Time to Connect Incentive

Initial thoughts for discussion at CONWG

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What we need to think about

- What is the scope of the incentive – which customers?
- How is it measured?
- How are targets set?
- Who pays for it?
- Who get a reward?
- Interaction with other incentives
- Balancing the incentives
- Alternative incentive arrangements

- Appendix
  - Summary of existing Distributed Generation Incentive

What is the scope of the incentive?

- Customers
  - New?
  - Existing requiring modification?
  - Existing no modification required?
  - Service alterations (where no change of load)?
- Voltages
  - Services?
  - LV?
  - HV?
  - EHV?
- Connection type
  - Unmetered?
  - Demand?
  - Distributed Generation?
  - Mixed?
  - Low carbon technologies? (eg Heat Pumps, Electric Vehicles, Photo Voltaic etc)

Proposal

- Any new incentive should seek to use existing classification of activities
  - Existing market segments/GSoP categories could be utilised
- Time to connect incentive based on average times seems less relevant to larger connections where timescales need to align with customer build programmes
  - Separate incentive mechanisms need to be considered for these segments which are covered in a later slide
- Need to clarify whether incentive covers
  - “new”? “add loads”? “service alterations”?

Proposal

In Scope	Alternative incentives
•Single LV Service Demand Connections •Small Project Demand Connections •Other low voltage Connection Activities involving only low voltage works •Low voltage Connection Activities involving high voltage work •low voltage Connection Activities involving only low voltage work •All Unmetered	• High voltage Connection Activities involving high voltage work •Low voltage or high voltage Connection Activities involving extra high voltage work •Extra high voltage and 132kV Connection Activities. •Distributed Generation - any Connection Activities involving work at high voltage or above

How is it measured?

- Use existing GSoP?
  - ie separate ‘time to quote’ and ‘time to connect’ elements
- Have a new end to end measure (application to energisation)?

- DNO proposal is that considering using the two existing separate GSoP elements is preferable.
  - A new end-to-end measure is affected by how long the customer takes to accept which is outside DNO control
  - Existing quotation standard could be used as basis for average time to quote
    - Needs to be set at a market segment level as an aggregated level introduces work mix between DNOs and year on year
  - Time to contact customer needs consideration whether this should be included in the incentive
  - Delivery standards could be used as basis for average time to connect
    - Need to differ for each DNO as differences in existing network will be more pronounced
  - Need to ensure DNOs are not penalised by the incentive if they delivery customer requirements
    - Eg if customer wants a later date, then DNO not penalised

How are targets set?

- Set by Ofgem or by each DNO?
- Absolute or relative?
- Common or bespoke?

- DNO proposal is that
  - Absolute targets are preferable as this gives clarity to the DNO as to what it has to achieve and allows business cases to be developed
  - Common targets may be possible for ‘Application to Quote’ but not supported by all DNOs as some networks are more challenging than others to identify points of connection
  - ‘Acceptance to Connections’ needs to be bespoke for each DNO as network and work mix differences make it more variable
  - Lack of data (consistent, comparable or historic) and future connection type and volumes makes target setting challenging
  - A recalibration mechanism to reset targets may be required
  - Need to agree whether stakeholder consultation on targets is done by each DNO or centrally be Ofgem

Who pays for it?

All GB DUoS customers?

DNO's own DUoS customers?

DNO's own connections customers?

ICP/IDNO access to incentive?

- This is ultimately an Ofgem decision
- Mixed views across DNOs

- DNO's own connections customers arguably more closely aligns the customers who receive the benefit with who pays
  - But they are different customer due to the inherent time lag in an incentive mechanism
- DNO's DUoS customers is consistent with other incentive regimes and spreads the cost impact
  - But may introduce cross subsidy concerns

Who get a reward?

- Everyone can win/lose
  - every DNO can receive a reward if they beat their target or penalty if they fail
    - Similar to IIS
- Winners & Losers
  - Limited number of winners receive a reward
  - Losers receive a penalty or just forego reward
    - Similar to Broad Measure of Customer Satisfaction
- Opt in
  - Not a compulsory incentive, DNOs choose whether they participate or not
    - Similar to IFI

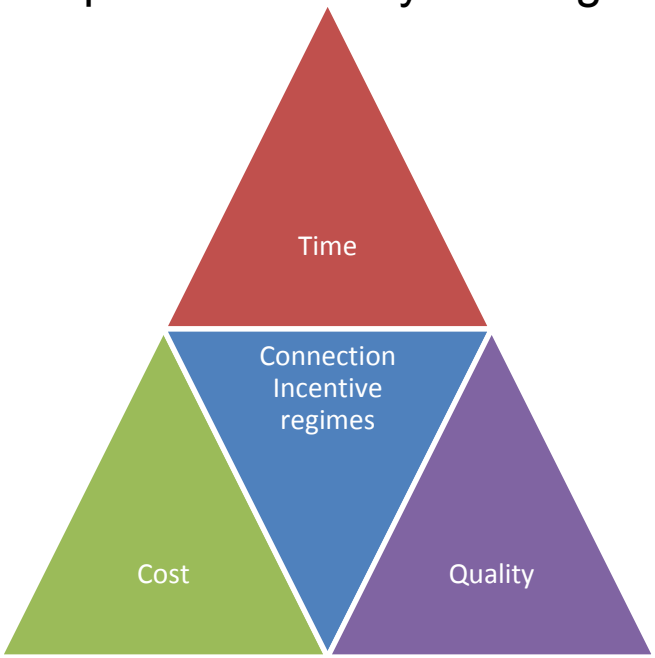
- DNO proposal is that the incentive should be such that every DNO can receive a reward or penalty based on their own performance against their targets

Interaction with other incentives

- Broad Measure of Customer Satisfaction
  - Generally aligned
  - “Timely” is not always “quicker”
- Distributed Generation Incentive
  - Limited speed incentive
  - Reinforcement aspect
- Network Utilisation incentive – *“work in progress”*
  - Being developed by F&CWG
  - Incentive to avoid “white elephants”
- Individual Connections Cost Incentive – *“work in progress”*
  - Being developed by F&CWG?
  - Incentive on acceptance rates or unit costs?
- Anything else?

