

Reliability and Safety Working Group – Quality of Service meeting – RIIO-ED1 No. 4, 25 October 2012

Follow up meeting to further discuss Quality of Service areas for RIIO-ED1	From	Jack Ambler	25 October 2012
	Date and time of Meeting	25 October 2012 10:00-14:00	
	Location	Ofgem, Millbank	

1. Present

Jonathon Booth (JB)	Electricity North West (ENWL)
Mark Smith (MS)	Scottish & Southern Electricity Distribution (SSE)
Adam O'Hara (AO'H)	Scottish & Southern Electricity Distribution (SSE)
Mark Marshall (MM)	Northern Powergrid (NPG)
David Tighe (DT)	Western Power Distribution (WPD)
Andrzej Michalowski (AM)	Western Power Distribution (WPD)
Catherine Dow (CD)	Scottish Power (SP)
Stephen Murray (SM)	Scottish Power (SP)
Robert Friel (RF)	UK Power Networks (UKPN)
Bill D'Albertanson (BD'A)	UK Power Networks (UKPN)
James Hope (JH)	Ofgem
Karl Hurley (KH)	Ofgem
Jack Ambler (JA)	Ofgem

Apologies

Duncan Carter	Consumer Focus
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2. Introductions

2.1. KH introduced the work areas for the day and the group did introductions around the room.

3. Incentive Rates

3.1. The Reckon report looked at valuing interruptions in electricity supply based on customer willingness to pay and accept both in GB and internationally for the RIIO-ED1 period. It raised the issue of applying the efficiency mechanism to the ED1 Interruptions Incentive Scheme (IIS) incentive rates, as is the case for transmission. It was expressed by a number of DNO representatives that the current method feels about right at the moment and there is no need to change it. Ofgem agreed to circulate the analysis for comparing the IIS incentive rates to the transmission 'Energy not Supplied' incentive rates.

3.2. The question of whether any DNOs are considering using their own incentive rates instead of the Ofgem IIS incentive rates was raised. The general consensus was that it is difficult to create a question that is readily understandable for stakeholders; therefore the Ofgem willingness to pay research based incentive rates for the IIS is preferred.

3.3. The inclusion of the RIIO-GD1 shrinkage rolling incentive mechanism was discussed. Ofgem are mindful of developments on other incentives proposed for the gas distribution and transmission price controls, when we propose ones for ED1. The DNOs questioned how the rolling mechanism works, and Ofgem agreed to circulate the annex explaining this mechanism to DNOs. Shrinkage (in gas) and losses (in electricity) are not the same, but the mechanisms in GD1 and DR5 for them are similar. The losses mechanism had a 2 year

lag, but it had a rolling mechanism so the benefits can still be seen. What DNOs do this year has no bearing on future years, nor is it affected by previous years. It would be beneficial to DNOs if they are clear on views to losses, as if they remain quiet it is difficult to interpret this as anything other than agreement with current practices.

3.4. As AM noted, DNOs get 2 adjustments – one in-year and one at the year-end target. If they don't reach the end year target, there is an adjustment. JH added that each year is treated completely independently. Ofgem needs DNOs to fully understand and respond to the annex in the November response. It is up to the DNOs to fully respond.

Action point: Ofgem to circulate analysis comparing the RIIIO-T1 'Energy not Supplied' incentive rates to the DR5 willingness to pay research

**Person –
Ofgem**

Action point: Ofgem to circulate the annex explaining the RIIIO-GD1 shrinkage rolling incentive mechanism.

Ofgem

4. Revenue exposure

4.1. RF questioned if the move to a symmetric cap and collar would lead to these occurring somewhere between 250 and 300 basis points either side of the target. Ofgem confirmed this, as it is not the intention to narrow the range. In DR5, the downside is limited to 139 basis points, and the upside is unlimited.

4.2. DNOs asked if Ofgem have done any analysis to see if any DNOs will exceed these new bounds. Ofgem replied that it has not all been done yet, but are going to model this with indicative numbers based on DR5. The results of this will be shared with the DNOs to allow a comparison of their performance.

