

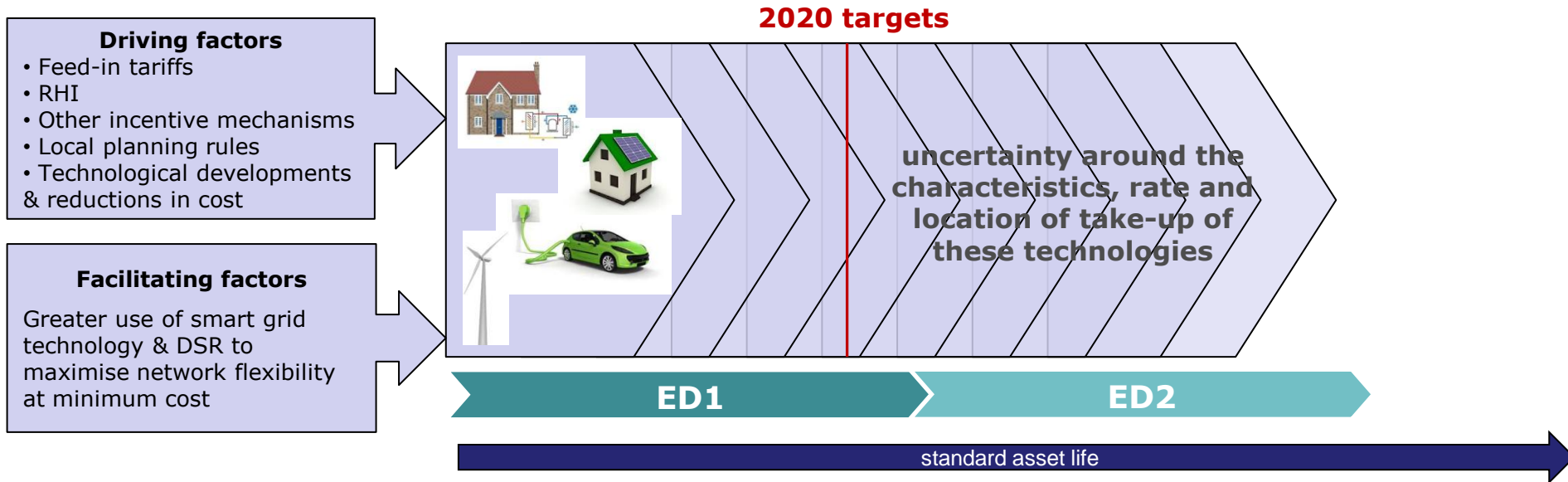
# **RIIO-ED1 Strategy Consultation**

## **SD Advisory Group**

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## RIIO-ED1 Key Challenge

**Need to ensure low carbon technologies (LCTs) and generation can connect in appropriate time at appropriate cost, without causing network problems**

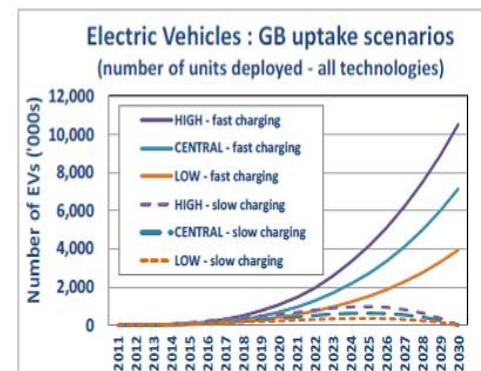
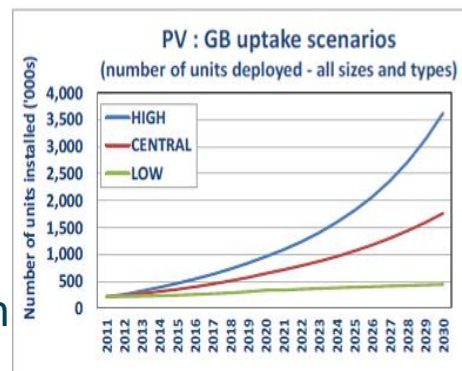
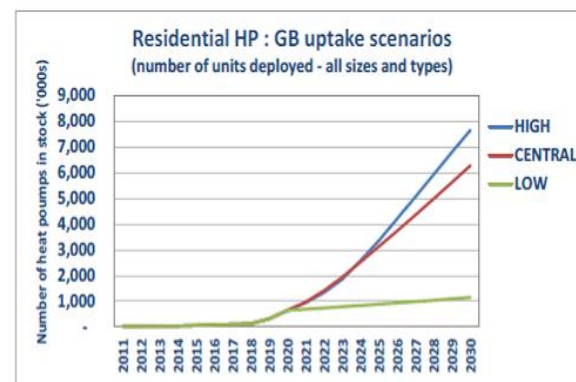


**Whilst RIIO framework encourages longer-term view and efficient management of uncertainty, RIIO-ED1 needs to drive “right” behaviour.**

