Minutes

RIIO-ED1 Connections Working Group

Working group established to discuss connections issues related to outputs and incentives for the next price control (RIIO-ED1)	From		22 June 2012
	Date and time of Meeting	12:00-16:00 on 22 June 2012	
	Location	Ofgem, 9 Millbank, London SW1P 3GE	

1. Present

James Veaney (Ofgem)
Stephen Perry (Ofgem)
Olivia Powis (Ofgem)
Tom Johns (Ofgem)
James Hope (Ofgem)
Steve Wood (UKPN)
Graham Campbell (SP)
Bob Weaver (Powercon)
Fruszina Kemenes (RWE Renewables)
Alex Spreadbury (Large Users Group)
Phil Swift (WPD)
Rob Bradley (IPNL)
Brian Hoy (ENWL)
Gareth Shields (SSE)
Grant Elder (SSE)
Cathy Falconer (SSE)
Pete Thompson (Northern Powergrid) (by teleconference)
Keith Benson (Wigan County Council)
James Marsh (DECC)
Steve Bolland (Amey)

2. Introduction to RIIO-ED1 Connection Working Group

2.1. James Veaney (JV) welcomed everyone to the third RIIO-ED1 Connections Working Group. JV stated that this meeting would be focused on RIIO-ED1 competition in connection issues related to the price control.

2.2. Stakeholders provided an update on the actions from the last meeting. Since the last meeting, the DNOs have collected data on quotation acceptation rates for each connection type. Brian Hoy (BH) noted that there might be some inconsistencies in reporting, but that the data should provide a good indication of quotation acceptance rates. BH confirmed that point of connection work was excluded from the data set. JV asked any party that has additional comments or questions to contact BH directly.

2.3. JV wanted to know why some customers were not accepting the quotes provided. Graham Campbell (GC) stated that Scottish Power undertook some research to understand this. GC stated that both minor and major connection customers interviewed and the results are highlighted below:

Minor Customers	**Major Customers**
52% were not ready to proceed with the connection	55% were not ready to proceed with the connection
17% said the quotation was too expensive	20% were likely to reapply
15% had reapplied	10% said the quote was too expensive

13% were likely to reapply	5% used a competitor
	5% had progressed another quote

Action: Graham Campbell to circulate quotation acceptance information to other group members.

2.4. GC did not believe that acceptance rate was a good proxy for the DNO's quality of service and BH warned that regulatory intervention to improve this figure might have unintended consequences (eg the DNOs not providing quotes unless the customer was very likely to progress with the connection).

2.5. Cathy Falconer (CF) noted that many customers wanted a formal quote. Alex Spreadbury (AS) agreed that many major customers need the certainty of a formal quote as part of their business planning.

2.6. BH stated that he wasn't clear what behaviour Ofgem wanted to see from the DNOs. JV stated he is keen to understand the reasons why customers may not be progressing with connection offer and whether this is linked to DNO behaviour.

2.7. JV asked all stakeholders to consider the data provided by the DNOs, in advance of a discussion at the next meeting.

3. Part funded connection

3.1. Tom Johns presented an update on DPCR5 part-funded connections and outlined some of the challenges faced to overcome the issue.

3.2. Stakeholders discussed what should be defined as an "indirect cost" and various approaches of cost allocation. James Hope noted that many of these issues were being discussed as part of another working group.

3.3. JV was keen to know whether there were other areas that could become contestable during DPCR5. Knowing this information in advance would overcome many of the challenges currently faced with opening up connections to competition in DPCR5.

3.4. JH noted that the DNOs will submit their annual RIGs return in July 2012. JH agreed to return to the RIIO ConWG to provide an update on the treatment of costs and discuss any further interactions with the growth of competition on connections.

3.5. JV noted that the issue of part-funded did not need to be resolved before the September Strategy document, but did need to be resolved in time for the DNOs to submit their well-justified business plans.

4. Competition Issues considered by the DNOs

4.1. Brian Hoy provided an overview of the competition in connection issues being considered by the DNOs. BH noted that competition in connections is increasing and, based on the current direction of travel, is likely to increase further during RIIO-ED1.

4.2. Steve Bolland stated that the percentage of connections completed by Independent Connection Providers (ICPs) has not increased dramatically. GC stated that many ICPs complete work on behalf of IDNOs and that this was not represented in the figures.

