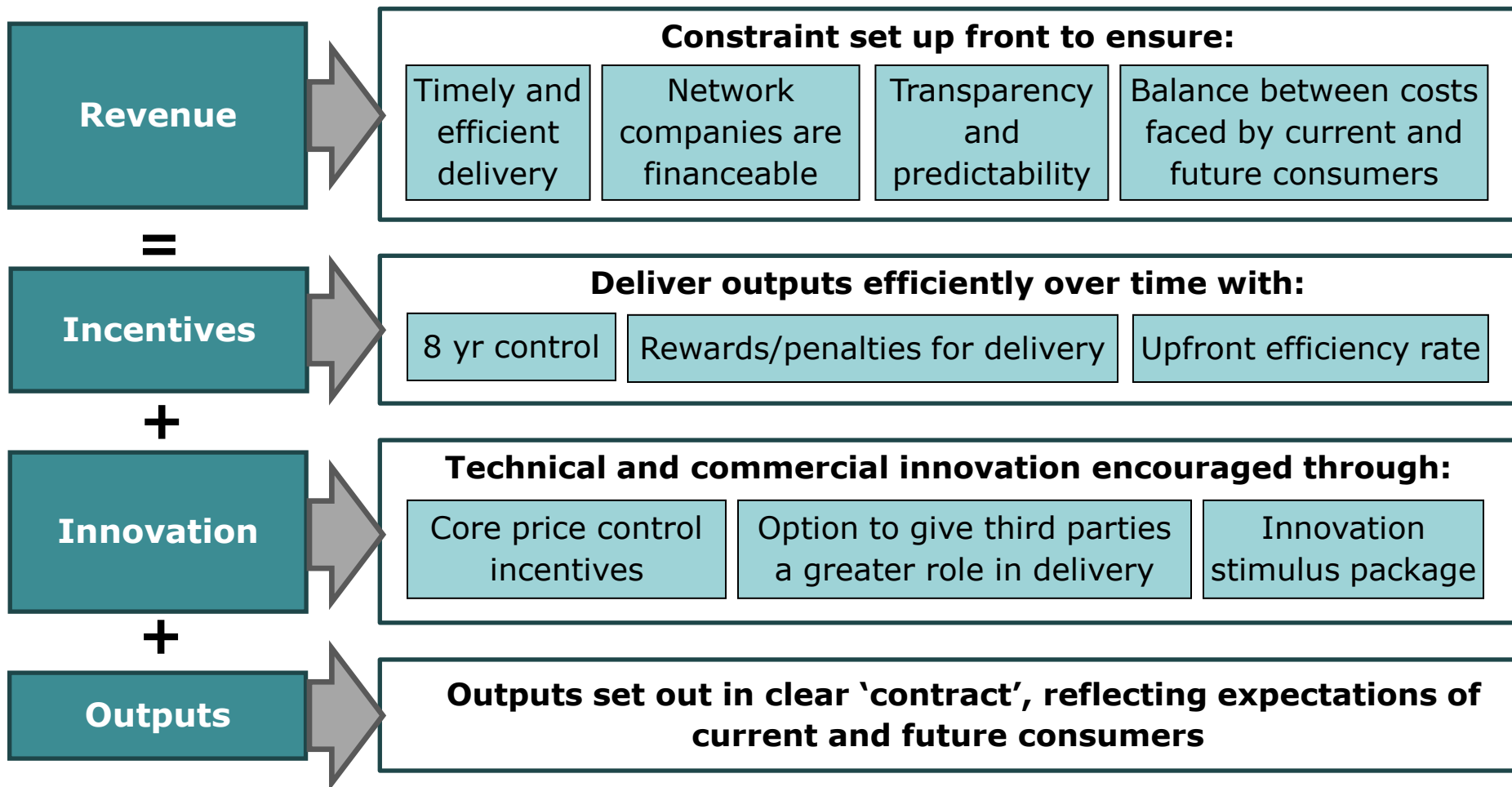


The background features a large, stylized white arrow pointing right, overlaid on a blurred image of a modern building with a glass facade and a large, glowing, abstract shape resembling a stylized 'E' or a light fixture. The overall color palette is light and airy, with soft blues and whites.

