

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, multi-layered circular structure resembling a light fixture or a stylized sun. The overall color palette is dominated by blues, oranges, and whites.

Connections Working Group

21nd June 2012

Introduction

- During DPCR5 we introduced several policies to facilitate competition in connections (eg competition test).
- Many of these work-streams are still ongoing. We are therefore not looking to develop any specific RIIO policies on this issue.
- We are looking to identify aspects of the price control framework that may impede competition in connections (eg part funded connections).

PFC Update

PRINCIPLE

- Reinforcement work should be open to competition wherever possible
- DUoS money to be made available for ICPs to carry out DUoS work
- All else equal: DUoS money paid to ICP capped at the costs funded by DUoS if DNO carried out work

PRACTICAL ISSUES FACED

- Setting the cap of amount of DUoS received by ICP:
 - DNO view of total DUoS funded cost of a project
 - DNO DUoS funded percentage applied to ICP costs
 - Lower of the two
- Costs to include in cap
 - Include Indirect costs (DNO overheads)?
 - Include fixed DNO costs?

PFC Update (2)

PROGRESS

- In order to determine how we proceed, we need to quantify the impact on DUoS customers of the different options
- Quantifying the DUoS customer impact of indirects being included in the cap has proved challenging, particularly in the context of a DPCR5 settlement set based on DNOs carrying out all connection reinforcement
- Work on practicalities of implementation will follow on from the quantifying of the issue
- Might be logical to include development within RIIO-ED1 work

PFC: Connection indirects example (1)

FORECAST (per annum)

- DNO indirect cost base = £60m (£30m = closely associated indirects, £30m Business support)
- DNO indirects relating to Connections= £20m (50% recovered directly from connection customers = £10m)
- Volume of projects = 2000
- DNO allowance = £60m-£10m = £50m

ACTUAL

- Uplift applied to quote for indirects= £20m/2000 jobs= £10k (£5k from connection customer)
- Return on actual volume of 1000= £10k x 1000 = £10m (£5m from customer)
- Return on actual volume of 3000= £10k x 3000 = £30m (£15m from customer)

PFC: Connection indirects example (2)

DNO IMPACT PRESUMING THAT THE VOLUME IS CORRECT (2000) & 200 REQUIRE REINFORCEMENT

DNO does the work

- Individual job: £10k of indirects, £5k recovered – Sums up to £20m (£10m recovered) **nets to £10m**

