OUTPUTS,INCENTIVES AND INNOVATIONS DOCUMENT:

CONSULTATION ON STRATEGY FOR THE NEXT ELECTRICITY DISTRIBUTION PRICE CONTROLS

CHAPTER: Two

Question 1: *We welcome respondents" views on the approach we have taken to develop the outputs framework.*

Question 2: *Do any of our proposed output measures present potential difficulties in ensuring the submission of accurate and comparable data?*

We consider it important that outputs and associated incentive mechanisms need to be set at the appropriate level. Incentives should only be payable for performance above and beyond the norm. Payments should not be made to simply meet a 'reasonable standard'. Standards should be set at the higher end and penalties applied if not met. We believe that Ofgem are best placed to identify where and how these incentives are set to ensure that DNOs deliver value for money for consumers and play their role in delivering a sustainable energy sector.

Question 3: *Should we use a percentage of allowed revenue or £m set using basis points of return on regulatory equity (RORE) to set caps and collars?*

We would prefer caps and collars to be set as £m using basis points of return on regulatory equity (RORE). This provides more clarity on the range of caps and collars.

Question 4: *Are there any aspects of our proposed outputs framework where the reporting requirements are likely to lead to disproportionate regulatory costs?*

CHAPTER: Three

Question 1: *Do you agree that a specific output or incentive focussed solely on the connection of low carbon technologies is not necessary?*

Treating low carbon technology connections customers in the same way as all other customers is acceptable so long as the quality of the full range services delivered is the same for all customers. Networks were designed with traditional domestic and commercial demand customers in mind so Ofgem, need to ensure that new types of connections/ related services are accommodated.

Question 2: Do you agree with our proposals on the level of detail DNOs will be required to submit on the different scenarios in their business plans?

Question 3: *Do you agree that an uncertainty mechanism is required to manage the uncertainty around the penetration of low carbon technologies?*

The DECC smart grid's forum has modelled the uptake of domestic and small scale low carbon technologies over the 2010-2030 timeframe. Discussion of these scenario's has been the basis for the development of outputs and incentives throughout the RIIO-ED1 working groups that were run by Ofgem. The working

group's research clearly demonstrates that monitoring and predicting PV,EV and residential HP is not practical at present. This suggests that an uncertainty mechanism may be justified.

Our understanding of the proposals is that, in contrast to the approach for small/domestic low carbon technologies, it is up to each DNO to deal with uncertainty regarding large scale low carbon technology deployment. DNOs will be responsible for projecting the costs of DG related enforcement costs in their business plans.

As a key renewable energy developer we would flag the following factors that lead to uncertainties in the deployment of hydro, marine, biomass and onshore wind projects for the 2015-2023 period:

- Decision on Contract for a Difference design and strike prices for different technologies over time
- Full impacts of phasing out the Renewables Obligation
- Changes in the economic climate and access to finance
- Political ambition for transition to a low carbon economy and views on different technologies
- Impacts of changes to the GDUoS methodology on developer decisions
- Uncertainty in relation to small generator discount in Scotland. Especially where projects have received sanction under the existing regulatory model. Any future regulatory stability may affect development.

There has not been any clear consideration of UK deployment scenarios for large scale renewable technologies that will be connecting into the distribution network through Ofgem working group meetings or the consultation. Without having considered the development of this set of larger scale low carbon technologies and variables that affect them, it is unclear why Ofgem is not considering any form of uncertainty mechanism. Ofgem's conclusion may well be correct – but we request that evidence is provided to underpin the decision.

Question 4: *Do you agree with the three tier approach we propose to introduce for the recovery of the DNOs" costs during the smart metering roll-out?*

Question 5: *Should costs of load and generation growth for existing customers in profile classes 1-4 be socialised, until smart metering data is available?*

Question 6: *Should DNOs retain the ability to charge existing customers in profile classes 1-4 who install equipment which poses significant power quality issues for the network?*

Question 7: *If we socialise costs of existing profile classes 1-4 customers, will the use of system charging methodology need to be changed in order to protect IDNO margins?*

CHAPTER: Four

Question 1: *What are your views on the primary outputs and secondary deliverables for reliability and safety? In particular:*

(a) Do you agree that these are appropriate areas to focus on?