# **RIIO-ED1: Connections Working Group**

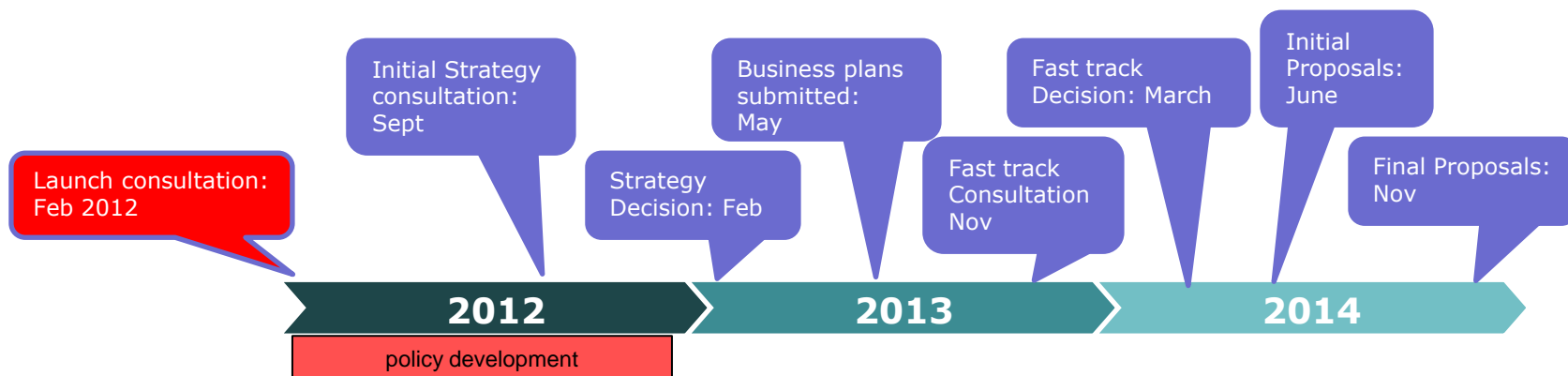
27<sup>th</sup> April 2012

# RIIO: A new approach to regulation



## RIIO-ED1 Timeline

**8 year price control: 1 April 2015 – 31 March 2023**



# RIIO-ED1 Key Policy Challenge

**Ensure low carbon technologies can connect in appropriate time at appropriate cost**

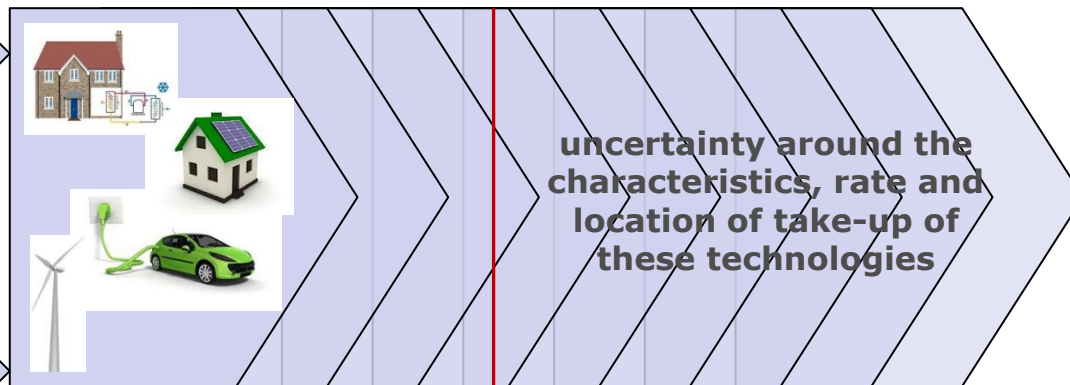
## Driving factors

- Feed-in tariffs
- RHI
- Other incentive mechanisms
- Local planning rules
- Technological developments & reductions in cost