4.3. JH said that Ofgem have thought about rolling targets since the 8 year review period is longer than the current. Concerns have been expressed about setting targets using such an approach, and it may over-complicate things. So the targets were set at the beginning, but if performance at the beginning is not indicative of the rest of the period, Ofgem have proposed it might be merited to introduce a limit. The mechanism is working for DPCR5, and revised numbers will be used to set performance targets for ED1.

4.4. AM asked if the last two points on the slides (*Considering a move to a symmetric cap and collar for ED1; Proposed to extend the range to 250-300 bps*) go hand in hand? Ofgem replied that all options are open. If licensees are able to make unlimited return on the upside, why should downside targets be restricted to the DR5 targets? DNOs should be prepared to articulate why they have chosen their targets if their preferred option is to propose their own.

Action point: Ofgem to circulate analysis comparing DNO performance under the proposed revenue exposure.

**Person –
Ofgem**

5. Separating planned and unplanned targets

5.1. RF agreed that the proposal of using two different methods to calculate targets was a sensible method. JH stated that it is aimed to be a continuation of what we are thinking of doing for DPCR5 and that cumulatively it should result in a reduction in the algebra.

5.2. DNOs agreed that the current CRC8 licence mechanism is complicated by including the Broad Measure, and therefore splitting planned and unplanned targets will be less complicated and should make it clearer overall.

5.3. JH stated that in the DPCR5 final proposals, the pre-arranged elements of overall CI and CML targets were published. In DPCR3 and 4, it was very difficult to unpick the pre-arranged data. This proposed mechanism for RIIO-ED1 allows DNOs to explain their movement, making things more transparent for stakeholders.

5.4. AM questioned whether a reverse incentive was mentioned in the mechanism, especially for generation. It was discussed as to whether this incentivised generation to subsidise services. BD'A noted that the only issue is ensuring that the mechanism incentivises the DNOs to impact the customer as little as possible. Ofgem stated that this was one for DNOs to manage themselves, but that there are checks in place to ensure that they are in line.

5.5. AM raised the point that it had been talked about having an incentive in place. JH confirmed that having a fraction applied year-on-year had been discussed, but that we need to check and see if it is overly complicated, and we need to do a bit more modelling of it. It was noted that a good thing about the IIS is that it is relatively straightforward and allows the DNOs to direct engineers/workforce on how to go about improving network performance.

5.6. RF said that UKPN are much more comfortable with a rolling mechanism for planned interruptions. RF questioned if it should correct for disturbing factors like smart meters by the end of the 4 year average? The longer the averaging period, the longer it takes for the impact of operational changes to come back down from the higher value. A shorter averaging period with a shorter lag time is more favourable.

5.7. There is still work to be done on potential volatility on charges. Is it a relatively small charge on the DUoS bill? We have been getting feedback from suppliers about the foresight of changes to charges. AM said that it having some volatility around something small is manageable.

6. Planned target setting

6.1. November is DNOs' opportunity to comment on the September document and any areas of the working groups that the DNO thought should have been in the document. In response to this, AM questioning DNOs setting their own targets, JH stated that where DNOs have forecast data, Ofgem in the past has tried to benchmark this. This is one of our less favoured techniques, and a few approaches have been discussed in working groups.

6.2. DNOs understand the logic for target setting, and for having targets in fast-tracking for planned. Ofgem stated that DNOs can respond on this in the November document.

7. Unplanned target setting

7.1. Data quality issues were raised. JH stated that for two DNOs it was pretty straightforward to rectify the issue as it was metres reported instead of kilometres. For the other DNO, whose HV Disaggregated return had significantly different reported values it was Ofgem's expectation which had been set out in writing in July, that the values would match those which had been agreed with the DNO under the exceptional event exclusion

mechanism from the reported IIS performance. However, these differed by so much that wholesale adjustments were necessary. Whether it affected the benchmarking would partly depend on if that DNO was delivering in the upper quartile. Ofgem will be getting a resubmission from that DNO, and the other will confirm the issue for metres versus kilometres.

