



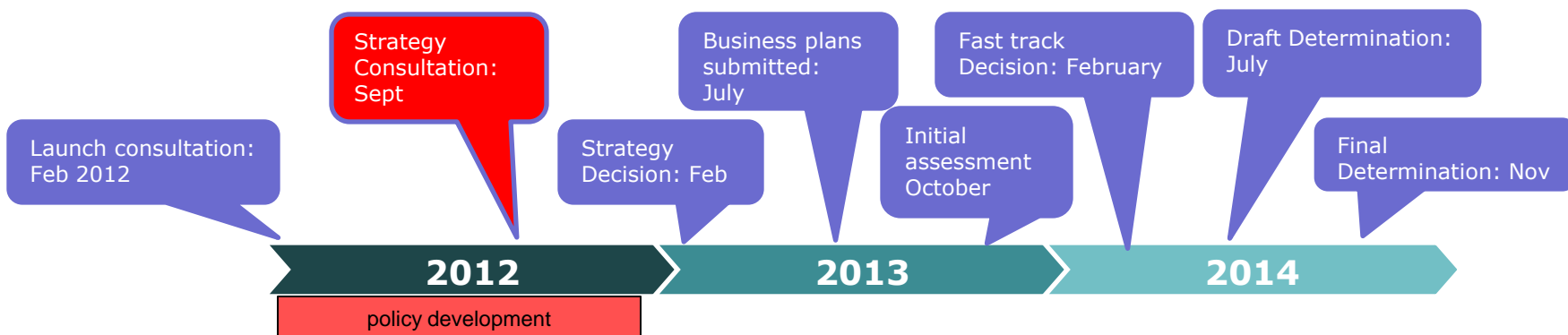
Promoting choice and value  
for all gas and electricity customers

# **RIIO-ED1 Price Control Review Forum**

3<sup>rd</sup> December 2012

# Overview of Strategy Consultation

# Timetable & engagement

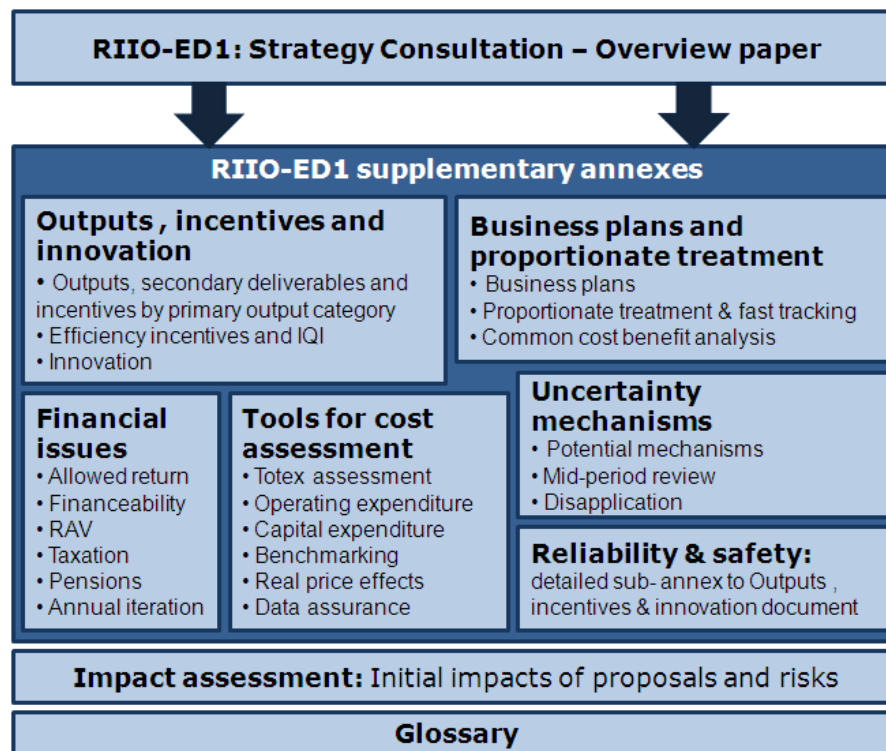


- PCRf
- Consumer Challenge Group (CCG)
- Bilateral discussions
- Existing stakeholder fora (eg LUG, SD Advisory Group)