## Facilitating factors

- Investment to expand and reinforce the distribution network
- Greater use of smart grid technology & DSR to maximise network flexibility at minimum cost

**2020 targets**



**ED1**

**ED2**

standard asset life

## Issues to consider for ED1

- DNO approach to developing business plans – scenarios and investment justification
- Outputs DNOs are required to deliver – longer term?
- Barriers to DNOs adopting commercial arrangements to manage demand and generation output
- Incentives and uncertainty mechanisms

## The outputs-led framework

<b>Environmental impact:</b> Help to reduce direct/indirect GHG emissions	Ofgem / DNO / stakeholder working groups will work to develop these for September consultation
<b>Customer satisfaction:</b> Maintain/increase customer satisfaction levels	
<b>Connections:</b> Connect customers in a timely and efficient way	
<b>Safety:</b> Provide a safe network in compliance with HSE standards	
<b>Reliability and availability:</b> Promote reliability e.g. less interruptions	
<b>Social obligations:</b> Treatment of vulnerable customers and fuel poor	

**We are addressing flexibility and capacity as a separate work stream that feeds / links with other areas**

# Connections Working Group: Terms of Reference

## Purpose

- To identify the framework required so that customers connecting to the network receive a good level of service and, wherever possible, are able to choose between alternative competitive providers.

## Objectives

- Consider what incentives and requirements are needed to ensure the overall connection to customers is provided in a timely manner
- Review existing standards for connections services and current levels of performance and consider if changes are required
- Review associated framework for performance related payments and consider if these are appropriate
- Identify cost/financial issues that should be addressed to facilitate competition, including
  - recovery of DNO overhead costs when work is carried out by non-DNO
  - cost boundary for cost assessment
  - unit cost assessment
- Identify if there are any aspects of the price control framework that potentially act as barriers to the development of competition
- Identify what changes could be made to remove these barriers and what would be the consequential impacts

# Connections Working Group: Terms of Reference

## Role

The role of the Connections working group is to assist in developing policy and the appropriate outputs and incentive framework for our September consultation and February decision documents.

In fulfilling its role, the ConWG should consider a range of available evidence, (eg current levels of performance in terms of average time to issue quote/connect, current cost recovery and assessment framework and own stakeholder engagement activities) to inform the proposals put forward.

## Scope

The ConWG should consider the arrangements required to safeguard good levels of service to customers connecting to the network. Changes to connections boundaries should not be proposed by this working group.

The group should also review the appropriate treatment of overhead or fixed costs associated with currently non-contestable connections work, particularly in the context of further extensions of contestability.

This group will be meeting within the period in which networks have been invited to come forward with their Competition Test applications. In reviewing potential barriers to competition the working group must focus on those associated with the price control framework only.

## Deliverables

The CONWG will issue a report against each of the identified objectives by end July 2012. This report should highlight evidence that has been considered, areas of consensus and also disagreement, including reasons for divergence

## DPCR5 Connection Arrangements

- The DPCR5 regulatory arrangements for connections focused on four key areas:
  - Introducing Guaranteed Standards of Performance
  - Broad Measure of Customer Satisfaction
  - Removing barriers to competition
  - Improving the provision of information for Distributed Generation (DG) connection customers



## DPCR5 Connections: Guaranteed Standards of Performance (GSOP)

Context: We had concerns with the quality of service provided to connection customers.

- We introduced electricity distribution connection Guaranteed Standards of Performance (GSOP) which would impose specific timeframes and penalty payments on certain DNO services. They were designed to ensure that connections customers receive a good level of service from their DNO.
- The GSOPs were supported by a new licence condition (Standard Licence Condition 15A) that requires DNOs to meet the standards in at least 90 per cent of cases.
- The GSOPs differentiated between metered, other metered and unmetered connections.
- The standards came into force on the 1st October 2010. DNOs and IDNOs are required to report on their performance against the GSOP on a quarterly basis.
- Standards were also introduced for DG connection customers on a voluntary basis.