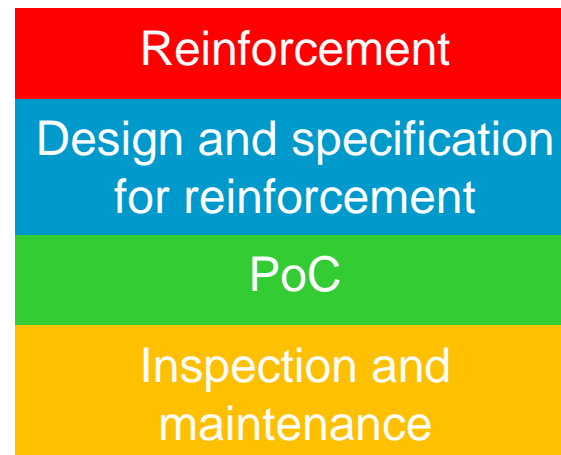
ICP does the work

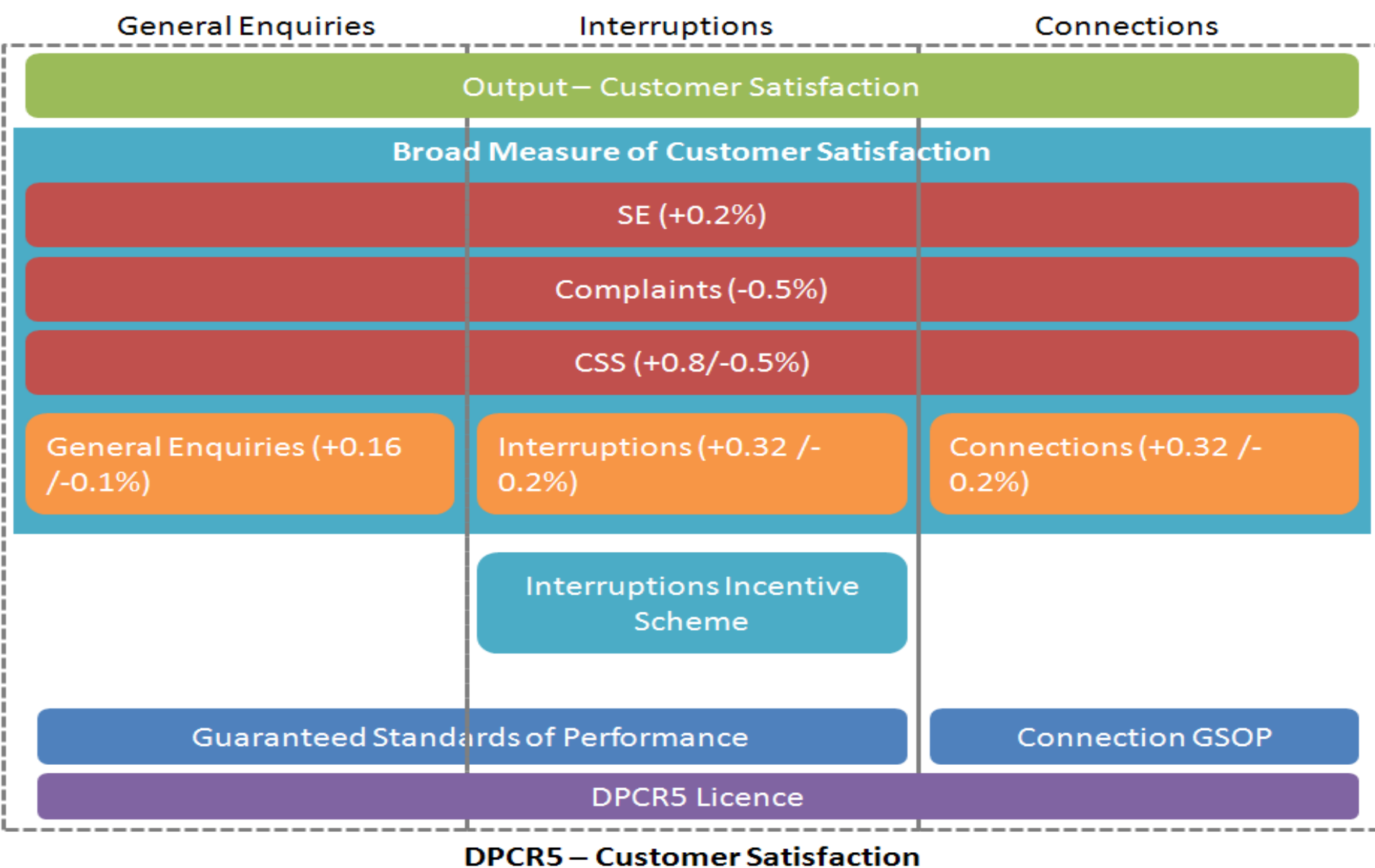
- Individual job: £10k of indirects, zero recovered
Cost of payment to ICP = £5k (£10k - £5k)
-Sums up to £20m (zero recovered) + (£5k x 2000) = **nets to £30m**

To some degree this issue can be addressed in DNO forecasts for RIIO-ED1, but there will likely be some duplication of costs between DNO and ICP which will need to be quantified

Part funded connections cont.

- Current challenge is understanding how these costs are allocated to non contestable services.
- Additional reporting may be a first step. We could breakdown non-contestable costs by work type. Is this overkill?
- We are not seeking to conclude this by Sept strategy document, however we will probably need to make a decision in time to inform business plans.