- Working groups:**
- flexibility and capacity
  - connections
  - customer and social
  - environment
  - losses
  - innovation
  - reliability and safety
  - cost assessment
  - finance

# Overview of Strategy Consultation

- We set out how our proposals would support:
  - needs of customers, including vulnerable and fuel poor
  - low carbon energy sector
  - broader environment



## Overview of Consultation Responses

- 48 responses  
*(non confidential responses published on Ofgem website as associated documents to the Strategy Consultation)*
- At high level – no red flags
  - open development process
  - precedent of RIIO-T1 and GD1
- Team will give brief highlights – main objective to enable open discussion and hear your views

Respondee type	# responses
DNO	6
Supplier	4
Environmental group	13
Consumer group	4
Government	5
Union	2
Other	14

## **Low carbon**

## Socialisation of Costs

One of our proposals is that reinforcement charges for existing domestic customers may have to be socialised

### Rationale:

- No predefined capacity limit which is well communicated to domestic customers
- Currently no way to identify where a domestic or small commercial customer uses appliances to exceed notional capacity limit
- Take up of heat pumps, EV and micro-gen could make this real issue
- Networks may need reinforcing to accommodate them

How do you target the costs of this reinforcement without knowing who triggered to them?

Unfair to target some new low carbon appliances but not others like hot tubs, power showers etc.

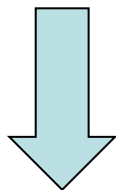
## Key Implementation Questions

- What should the point of demarcation be (profiled classes 1–4)?
- How to disincentivise the connection of devices with significant impacts on the network (i.e. sub-standard heat pumps)
- How would social landlords be charged for connecting new devices in multiple dwellings?
- Impact of socialisation – IDNOs
- How to remove any perverse incentive on developers to request a lower capacity than they need?
- How do we ensure that there is an incentive on customers to manage electricity usage?



## Incentive on customers to manage demand

ED1 consultation proposes socialising costs of accommodating additional load and generation at existing domestic premises until sufficient smart metering data is available



Recognise that this may reduce incentive for DSR with DNOs as 'means of connection'

Number of separate issues being progressed



1. How this proposal could be implemented efficiently
2. Achieving upfront notification of where new low carbon technologies are connecting
3. Ensure that there is an incentive on customers to manage electricity usage

There are a number of options to address (3) including DUOS charges, load limiters, automated response, other market solutions

## Distributed Generation - Summary

- The DG incentive was put in place to incentivise DNOs to connect an uncertain amount of DG efficiently during DPCR 4 and DPCR 5
  - 80% pass through + £s/MW DG connected
  - not an incentive to connect more DG
- Our initial view is that the normal RIIO structure can do this
  - connections and LV reinforcement volume drivers can mitigate uncertainty
  - the sharing mechanism should incentivise efficiency
- Questions:
  - will the RIIO framework mitigate uncertainty and incentivise efficiency?
  - where do we need special consideration for DG?

## Forecasting and uncertainty mechanisms

Area	DCPR 5	RIIO ED1	DG considerations
General reinforcement	Impact of DG considered in forecasts	Impact of DG considered in forecasts	Level of ex ante allowance?
Connections reinforcement	No forecast made for DG connections	DG connections considered in forecast	
LV general reinforcement volume driver	N/A	Mitigates uncertainty around volume/type/cost of DG connections	Do we need specific unit rates for DG?
Connections volume drivers	Applied to DG that included a demand connection		

Question: are there any issues with forecasting expenditure driven by DG?

Question: will the proposed uncertainty mechanisms sufficiently mitigate DG uncertainty?

