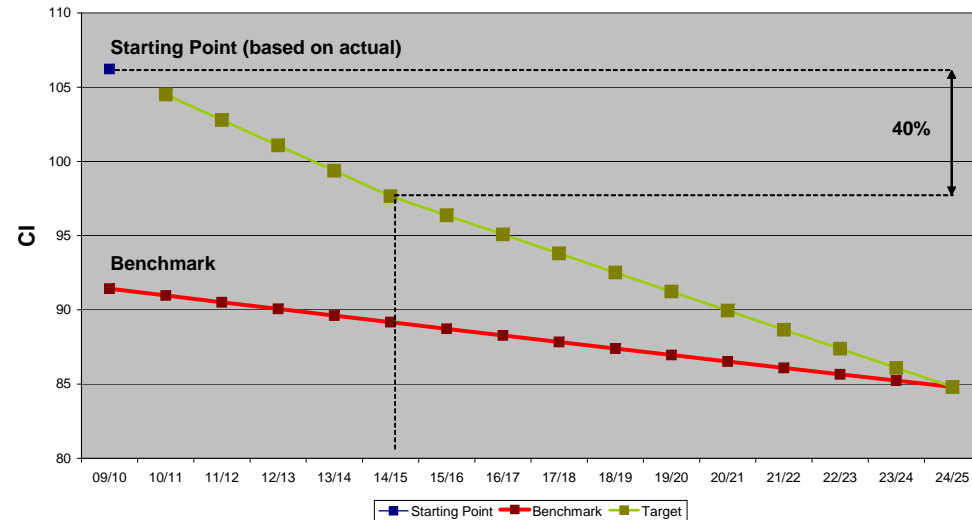
Relevant time period

2 years – subject to volatility

5 years – dilutes recent improvements

3 years – about right?

CI Targets and Benchmark



Right time period? Is the process working / time for change?

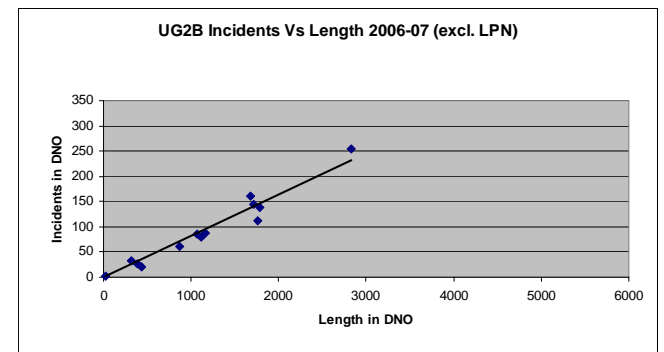
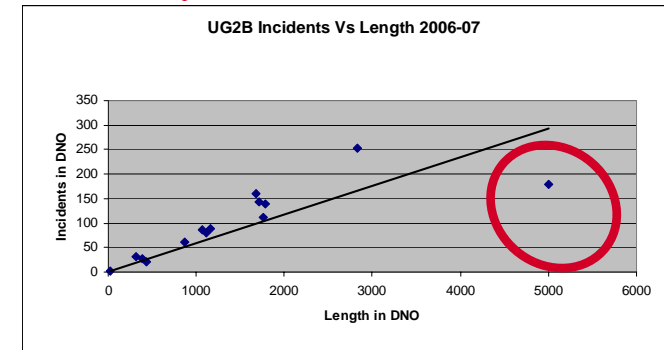
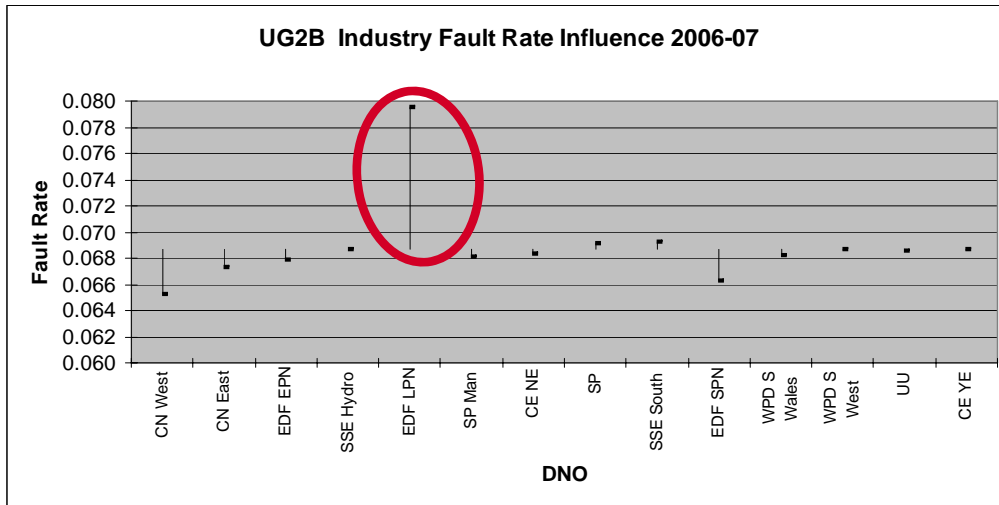
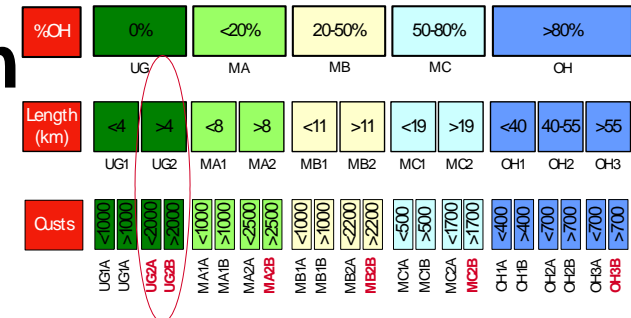
Target Calculation Refinement – Dominance in HV Disaggregation