(b) Are there any other areas that should be included?

CHAPTER: Five

Question 1: *Will our proposed approach ensure effective losses reduction actions?*

We accept that it is very difficult to measure losses reduction. The DPCR4 methodology clearly did not provide DNOs with an incentive to reduce losses since the data used to measure losses was outside of their control. We support Ofgem's proposal to have both a licence obligation approach and a losses allowance approach to incentivising losses reduction. This incentive should, however, have clear guidelines as to how the DNO can meet the incentive scheme (e.g. standard of losses equipment required, how the action can justify payment being made etc).

Question 2: *Will our proposed losses discretionary reward provide the required incentive on DNOs to reduce losses? Should this be awarded twice during ED1 or more frequently?*

We are concerned that the proposed mechanism may overlook unregistered sites. For the avoidance of doubt this is (presumably) a small number of customers who consume electricity without being registered to a supplier. This is different to theft in that the customer has not taken an illegal action to gain a supply, it is more likely a failing within the industry which needs to be addressed. Currently the cost of this energy is being passed onto all customers in the same way as theft. Under the proposed mechanism it may not be cost effective for DNOs to tackle this issue.

Where electricity is taken which is in the course of being conveyed or taken without registration of a supplier, the DNO has a right to recover the value of this electricity. This value should be fed back into industry processes to reduce the impact on paying customers. DNOs should not knowingly allow electricity to be taken in this manner without recovering the full value of this electricity. We recognise industry developments would be needed to make this possible DNOs should be appropriately incentivised to detect electricity taken in the above scenarios.

We support this payment being awarded twice during the RIIO-ED1.

Question 3: *Should DNO actions to identify and address electricity theft be encouraged through an approach outside of any losses reduction mechanism? Do you have any views on the proposed approach, or any alternate proposals, that we should consider?*

It may be appropriate to introduce further licence conditions, to detect, prevent and investigate theft and equally participate in, and set up any future developments e.g. TRAS (Theft Risk Assessment Service). It is unlikely any such service would be effective without the active participation by the DNOs.
There should be further obligations on how vulnerable customers are treated.

Question 4: *Do you think that further guidance should be provided with regard to the use of the „10% allowance" for undergrounding? If so, what form should this guidance take?*

Question 5: *Are National Scenic Areas (NSAs) sufficient to allow for effective use of the scheme in Scotland in the protection of visual amenity?*

Question 6: *Do you agree with our proposals with regard to DNO assessment and stakeholder engagement within the undergrounding scheme?*

Question 7*: Do you agree with our proposed approach for BCF? Do you consider there are any additional elements that should be included within the BCF reporting scope?*

Question 8*: Do you agree with our proposed approach to* SF_6 *monitoring, reporting and management?*

Question 9: *Do you agree with our approach for fluid filled cables?*

Question 10: *Do you agree with our approach to noise reduction?*

Question 11: *Do you agree with our assessment of the need for an additional environmental discretionary reward?*

CHAPTER: Six

Question 1: *Do you agree with our proposal to retain the Broad Measure of Customer Satisfaction (BCMS) and increase the maximum revenue exposure?*

Question 2: *We seek views on the approach to setting targets for the RIIO-ED1 period, including whether these targets should be fixed for the price control period or should be responsive to changes in industry performance.*

Question 3: *We seek wider stakeholder views on whether interruption customers that have been proactively contacted by the DNO via new methods of communication (eg social media) should be included in the customer satisfaction survey.*

Question 4*: Should the provision of information to connections customers be taken into account when calculating the score of the customer satisfaction survey?*

Question 5*: Should the number of unsuccessful calls be taken into account when calculating the score of the customer satisfaction survey?*

Question 6: *What indicators should we use to measure complaints performance? How should these be weighted?*

Question 7: *How should we calculate the BMCS complaints metric target for RIIO-ED1? How should we calculate the score at which the DNO incurs their maximum penalty exposure?*

Question 8: *Do you agree with the proposed approach to assessing stakeholder engagement?*

CHAPTER: Seven

Question 1: *Are there additional social issues that the DNOs should address?*

Question 2: *Are there any specific outputs that the DNOs could be responsible for delivering?*

Question 3: *Should a separate funding allowance be provided to enable DNOs to carry out activities in response to social issues?*

Question 4: *Are DNOs adequately incentivised to engage with social issues as part of the BMCS Stakeholder Engagement Incentive?*

CHAPTER: Eight

Question 1: Do you consider that our proposed package will drive the appropriate behaviour for connecting both demand connections and generation connections?