4.3. BH questioned whether the Guaranteed Standards of Performance (GSOPs) were still required in market segments that pass the competition test. BH suggested that it could be considered unfair that the DNOs have to adhere to standards that the independent connection providers do not. AS and Bob Weaver thought that the minimum standards were still required for connection customers. AS suggested extending GSOP to cover both the DNO and independent connection providers.

4.4. BH suggested that it could be useful to standardise the GSOP and Standard Licence Condition 15 reporting. JV stated that this didn’t need to be part of our RIIO-ED1 strategy work.

4.5. BH noted that regulated margins of 4% were introduced during DPCR5 to allow headroom for competition to grow and questioned whether Ofgem were going to allow this as part of RIIO-ED1. JV noted that we still need to close out the DPCR5 settlement and that we will review competition in connections for any market segment that hasn’t passed the competition test by the end of 2013.

4.6. BH queried what margin the DNOs should predict for market segments that they consider unlikely to to have passed the Competition Tests by RIIO-ED1 (0%, 4% or unregulated)?

Action: Ofgem to consider their approach to setting margins for market segments that have not passed the Competition Tests by RIIO-ED1.

4.7. BH suggested that Ofgem should review the level of regulation applied to IDNOs in light of their increasing size. GC considered that IDNOs have an ever increasing influence on whether the DNOs can meet Ofgem’s overall objectives (eg managing an efficient level of losses on the network). JV noted their concerns and stated that this issue would be given further consideration outside of the RIIO-ED1 process.

5. SSE’S experience doing out of area connections

5.1. Grant Elder (GE) presented an overview of SSE Utility Solution’s work. GE considered that competition is working well, but believed that there were some areas for improvement. GE suggested widening the scope of contestable works, speeding up the connections process and allowing self-determination for the point of connection (POC).

5.2. GE suggested that there were benefits for the DNO from increased competition as they are able to earn unregulated margin if they pass the competition test. DNOs could also potentially charge independents for access to network information and licence changes could develop more innovative commercial terms and greater design flexibility. For example, DNOs acting out of area are currently restricted by the DNO’s licence and therefore have to provide a minimum cost design, even if the customer does not want this. GE also suggested that DNOs could charge IDNOs to provide a connection quickly.

6. Ofgem consideration of connection issues.

6.1. JV provided an overview of the DPCR5 regulatory structure that was put in place to deliver customer satisfaction. JV outlined some of the issues being considered for RIIO-ED1 (eg how we measure customer satisfaction for major connection customers, how we can improve the average time to connect, why the connection quotation acceptance rate is so low and whether the connection incentives should apply in market segments that pass the competition test). JV posed several questions to the working group and asked them to consider their responses, in advance of the next meeting.

Action: All stakeholders to consider the questions posed by Ofgem and provide responses, in time for the next meeting.

7. DNO initial thoughts on an incentive for major customers

7.1. The DNOs have identified three approaches to incentivising customer satisfaction for major connection customers and outlined the various advantages and disadvantages of each approach:

- Modifying the existing Broad Measure of Customer Satisfaction to include an additional major connection survey;
- creating a major customer satisfaction survey outside the Broad Measure; and,
- allowing competition to drive improvements in customer satisfaction

7.2. BW noted that none of these points addressed the amount paid for a connection. BH considered that if DNOs are incentivised to deliver customer satisfaction then they should strive to do things innovatively (and cheaply) to keep the customer satisfied, as well as provide more information upfront to manage the customer's expectation of cost.

7.3. SB questioned what was defined as a "major connection". BH stated that currently anything larger than a small commercial property was classified as a major connection, but this could be reviewed during the development of any incentive for RIIO-ED1.

7.4. BH noted that the survey sample is very small and that the view of one respondent could have a disproportionate impact under a financially driven incentive. JV acknowledged that other factors could influence a respondent's view, but considered that assessing a customer's perception of service is critical in ensuring that RIIO-ED1 is delivering the desired output. JV also stated that all DNOs have the opportunity to influence a customer's perception. BH considered that ensuring the right contact was interviewed would be very important.

8. Any other business

8.1. SB questioned whether Ofgem were considering extending competition to other areas of the DNO's business (eg diversions). SB noted that this could have potential implications for how costs are captured and treated.

Action: Ofgem to consider the extension of competition into additional areas of DNO's work.