Balancing the incentives

Time aspect covered by “Average Time Incentive”



Cost aspect covered by F&CWG

How is the ‘Quality’ aspect incentivised?

Balancing the incentives

- Ofgem have proposed “Quote acceptance rates” to act as a proxy for quality
  - DNO concerns that this does not provide a robust measure of quality
  - Cost to connect is only one factor influencing the progress of a project, there are many others not always with a DNOs control eg planning permission, economic conditions, customer expectation of cost, other incentives (eg FiTS)
  - In an open competitive market customers receive multiple quotes to compare price and options.
- Are there enough other incentives in place that would prevent any perverse behaviours from DNOs
  - Customer Satisfaction
  - Complaints Incentive
  - Quotation Accuracy Scheme
  - Competition Test process

Proposal for alternative incentives

- For DG, the existing DG Incentive could be simplified
  - Retain/enhance the existing £ per MW connected incentive
    - This could change DNO behaviours if the incentive level is high enough
  - Remove the reinforcement investment cap & collar from the existing incentive mechanism
    - Existing incentive based on infrastructure installed
    - Mechanism for cost recovery still required but could be outside this incentive

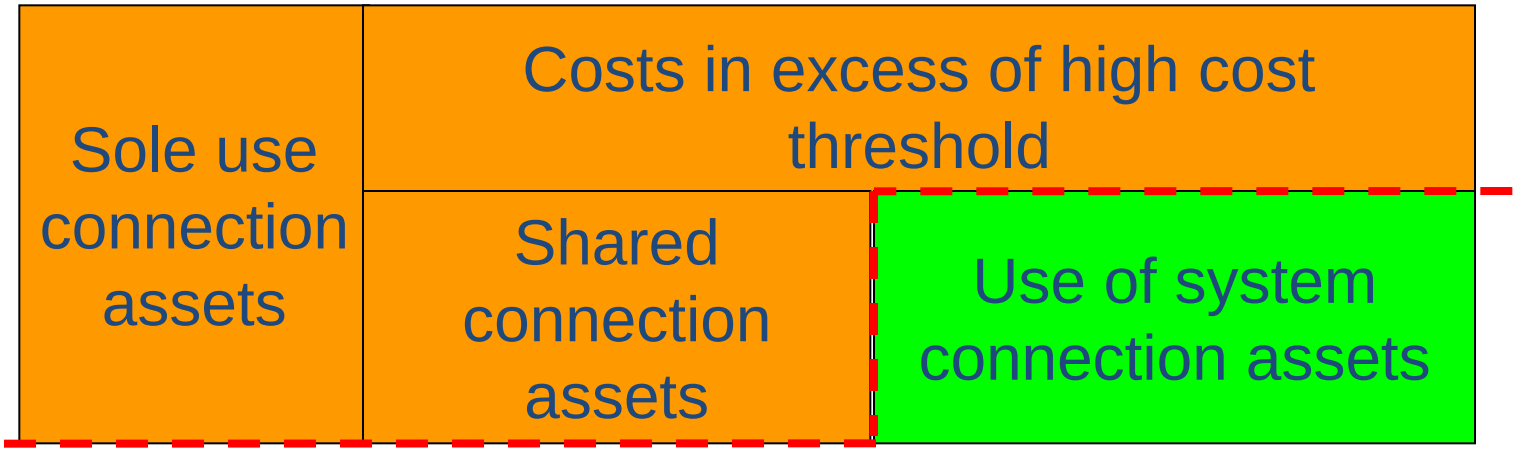
- This approach could be extended to all connections that facilitate low carbon technologies
  - Would need different £ per MW incentive rate

- Consideration needed for whether an incentive should be developed for larger demand connections

Appendix

Summary of existing DG Incentive

Financial Treatment of DG



The costs of connecting DG recovered in a number of ways

Connection Charges: determined in same manner for all types of connection: network extensions paid in full upfront by DG plus a proportion of reinforcement costs.

Use of System Charges: a single 'pot' with demand customers. Generators likely to received credits with additional costs being recovered from demand customers.

Financial Treatment of DG

- Allowed Revenue from DG determined from
  - *Pass-Through Revenue:* 80% of net reinforcement cost recovered through a 15 year annuity at the cost of capital.
  - *Incentive Revenue:* set at £1,000 per annum per MW of DG connected. Ongoing for 15 years.
  - *Operation and Maintenance Revenue:* set at £1,000 per annum per MW of DG connected. Ongoing for 15 years.
- At end of DPCR5 DG revenues subject to cap and collar to ensure IRR not greater than twice the cost of capital or less than the cost of debt.
- DPCR4 Revenues were capped for most DNOs