## Some of the Issues Raised

- “We would like to see a proposal for an overarching incentive for DNOs to work towards our long-term decarbonisation goals”
- “There is a need for a simple incentive on DNOs that encourages them to be positive towards DG and seek ways of making viable connection offers; and that encourages them to find the most cost-efficient connection solutions”
- “While the connection incentive is expected to be replaced with a variety of incentives, their interaction is not certain to deliver the same effect as the existing incentive”
- “We support the introduction of Assessment and Design fees, provided these are proportionate, do not discourage deployment, and guarantee service”

# **Customer satisfaction, social obligations, connections**

## Customer satisfaction

- Propose to retain three customer categories (connections, interruptions, general enquiries).
- Review approach to setting targets – fixed vs. relative
- Seek views on whether to interruption customers that have been proactively contacted by DNO via new media should be included
- Seek views whether number of unsuccessful calls should influence CSS scores.
- Propose to split customer satisfaction survey into minor/major connections

## Customer satisfaction – consultation responses

- Agree to maintain Broad Measure of Customer service
- DNOs prefer fixed targets
- Majority agree to include unsuccessful calls & customer contacts, where individual customers are identifiable
- DNOs: No need to separately incentivise provision of info - Other stakeholders welcome further improvements to information provided (particularly for connections customers)

## Connection customers

- Improve timeliness of connections
  - New Average Time to Connect Incentive.
- Retain Connection GSOPs.
- Retain LTDS and DG Connection Guide. Remove licence condition for Information Strategy – if properly incentivised is this necessary?
- Additional incentive/focus on provision of information?
- Review impact of CT on the scope of ED1 incentives.



## Connection customers – Consultation responses

- Customer service is still an area for concern. Particularly for larger customers – demand and generation
- General support for incentive to measure customer satisfaction and reduce average time to connect
- More complex for major customers – service may need to be more tailored to meet requirements, with additional focus on information provision and enduring engagement
- Where there is effective competition we should not introduce incentives – but may need to enable improvements in non-contestable services

## Social issues

- Main issues: Fuel Poverty & Consumer Vulnerability
- Improve info on Priority Service Register (PSR) in business plans
  - How they will improve PSR info.
  - How DNOs will maximise utilisation.
  - How DNOs will work with other orgs to address consumer vulnerability
- Social outputs and funding/incentivising of activities
  - What activities/measurable outputs are DNOs best placed to deliver
  - Fund specific outputs?
  - “Pot” of funding?
  - Discretionary Reward Scheme?
  - BMCS Stakeholder Engagement?

## Social issues

- No specific activities identified, although some DNOs would welcome access to additional funding
- Other stakeholders emphasised that DNOs should consider social obligations as part of core business
- DNOs should build upon existing obligations (PSR) and work to enhance and provide better service (data sharing initiatives, engage with local authorities and local health representatives)
- DNOs should seek (be incentivised?) to find opportunities to enable fuel poor households access to affordable energy – where this avoids need for network reinforcement

## **Reliability & safety, cost assessment, uncertainty**

## Reliability and Safety

Area	Discussion points
<p>Interruptions Incentive Scheme</p>	<p>Should we set unplanned interruptions targets upfront for 8 years?</p> <p>Should we place limits on how much incentive revenue can be earned?</p> <p>Should incentive rates be “scaled back” to reflect the actual costs to improve?</p>
<p>Guaranteed Standards</p>	<p>Should the 18hour standard be tightened to 12hours?</p> <p>Should a move to a tighter standard be funded?</p> <p>Should PSR customers get automatic compensation?</p>

Area	Discussion points
Cost assessment	Use of totex v dis-aggregated models Is a "mid-model" required?
IQI/fast-tracking	Is there sufficient/insufficient upside/downside?
Uncertainty	Are there too many/few mechanisms? Are the number of reopener windows appropriate? Predictability of charges

# Financial

## **DNO presentations**



## **Q&A / Other presentations**

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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