## Broad Measure of Customer Satisfaction

Context: we wanted to drive improvements in the quality of the overall customer experience.

- DNOs rewarded or penalised (as a percentage of their allowed revenue) based on their performance in three components:
  - Customer Satisfaction Survey (reward 0.8% and penalty -0.5%)
  - Complaint Metric (penalty only -0.5%)
  - Stakeholder engagement (reward only +0.2%)
- The Broad Measure of Customer Satisfaction was implemented on 1 April 2012.
- Connections customers are captured as part of the Broad Measure.

## DPCR5 Connections: Competition

Context: We had concerns that the low levels of competition in the electricity distribution connection market was having a negative affect on the quality of connection service provided to customers.

- Despite the metered electricity connections market being open to competition, by 2009-10 market penetration for new entrants stood at only 13 per cent. In the gas connections market, the market share of non incumbents exceeds the market share of GDNs and stood at 59 per cent in 2009-10.
- We proposed a number of measures to stimulate a more competitive connections market.
- We segmented the electricity connections market to identify those segments (RMS) where competition is more likely to develop.
- With the introduction of the GSOPs we have allowed DNOs to charge a regulated margin of 4 per cent on contestable activities, to allow headroom in which competitors can compete with DNOs.
- To incentivise DNOs to consider, and where appropriate remove, barriers to competition, we will allow DNOs to earn an unregulated margin where they can demonstrate the connections market in their area is competitive.
- DNOs that have failed to demonstrate competition or put forward a case by December 2013 will be reviewed by Ofgem and could subsequently be referred to the Competition Commission.

# DPCR5 Provision of information to distributed generation (DG)

Context: DNOs forecasted substantial levels of distributed generation (DG) connections over DPCR5. New customers wishing to connect DG had very different levels of knowledge and experience.

- We aimed to improve the availability of simple, accessible and reliable information to meet the needs of all customers wanting to connect DG to a DNO network. We hope this will help to stimulate further the penetration of DG.
- We introduced a licence obligation that required the DNOs collectively to provide and maintain a set of documents (each one targeted to a different customer group, as defined by the DNOs) called the DG Connections Guide, which provides guidance on the connection process for DG.
- We revised the form of the Long Term Development Strategy (EHV only) in order to improve the consistency, clarity and availability of the statements.
- We introduced standards of performance (as per the GSOPs) for the provision of connection cost information, including budget estimates, as well as for the provision of connection offer (voluntary only)
- We introduced a licence obligation which required the DNOs to deliver an overall strategy for information provision which set out the actions and tools DNOs are committed to implement in order to support their customers during the connection decision process.

## Context for RII0-ED1

- Concerns remain on the quality of connection service provided to customers:
  - World Bank report “*Doing business in a more transparent world*” ranked the ease of getting a connection in UK as 60<sup>th</sup> in the world.<sup>1</sup>
  - London First report “*Delivering Power: The Future of Electricity Regulation in London's Central Business District*” outlined concerns about the lead times for securing new electricity connections.<sup>2</sup>
  - DG Forum feedback.<sup>3</sup>
  - Broad Measure of Customer Satisfaction trial results
  - House Builders Association customer satisfaction survey.<sup>4</sup>
- Given the key challenges for ED1, we need to consider further incentives to drive improvements in performance.

1. <http://www.doingbusiness.org/reports/global-reports/doing-business-2012>

2. [http://www.londonfirst.co.uk/documents/Delivering\\_Power -  
The Future of Electricity Regulation in London's Central Business District.pdf](http://www.londonfirst.co.uk/documents/Delivering_Power_-_The_Future_of_Electricity_Regulation_in_London's_Central_Business_District.pdf)

