

Ofgem's Connections Questions

DNO thoughts for discussion at CONWG

Brian Hoy

CONWG – 31 July 2012

Major connections have different concerns to minor connections

- 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?

- Need to clarify the latest Ofgem proposal:
 - If a DNO passes the Competition Test ,will the size of the overall incentive reduce?
 - ie is the 40% of the 40% lost
 - Or would the 40% be based on the Minor customer scores?
- This should not create a disbenefit where DNOs have successfully met other Ofgem policies

	Total	DNO													
		WPD East Midlands	WPD West Midlands	WPD South Wales	WPD South West	UK Power Networks (EPN)	UK Power Networks (LPN)	UK Power Networks (SPN)	SSE Hydro	SSE Southern	Northern Powergrid Yorkshire	Northern Powergrid Northeast	Electricity North West	SP Manweb	SP Distribution
CONNECTIONS COMPLETE MAJOR	22 3%	3 6%	1 2%	2 4%	2 4%	1 2%	2 4%	2 4%	3 6%	1 2%	1 2%	1 2%	1 2%	2 4%	0 0%
CONNECTIONS QUOTATION MAJOR	177 25%	14 28%	15 29%	11 22%	13 25%	14 27%	9 20%	14 27%	13 26%	12 23%	13 25%	14 27%	13 28%	12 23%	10 21%
CONNECTIONS COMPLETE MINOR	123 17%	8 16%	8 15%	9 18%	9 17%	9 17%	10 22%	9 18%	8 16%	10 19%	9 17%	9 17%	7 15%	9 17%	9 19%
CONNECTIONS QUOTATION MINOR	383 54%	25 50%	28 54%	27 55%	29 55%	28 54%	25 54%	26 51%	26 52%	29 56%	29 56%	28 54%	25 54%	29 56%	29 60%
Totals	705	50	52	49	53	52	46	51	50	52	52	52	46	52	48

- Major customers represent around 28% of the scoring of the Customer Satisfaction Survey score in a typical month
 - The majority of this is based on quotations – 25%
 - Only 3% based on completed Major connections
- The sample size is however small and therefore may not be statistically significant
- Minor changes to the survey sample may negate any need to create a separate survey for major customers or debate the funding solution?

Average time of connection

- 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?

- Whilst there may be some duplication with the Customer Satisfaction incentive, they are complementary and not conflicting
- Limiting the incentive to Minor customers does remove the Competition issues
- However it reduces the number of connections covered and introduces some potential boundary issues
 - Eg there would be no explicit incentive if 5 plots rather than 4 were applied for

Connections – time to quote, time to connect

- Targets should be absolute and based on individual DNO performance for both “time to quote” and “time to connect”
 - Unduly tight targets effective become penalty only risks
 - No comparative data has been produced for “time to connect”
- A recalibration mechanism could be developed to ensure improvements are sought
- Street works notices and customers not ready can have a significant bearing on “time to connect”
- Customer requesting connection in prolonged timescales would need to be excluded
- Need to decide the incentive weighting between the two aspects

DNO	SLC12 connection offers made in 2010-11	
	Average of working days taken	Maximum working days taken
SWales	1	63
SPD	2	64
SWest	3	65
SPN	5	65
WMID	7	65
EPN	7	65
EMID	8	65
ENWL	8	63
SSES	8	64
NPY	10	65
LPN	10	65
SPMW	10	64
NPN	11	65
SSEH	11	65

The connection quotation acceptance rate is low for some connection types.

- 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?

- Acceptance rates are not a good proxy for quality; there are many reasons that explain low acceptance rates, many outside the DNOs control, for example
 - Customers not ready to proceed
 - change of requirements
 - using a competitor
- Would encourage verbal 'estimates' where known to be speculative (and not countered by Broad Measure)
- Specific rules will be required eg when is it a variation to existing quote or a new quote?
- Would be impacted by upfront 'Assessment & Design' fees
- Competition in Connections impacts on acceptance rates

- We believe that there are sufficient incentives on us already to increase acceptance rates already
 - Minimising abortive work
 - Efficiency assessment
 - Customer satisfaction survey
- RRP returns now include the status of every quote issued in the regulatory year (accepted, lapse, still valid) should provide sufficient information to Ofgem

Should connection customers in market segments that are open to competition be included in connection QoS incentives?

•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?

- There is a potential conflict between Ofgem's policy of promoting Competition in Connections and the development of incentives
- Funding of the incentive through DUoS charges appears to create a cross subsidy issue
- Competition drives the right behaviours for DNO to understand customers requirements and to improve
- Creating an incentive regime which creates a financial reward for companies where competition has not developed would be a policy contradiction

- DNOs are keen to introduce more flexible commercial arrangements and recognise that this is something stakeholders are interested
- There are a number of aspects that would need further consideration including:
 - SLC 13 – cost reflective charging
 - SLC 19 - non discrimination between persons or classes of person
 - Offering differential terms under Section 22
 - CRC 12 – restriction of margin and therefore pricing in of risk