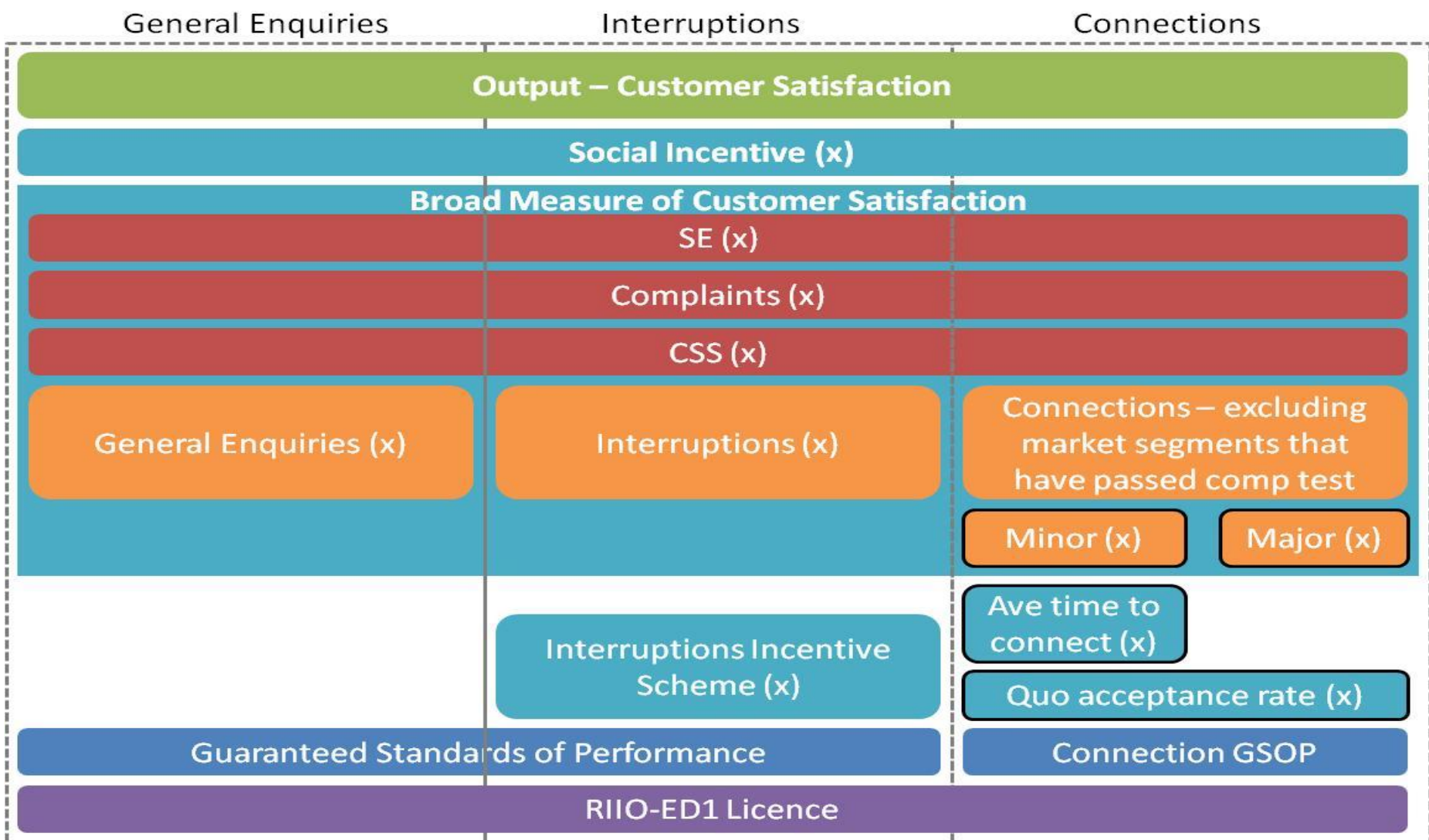


Issue/opportunity	Questions
Major connections have different concerns to minor connections	<ul style="list-style-type: none"> •Are the views of major connection customers underrepresented in CSAT? •Should we develop a new survey for major connection customers? ? Eg Qualitative survey. •Should major connections continue to be part of the Broad Measure? •Should we put separate financial incentives to minor and major connections? If so, how would this be weighted?
Average time of connection	<ul style="list-style-type: none"> •Is this sufficiently incentivised as part of the Broad Measure through CSAT? •Should it be output driven and outside BM? •If this sits outside, is their potential for the DNOs to receive rewards/penalties twice?
The connection quotation acceptance rate is low for some connection types.	<ul style="list-style-type: none"> •What is causing this? Is it in DNOs control to reduce this figure? •Should we require the DNOs to report on this? •Should we take action to improve the acceptance rate? •If we do take action, should we incentivise or provide solutions?
Should connection customers in market segments that are open to competition be included in connection QoS incentives?	<ul style="list-style-type: none"> •Is there a need for additional connection incentives if the market is open to competition? •Would removing the rewards/penalties associated with connection customers provide a disincentive to facilitate competition?



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Potential RIIO-ED1 customer satisfaction design



RIIO-ED1 – Customer Satisfaction (potential design)

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.

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