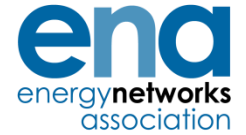


Major Customers Incentive



Initial thoughts for discussion at CONWG

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CONWG – 21 June 2012

- Development of incentive options for larger customers
 - What we covered at last meeting
 - Some additional options for consideration
- Welcome any other ideas from stakeholders

- 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

Further incentive options for larger customers

- DNOs have identified three options for consideration
 - Welcome any other suggestions for consideration
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1. Modification of the existing Broad Measure of Satisfaction
 2. Creation of a Major Customers Satisfaction Survey
 3. Allow natural evolution driven by market forces

Considering each in turn and some of the pros and cons associated with each

Modification of the existing Broad Measure of Satisfaction

- Currently 40% of the Customer Satisfaction element is influenced by connections customers
- This is the aggregated affect of all connections customers whether minor or major, quotation or delivery
- The satisfaction of major customers could be separated out and a larger quantum of the incentive distributed across these customers

- Pros
 - Broad Measure incentive already exists
 - therefore incremental change to the regime
 - Large customers would have more impact on the incentive scheme than they do currently

- Cons
 - Reduces the incentive strength on other customers
 - Would smaller customers accept rebalance/weighting?
 - Will always be small numbers in sample surveys for larger customers
 - Therefore score more sensitive to individual scores (high or low)
 - Remains largely subjective

Creation of a Major Customers Satisfaction Survey

- A new additional incentive could be created
- Would use independent survey questionnaire and aggregated annual results used to drive the incentive regime
- Pros
 - New incentive so no change required to existing Broad Measure
 - le no impact to current balance/weightings for smaller customers
 - Potential to act as a strong incentive
 - Dependent on the financial level of incentive
 - Allows new questions developed specifically for larger customers
- Cons
 - Needs additional incentive finance
 - From DUoS or connections customers
 - Additional cost and consistency issues of surveys
 - Will always be small numbers in sample surveys for larger customers
 - Therefore score more sensitive to individual scores (high or low)
 - Remains largely subjective

Allow natural evolution driven by market forces

- As competition develops DNOs will be incentivised to meet customer needs and expectations to compete and retain market share
- Move to unregulated margin will create the environment for DNOs to consider more commercial offerings for customers
 - Eg connections offer could include liquidated damages when DNOs can price in the risk
- Pros
 - No additional costs to customers to fund the incentive
 - Either DUoS or connections customers
 - No competition issues arising from creation of new incentive
- Cons
 - Relies on market forces to drive DNO behaviours
 - Will there be high enough levels of competition to ensure excellent service delivery (communication, timescale, cost, quality)
 - May not impact customers where no competition
 - Relies on Broad Measure to incentivize