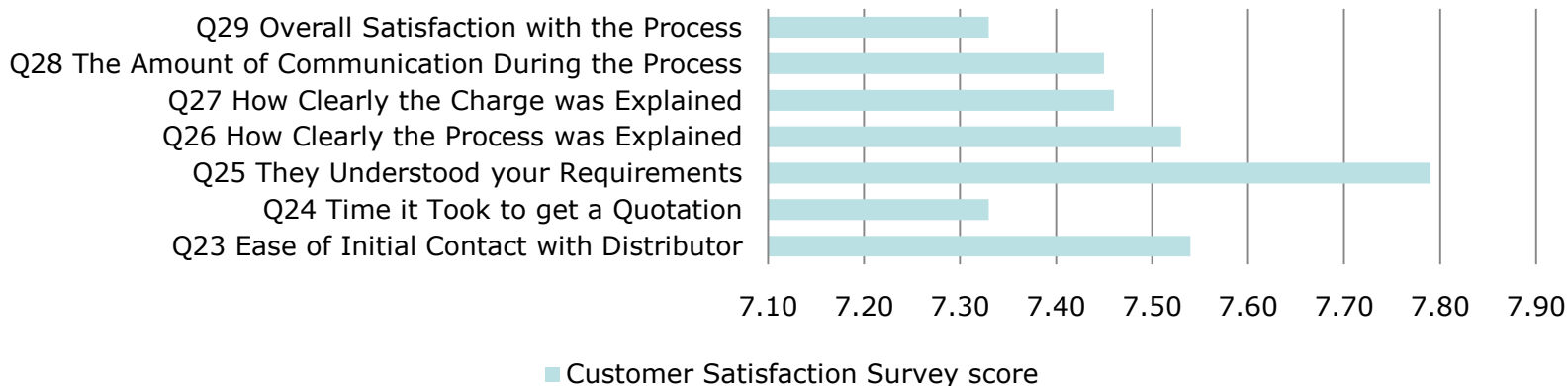
3. <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=244&refer=Networks/ElecDist/Policy/DistGen>

4. [http://www.builders.org.uk/resources/nfb/000/309/966/NFB\\_utilities\\_survey\\_report\\_2011\\_web\\_version.pdf](http://www.builders.org.uk/resources/nfb/000/309/966/NFB_utilities_survey_report_2011_web_version.pdf)

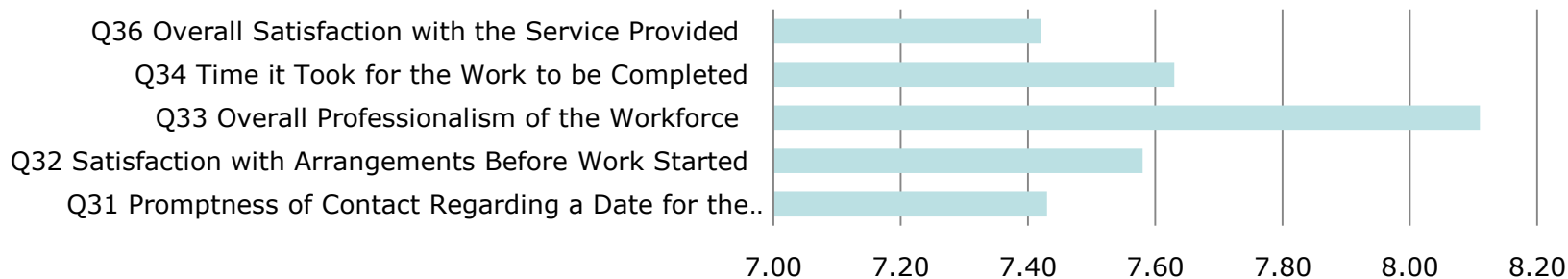
# RIIO-ED1: Quality of Service

Based on the Broad Measure of Customer Satisfaction trial results, customers are not satisfied with the connection service provided by DNOs (connection score 7.35, general enquiries 7.56 and interruption score 8.24).

