



Promoting choice and value
for all gas and electricity customers

The background features a collage of images: solar panels on the left, a large white arrow pointing right, and a glowing, multi-tiered light fixture on the right. The overall color palette is light and airy, with soft blues and whites.

FCWG

20 June 2012

Service delivery targets

Applicability

- New and modified connections where visible to DNO
- LV and HV

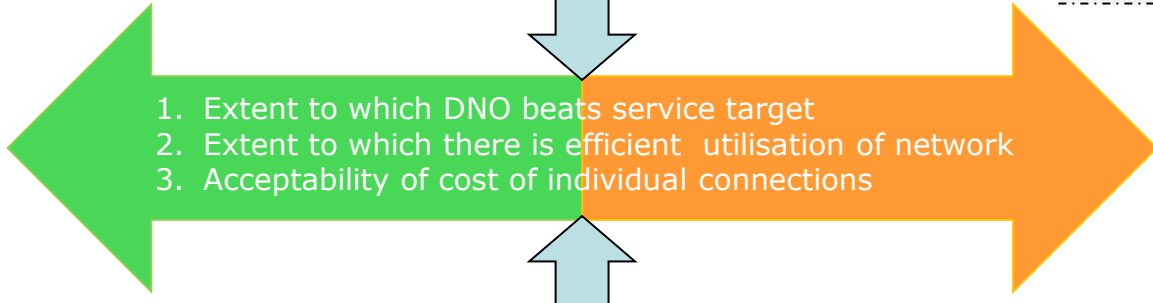
Timely
Service delivery target

Generation LV	GSOP	DPCR5 average time	ED1 service target
Time to quote	65 days	X days	X-Y days
Time to connect	N/A	X days	X-Y days

Potential options for who sets the target e.g.

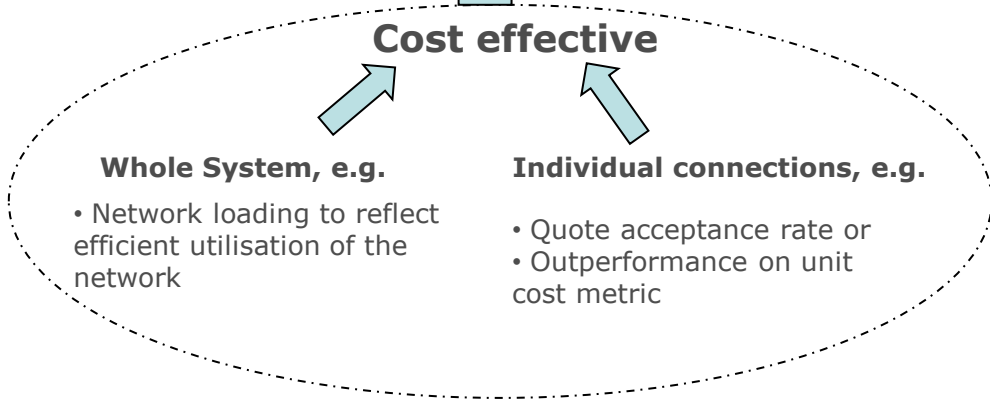
- Ofgem – using DNO historic performance benchmarking
- DNOs – informed via stakeholder engagement

Reward



Penalty

1. Extent to which DNO beats service target
2. Extent to which there is efficient utilisation of network
3. Acceptability of cost of individual connections





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Scenarios



Scenarios

- Objectives
- Presentations
 - DECC
 - SSE

LCT Scenarios – Range of Options

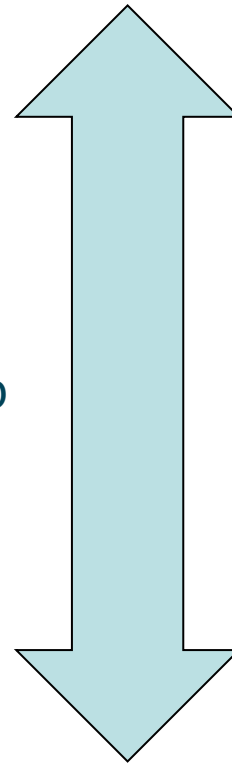
Examples

Option 1 – Ofgem prescribes scenarios for each DNO

Option 2 – DNOs derive scenarios based on DECC's (WS1) scenarios

Option 3 – DNOs required to develop Low/Medium/High scenarios for their licence area

Option 4 – DNOs have full flexibility around scenarios



Reducing Flexibility
Increasing ability to compare across areas

Increasing Flexibility
Reducing ability to compare across areas

Example of a “Strategy”

	Scenario 1 (Low Penetration of LCTs)	Scenario 2 (Med Penetration of LCTs)	Scenario 3 (High Penetration of LCTs)
Solution A (BAU)	★		
Option B (BAU + Incremental Smart Grids)		★	
Option C (Top Down Smart Grids)			★

The background features a composite image. On the left, there are rows of solar panels under a bright sky. On the right, there is a glowing lightbulb. A large, white, stylized arrow points from the left towards the center. The overall color palette is soft, with blues, oranges, and whites.

Outputs and uncertainty mechanisms

Outputs

Six Output Categories	Environmental impact
	Customer satisfaction
	Connections
	Safety
	Reliability and availability
	Social obligations

- Basic RIIO principle: base revenue and incentives are linked to the delivery of outputs.
 - DNO's incentivised to achieve outputs and penalised if they don't
- Primary Outputs are the ends in themselves
 - eg minutes lost, interruptions
- Secondary deliverables are means to an end
 - eg measures of network loading and health (LIs and HIs) to improve delivery of primary outputs in future price controls by preventing 'asset sweating'

Uncertainty

- We expect network companies to manage the uncertainty they face.
 - the regulatory regime should not protect network companies against all forms of uncertainty.
 - uncertainty mechanisms should be limited to instances in which they will deliver value for money for consumers while also protecting the ability of networks to finance efficient delivery.
- Grounds for introducing uncertainty mechanisms:
 - to lower the cost of capital;
 - reduce financeability concerns;
 - reduce customers exposure to forecasting uncertainty
- Potential draw backs of uncertainty mechanisms:
 - can undermine efficiency incentives – eg pass through costs;
 - price volatility;
 - risk of unintended consequences (particularly where multiple mechanisms interact); increase in complexity;
 - resource costs (designing, implementing, monitoring etc.)
- Uncertainty can be mitigated by:
 - Risk sharing through the efficiency incentive rate (ie sharing mechanism);
 - **uncertainty mechanisms;**
 - a mid period review of output requirements;
 - our general financing duty (last resort backstop)

Uncertainty mechanisms

Uncertainty mechanisms fully-calibrated at price control review

**Indexation
(e.g. RPI)**

Volume driver (calibrated
at price control review)

Revenue trigger (calibrated
at price control review)

**Use it or lose
it mechanism**

Forward-looking revenue adjustment determined by Ofgem during price control

**Revenue adjustment based on updated cost assessment if trigger event occurs
(e.g. specific re-opener)**

Revenue allowance determined after company incurs relevant expenditure

**Pass-
through
items**

**Logging-up of actual
expenditure subject to ex
post efficiency review**

**Backward-looking revenue
adjustment based on benchmarking
analysis of outturn costs**

DNO presentations on outputs:

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.

ofgem

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