7.2. MM enquired if there will be more analysis of an improvement factor. KH confirmed that the data underpinning the proposed improvement factors had been shared via the FTP. Ofgem looked at the industry average, rather than considering each DNO's improvements. So, if a DNO is getting worse over time, they will not get an easier improvement factor.

7.3. JH outlined how the improvement factors worked. Ofgem do not believe that it is credible for licensees to say that they will have reached a plateau in terms of performance during DPCR5 and that there will be no room for improvement in ED1. It is fair to say that a DNO that is worse than the benchmark will have to improve at a faster rate than one better than the benchmark.

7.4. Ofgem are giving thoughts to setting targets for ED1 to include the 2012/13 performance. One issue with this approach is the exceptional event process and turn around time on this, other practical issues include resubmissions of the data when errors are discovered. Views on the practicalities of including 2012/13 data in targets are welcomed in the November responses to the strategy document.

7.5. DNOs were invited to let Ofgem know if they are having trouble accessing the shared target setting spreadsheet.

7.6. JH outlined that it may be more prudent to say that if a DNO is fast tracked, they will be given targets that do not include the 2012/13 performance. If DNOs want to outline concerns over practicalities and turn-around time, this could be done in the November response.

7.7. Given that Ofgem outlined indicative targets in the September document which is almost three years ahead of ED1 starting, an approach for taking account of this was discussed, and that Ofgem may not be able to accommodate the 12/13 performance in targets. The suggested solution was to roll the proposed targets back. So, in the shared spreadsheet on target setting, the current performance could be seen as Year 0, with the remainder of DPCR5 as T-2, T-1, etc., and apply the 0.5/1.5% improvement factor year-on-year to get targets for 2015/16. Effectively the new targets for 15/16 would be the ones outlined as the 17/18 targets in the document. Ofgem will update the proposed targets in the September consultation based on this approach.

7.8. All DNOs appear to be on course to outperform their targets, so Ofgem are not curtailing responses.

Action point: Ofgem to investigate why the HV disagg spreadsheet is quite sizable	Person – Ofgem
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Action point: DNOs to let Ofgem know of any issues with the spreadsheets or calculations	Person – DNOs
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Action point: DNOs to forecast their improvement factor performance for the next 2/3 years	Person – DNOs
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Action point: Ofgem to get the IIS model audited in some way. As	Person –
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part of this, or before, we will endeavour to produce a guide to the model, as requested by DNOs

Ofgem

Action point: Ofgem to build current performance and remainder of DPCR5 improvement factors (item 7.7) into the current spreadsheets

**Person –
Ofgem**

8. Guaranteed standards of performance

8.1. Ofgem are keen to see what/if any stakeholder engagement surveys DNOs have been doing. We will look through what has been provided and would appreciate DNOs telling us any extra information they may have. It was the general consensus that a 12-hour standard appears to be a reasonable position for ED1.

8.2. The matter of making automatic payments to Priority Service Register customers (PSR) as proposed by Ofgem in the September strategy consultation was discussed. It is Ofgem's expectation that DNOs keep their PSR register updated, and that DNOs are making contact with their PSR customers particularly during exceptional events. Ofgem feel that PSR customers should not need to submit claims for compensation under the guaranteed standards if they are entitled to it.

8.3. MS raised the point that outside the PSR, it is difficult to make an automatic payment. JH agreed, and stated that outside the PSR it is unreasonable to expect DNOs to make an automatic payment; in this case customers are expected to claim. We want to see the strategy of how DNOs get to a stage of making payments automatically especially with the roll-out of smart meters. DNOs should outline the issues surrounding this and what they are doing to overcome them, as well as what type of arrangements could be used for areas of significant costs.

8.4. The document talks about the benefits of smart meter costs. Greater intelligence of smart meter information should give some improved efficiency to making payments. This should be factored into the cost profiles for ED1, along with any other issues or obstacles for this area.

8.5. MM noted that in the RSWG RIIO-ED1 working groups, the group talked about reducing the level of payments for the 18 hour standard, and that there is no mention of this in the documents. Ofgem said that the DNOs are welcome to refer to this or other issues which may have been overlooked in their November responses.