## Connection Quotation



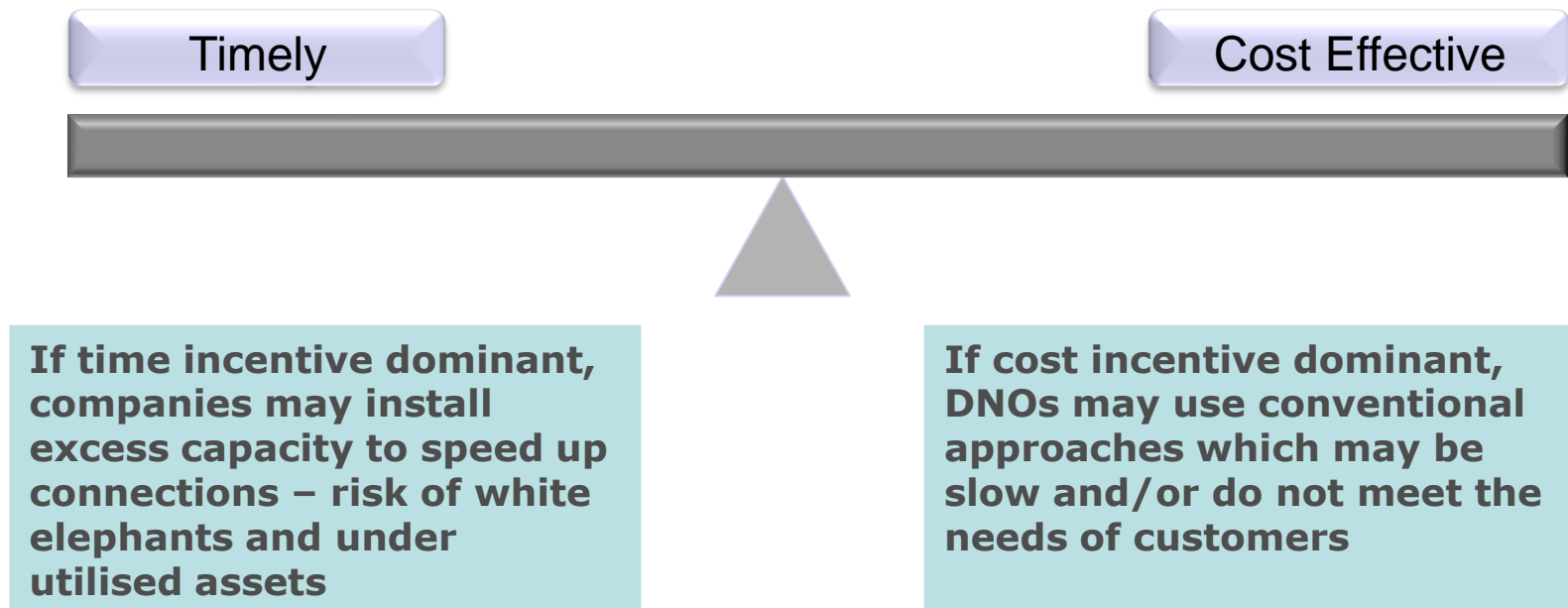
## Connections Complete



Customers not satisfied with the time taken to deliver a quotation and completed connection

# **Presentation on the challenges that the DNOs face driving efficient investment**

# Balancing Quality of Service incentives



We want a framework that drives the companies to balance the time for connections and connections cost



# Straw man incentive – “Service delivery targets”

Applicability

- New and modified connections
- LV and HV

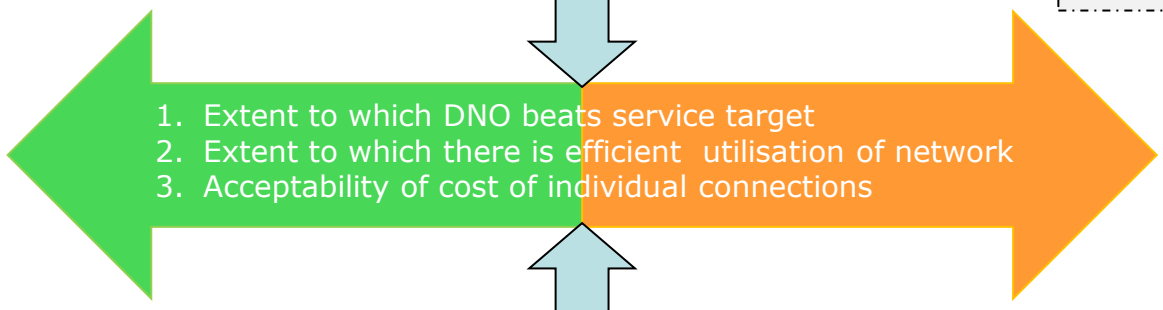
**Timely**  
**Service delivery target**