Question 2: Is it appropriate to remove the DG incentive?

We accept the feedback that the DG incentive has not worked successfully in the past in achieving intended outputs, that it can lead to perverse behaviour on part of the DNOs, and that it has been underutilised. On this basis there is no justification for retaining it in its current form. It is an unsuitable incentive.

However, the original rationale for having a measure that "significant uncertainty around the volume of DG that will connect (in DPCR5), its generation type, location and voltage, all of which make it very difficult to anticipate the cost of connecting the DG to the networks"[1](from DPCR5) still stands. Forecasting DG uptake as well as the uptake of a broader suit of low carbon technologies remains very difficult. This is especially so given the uncertainties around the reform of DG support via the on-going EMR consultations, changing success rates through the planning system and the challenge that DNOs need to make assumptions over extended timeframe for the coming price-control review. In light of this, we are keen to understand what the alternative measure will be used to ensure that DNOs can make necessary investments in face of uncertainty.

The proposal that all installations of low carbon technologies delivered through a specific new or upgraded connection project should be subjected to the connections funding mechanism seems to make sense[2]. Again though it would be important for Ofgem to engage the DG community early on in the consultation process. Interpreting the RIIO-ED1 consultation and its impacts is not straightforward for customers.

Question 3: *Do you agree that we should split the BMCS customer satisfaction survey into major and minor connections customers? If not, why not?*

[1] (DPCR5 Final Proposals - Incentives and Obligations, p15)
[2] As suggested in RIIOED1SConCostAssessment.pdf Chapter 5, section 5.10

Yes, this is important. Currently the feedback from high value, low volume connection customers pales in number and therefore impact compared to minor connections despite the fact that in terms of volume such connections represent a high proportion of the DNO's connection pipeline. We understand the reasons outlined in Chapter 8, as to why there is no upside to this incentive but we think that it is extremely important that the correct commercial drivers are in place to recognise the importance of high value contracts just as they would in a normal commercial environment.

There are still concerns around the subjective nature of the BMCS, we would like to see Ofgem monitor changing DNO behaviour over the duration of the DPCR5 period to ensure that a strong case is built to demonstrate the effectiveness of this measure. The BMCS was only introduced in April 2012 and its impact to date is unclear.

Where DNOs pass the competition test for contestable connections work in certain market segments, the DNO should be incentivised to do their own customer satisfaction market research in order to remain competitive. The case for the removal of the BMCS is therefore acceptable in relation to these works.

The BMCS should not be completely removed though. A customer in the 'competitive patch' may still experience planned and unplanned DNO supply interruptions and/or make general enquiries to their local DNO. The DNO should still be incentivised to provide them with a satisfactory service. The BMCS should therefore be used to follow-up customers across all market segments that experience outages/need to make enquiries with the DNO.

The survey should sample customers regardless of the communication channel used. Commercial customers often communicate with DNOs in email to ensure records are kept of issues so only sampling telephone enquiries is unsatisfactory.

Question 4: *How should we set targets for the BMCS customer satisfaction survey?*

Setting fixed targets that are ratcheted incrementally along the RIIO-ED1 period would appear to be a more transparent and clear signal for improvement. The current methodology appears to allow 'average' performers to coast without any particular reward or penalty. While it may increase competition to deliver good service it may also conversely discourage DNOs from sharing best practice (as this will give them the competitive edge).

Question 5: *We invite views on our proposals for the Long Term Development Strategy (LTDS), Distributed Generation (DG) Connection Guide and Information Strategy (IS).*

The LTDS and DG Connection Guide requirement measures have been very helpful for connections customers during DPCR5 – they should continue during RIIO-ED1. We are particularly impressed by the type of information that some DNOs promise to make available on their websites relating to available network capacities and even planning constraints and resource maps. (The quality of this information does vary from DNO to DNO and we hope to see an increase in standards over time). The DG Connection Guide serves those customers that do not necessarily have the level of technical expertise especially well, but also helps large developers.