Unique DNOs setting performance benchmarks in major bands (e.g. LPN in UG2B)

Limited capability to affect inherent characteristics in the medium term

Possible introduction of an improvement factor

HV Disaggregation Bands



Should targets reflect ability to achieve improvements?

Exceptional Events

Ofgem's concerns:

Volumes of claims (>60 2006/7) 27pa ave

...“Not all are exceptional”

...“DNOs ease off during storms”

Proposals:

Refresh thresholds for exceptionality test

Increase thresholds (8x -> 10x ->12x daily mean)

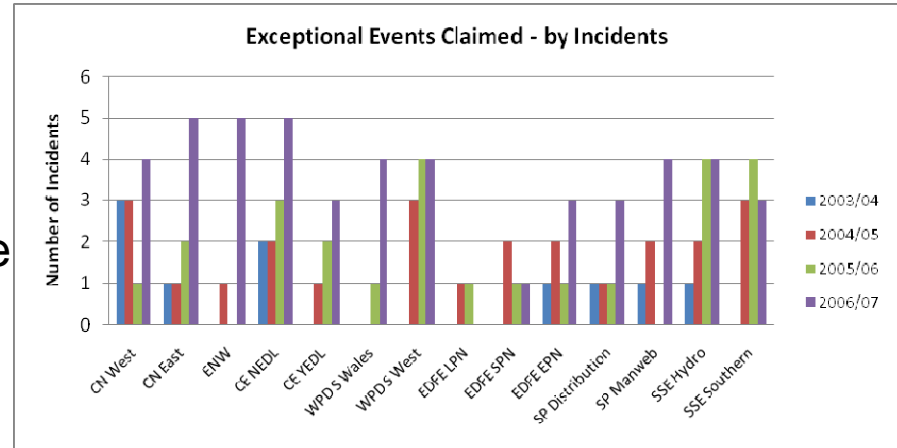
Reintroduce materiality test

Impact:

Fewer exclusions particularly lightning events

Roll back into targets

Increased CI,CML & annual volatility



Summary - Questions for Debate

Worst Served Customers

Who is worst served?

Should costs restrict service improvements?

Guaranteed Standards

Do we want to promote a compensation culture?

Can improvements be made cost

Incentive Rates

Exposure at right levels?

Is equalisation required?

Frontier vs convergence?

Target Setting – general

Right time period?

Is the process working / time for change?

Target Setting – refinements

Should targets reflect ability to achieve improvements?

Exceptional Events

How volatile should underlying performance be?