Generation LV	GSOP	DPCR5 average time	ED1 service target
Time to quote	65 days	X days	X-Y days
Time to connect	N/A	X days	X-Y days

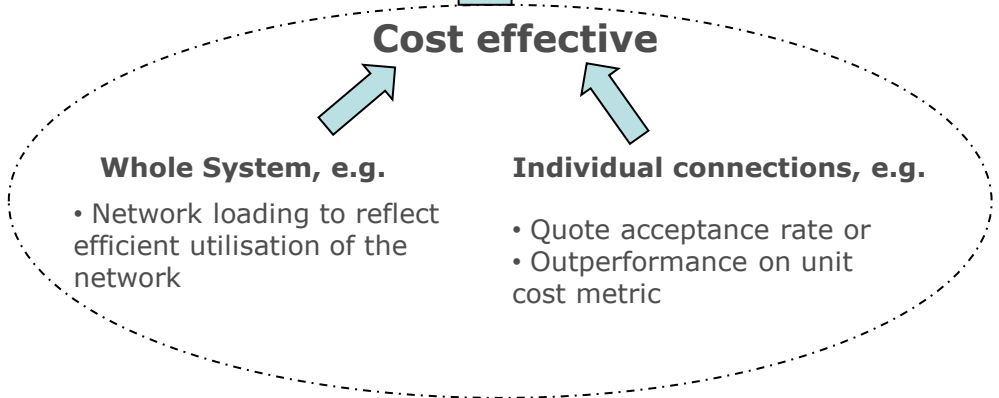
Potential options for who sets the target e.g.

- Ofgem – using DNO historic performance benchmarking
- DNOs – informed via stakeholder engagement

**Reward**



**Penalty**



## **RIIO-ED1: Quality of Service discussion**

- What could the service targets look like?
  - Current performance
  - Differentiate by type of customer
  - Differentiate by DNO
- How could the incentive be structured?
  - Reward/Penalty
  - Performance vs target
  - Improvement on current level of performance
  - Level of incentive to reflect
- Treatment of connection-quotation only?
- What other service related outputs could be required?

## RIIO-ED1: Competition

- The DNOs' work on removing the barriers to competition is an on-going piece of work. As stated earlier, all DNOs will need to submit a competition test to Ofgem by Dec 2013.
- What aspects of the current regulatory framework that potentially restrict the development of competition can we address through RIIO-ED1?
- For example, does the treatment of fixed costs potentially hinder the extension of contestability.

## **RIIO-ED1: Distributed Generation**

In addition to existing information requirements, the Broad Measure of Customer Satisfaction and a new service quality output, what else do we need to do in this area?

## Next Steps

To follow on from this meeting, we have a series of RIIO-ED1 Connection Working Group meetings:

	Topic
2 <sup>nd</sup> ED1-ConWG	Quality of Service/time to connect/ DG specific issues
3 <sup>rd</sup> ED1-ConWG	Competition Issues
4 <sup>th</sup> ED1-ConWG	Review of Workstreams

We are keen to hear from all stakeholders on these issues and we encourage all stakeholders (both DNOs and other stakeholders) to present issues/ideas that they have at the next ConWG.

The background of the slide is a composite image. On the left, there are rows of solar panels under a bright sun. On the right, a hand is shown holding a white document. In the bottom left corner, a blue gas burner is visible. The overall theme is energy and customer service.

*ofgem*

Promoting choice and value  
for all gas and electricity customers