We accept that there is no further need for the IS incentive and feel that DNOs should already be driven to develop some form of strategy through other incentive measures.

Question 6: *Are additional or alternative incentives required to encourage the DNOs to provide better information to connection customers upfront? If so, what would these measures and incentives be?*

Yes, we support the view that a charge for assessment and design works/ connection application fee will help customers by easing the amount of productive work that DNOs can do. Ideally this will lead to the DNO being able to spend more resource ensuring the quality of the connection offer meets each specific customer's needs. We agree that reducing the number of speculative requests will enable DNOs to devote more time to each application and proceed with the certainty that the application is genuine.

Question 7: *We seek stakeholders" views on the introduction of a new Average Time to Connect Incentive.*

As with the BMCS this measure should be split into two categories – the application of the Average Time to Connect incentive should only apply to small connections. As a DG customer involved in the development of large projects we feel that the introduction of a TtC incentive on DNOs where they are subjected to a penalty if their delivery falls short of the average will lead DNOs to deliver connection works at their own convenience rather than that of the customer. We do believe that DNOs should be incentivised to connect customers as soon as possible, subject to their specific demands but believe that this should be measured by overall customers satisfaction rather than a specific incentive measure because we are concerned that this may lead to unintended disadvantages for the customer.

We feel that instead of improving matters for EHV customers, this incentive will instead drive DNOs to be less responsive to customer needs. The time taken from initial submission of a planning application to a project becoming operational varies significantly from project to project depending on local factors. The 'timing' rather than the actual 'speed' of the connection service is more critical. Many factors that can delay or expedite the time to connect are outside the influence of the DNO. Therefore penalising a DNO on this basis is not justified. The measure could push DNOs to rushing to connect at a timescale that does not accommodate the customer's needs.

As stated in the consultation document; "Exemptions under this time to connect incentive for those customers that proactively request connection timescales that are considerably longer than the average time for that type of connection" could work – so long as these customers are then not placed at the bottom of the priority list for DNOs.

Question 8: *We seek views on which aspects of service should be measured, the approach used for target setting and whether any exemptions should be applied under the Average Time to Connect Incentive?*

Question 9*: Do you agree with our proposed approach for the treatment of connection customer contributions by the DNOs during RIIO-ED1?*

Question 10: *Are additional incentives needed to encourage the DNOs to provide high-quality, timely non-contestable work? If so, what incentives should be applied?*

Question 11: *We seek views on the financial exposure and scope of incentives for those market segments that have/have not passed the Competition Test.*

CHAPTER: Nine

Question 1: *Do you agree with our proposed range for the efficiency incentive rate?*

Question 2: *Do you agree with our proposed approach to the calibration of the IQI?*

Question 3: *What are your views on the indicative IQI matrix?*

Question 4: *What do you consider are the appropriate rewards for fast-track companies compared to non fast-track companies? Should we have a differential between the two?*

Question 5: *Do you agree with our proposals for the same efficiency incentive rate to apply to all areas of expenditure that will be included within the IQI?*

Question 6: *Do you agree with our proposed treatment of DNOs within a single ownership group?*

If you disagree with our proposals in these areas, please explain the basis for an alternative approach.

CHAPTER: Ten

Question 1: *Do you agree that the cap on funding for the electricity NIC should be within the range of £60m and £90m for 2015-16 and 2016-17? Please provide evidence to support your suggested level of funding.*

Question 2: *Do you agree that the level of funding for the rest of the ED1 period should be reviewed in 2016 following a review of the LCN Fund?*

Question 3: *What are your views on the information DNOs should provide in their innovation strategies? How can DNOs best demonstrate that their approach to innovation is sufficiently well justified and robust?*

Question 4: *Do you agree that it would be valuable for DNOs to consult and update their innovation strategies regularly during the price control period?*

Question 5: *Are there any aspects of the innovation framework for ED1, which you think should differ from the arrangements from RIIO-T1 and GD1? If yes, please explain why.*