## View of the future

### Smart Grids Forum (SGF)

- Ofgem/DECC chair; members with particular expertise and interest in the development of smart grids.
- Work Stream (WS) 1 (led by DECC) developed scenarios around potential take up of low carbon technologies – DNOs translating to their areas.
- WS3 – DNOs leading modelling of network impacts of the scenarios and costs and benefits of smart grids solutions.
- WS6 – Ofgem leading identification of commercial and regulatory challenges associated with smart grids solutions



## RIIO-E1: Encouraging “right” behaviour

**Based on combination of coordination/facilitation to develop view of future, and appropriate mechanisms in RIIO-ED1**

- Potential barriers
  - WS6 has identified potential barriers (ie existing network planning guidelines don’t reference demand side response (DSR); wider system DSR interactions)
  - Barriers can be addressed in parallel to RIIO-ED1\*
- Package of outputs and incentives
- Business plans to use scenarios; smart solutions with common justification (using WS3 model) and uncertainty mechanisms where appropriate

## Broader environmental objectives

**Proposals aim to ensure DNOs play their role in achieving broader environmental objectives (ie facilitating low carbon) and reduce their own environmental impact.**

- Connections and customer satisfaction
  - new Average Time to Connect output and incentive
  - connection element of the Broad Measure of Customer Satisfaction (BMCS) to measure the extent to which DNOs provide prospective customers with information on the likely cost and timescales for their connection at an early stage in the process.
  - strengthen stakeholder engagement element of BMCS - rewards companies for exceptional engagement and understanding of their stakeholders' needs, including those of renewable generators. Retain DG information.
- Network reliability
  - retain the current interruptions incentive to ensure that the DNOs anticipate how the network can accommodate the increasing use of low carbon technologies without causing outages
- Innovation stimulus
  - provide financing for research and trialling of impact of low carbon technologies (amongst other things) on the network and different solutions (including smart grids solutions) for accommodating them.

**DNOs set out in business plans how they will deliver at long term efficient cost.  
Efficiency incentive drives cost efficiency during price control (ie smart grids & DSR).**

## Specific issue: charging for reinforcement

**Current arrangements:** DNO can charge for reinforcement caused by increases in demand (i.e. connection of heat pump or electric vehicles).

- We support principle of cost reflectivity.
- In this case it is problematic:
  - DNO has no visibility of incremental demand and little ability to enforce.
  - Very difficult to charge equitably until smart meters rolled-out.
- Example – person has EV but only charges off-peak, neighbour has a jacuzzi and multiple power showers in use at peak.

**In future:** once smart meters rolled out and effective DNO time of use tariffs reflected in customer bills – reasonable for DNOs to charge according to contribution to peak.

Do not think this will happen in ED1

**Proposed solution:** socialise reinforcement cost of increases in domestic (and SME) demand until smart meters in place.

- Similar to G83 for PV (no upfront notification/charging, but notify after connect).
- Recognise in short term means less incentive on customer to accept a DSR arrangement to avoid reinforcement charges.
- Potential issues with “problematic” technology designs (i.e. “sub-standard” design heat pumps creating power quality issues)



## **‘Narrow’ environmental impact**

### **Losses**

- Propose replacing DPCR5 incentive mechanism with licence obligation to reduce losses, combined with specific allowed expenditure for loss reduction measures and reporting
  - DPCR5 - major issues with settlement data (data cleansing activities); problems will continue during smart meter roll-out.
- Discretionary reward for increased effectiveness/efficiency of loss reduction measures during period
- Mechanism to be reviewed for RIIO-ED2

### **Business carbon footprint**

- Retain DPCR5 reporting and league table as reputational incentive. Improve consistency of reporting

### **Undergrounding of overhead lines in NPs and AONBs**

- Retain DPCR5 allowance – strong stakeholder support

**Consulting on whether an environmental discretionary reward is required for more than losses – or if package already drives appropriate behaviour.**

# Customers

- Network reliability
  - key priority for customers
  - retain the current interruptions incentive to minimise supply interruptions
  - reduce time to gtd payments from 18 hrs off to 12 (& remove regional exemptions)
  - retain mechanism to address 'worst served' customers (incentive vs allowance)
- Customer satisfaction
  - DPCR5 Broad Measure of Customer Satisfaction (BMCS) implemented April 2012
  - comprises stakeholder engagement, complaints handling and customer satisfaction survey (general enquiries/interruptions/connections)
  - retain and strengthen; separate surveys for large and small connection customers
  - additional focus on providing customers with good quality information (esp DG)
- Social obligations
  - want DNOs to address key social issues (fuel poverty, vulnerable customers) – they need to adopt strategic approach; emphasis on joint working with different agencies
  - proposals aligned to consumer vulnerability strategy
  - consulting on mechanisms to ensure activities subsequently identified can be progressed
  - strengthening incentives to reward DNOs that demonstrate a commitment to better understanding social issues and work with others to address them



## Discussion questions

### Low carbon future

- Will our package of outputs and incentives drive the appropriate DNO behaviour?
- Do you agree with our proposal to socialise the reinforcement costs of domestic demand increases?

### Customers

- Do you agree with our package of outputs and incentives?
- Can you think of examples of social obligations that should be funded?



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