8.6. MS stated that SSE were concerned about the funding of these increased costs where the risks could not be mitigated. He stated that, for example, in some cases it was not possible to access islands within these timescales, and the security of supply standards in the remote areas was to a lower derogated standard. This would incur additional compensation costs that should not be imposed, as a penalty, on them as DNO. MS indicated that SSE was more concerned about the funding of the costs than the intention to apply the standard. JH acknowledged the issue and asked that SSE included this in their November response.

Action point: DNOs to provide information on stakeholder engagement surrounding guaranteed standards.

**Person –
DNOs**

9. Worst served customers

9.1. Ofgem initiated the discussion by outlining the proposals that were set out in the September consultation.

9.2. MS asked for clarification on the 3rd option for WSCs in Ofgem's September Strategy Document – was it intended under this option to provide the Worst Served Customers with a compensation for suffering more than others, and would be paid long-term compensation rather than invest in the network to improve the service. JH confirmed this was the case.

9.3. MS also asked if the proposed new weighted incentive mechanism option would be a pure incentive, and that no specific ex ante allowance would be linked to this. JH confirmed that this was the case.

9.4. DNOs might choose to invest in the network to avoid making a guaranteed standard payment. But if they had a location where the payout was £X,000, DNOs may choose to pay long term, or invest and avoid having to pay out in the long term. This option is an extension of the mixed standard, and doesn't preclude investment. But the starting point is to pay customers because of interruptions. DNOs will have to justify their choice of improvement option.

9.5. On the incentive mechanism option, RF raised the point that if the incentives may not be strong enough, and that it would need to be higher than the CI incentive rate. JH agreed: this is where the multiplier effect for worst served customers (WSC) comes into play, so it effectively inflates the incentive rate. This has been circulated and Ofgem would appreciate any feedback, e.g. does it allow for flexibility/innovative ways, but still provide DNOs with something to go after? The incentive is two way – improved performance means DNOs gain money, and vice versa if not.

9.6. In this section of the strategy document, the focus is on the very worst served customers, MS fears the incentive mechanism may take the focus away from them. In that the incentive mechanism will scoop up people who are worse served, rather than worst served. JH agreed, but the current mechanism may do the same. MS indicated that SSE's assessment of the new weighted incentive mechanism was that, due to the very high cost of improving quality of supply to the most remote customers, it would not address the worst of the worst served and that this would only be addressed through an improved ex ante allowance. At present in DR5 there is not a lot of activity being done in the area of WSC by DNOs.

9.7. Where you draw the line on multipliers can alleviate the concerns over who it covers. But Ofgem doesn't mind so much about whether the line is at, for example, 18 or 22. As long as it is not the case that someone with 2 has the same as someone with 20. This is where the multiplier comes in. The incentive mechanism would work like the IIS. For ED2, the potential for WSCs to be benchmarked was discussed. It was envisaged that we could use HV disagg data to provide an indication of a benchmark for a target, e.g. should DNO A have twice as many WSCs as DNO B. The incentive mechanism is currently based on an index of each DNO's own historic performance.

9.8. JB noted that the incentive rate has to be high enough to encourage this. But these aren't necessarily mutually exclusive. Therefore changing the current qualification criteria to match would make sure the customer has some way of recognising their poor service (rather than the current multi-year average), and gives a method/target to work towards through the guaranteed standards. MM flagged the issue of the worst served definition being a bit misleading, suggesting it should be closer to persistently worst. There is also the issue of not seeing who these WSCs are as they can change (i.e. 10 customers can be WSCs one year, and 10 different customers the next) under the incentive mechanism.

9.9. The WSC incentive mechanism was then discussed based on its interaction with network resilience, and its potential suitability for being a metric of this. It could be used to represent the true level of resilience performance within each network. BD'A recalled that WSC scheme was originally introduced due to the IIS mechanism.

9.10. The mechanism would work if you had similar numbers of customers with 12, 13, 14 interruptions, but the numbers would tail off as the numbers of interruptions increased, and DNOs may be less inclined to target those who are less affected.

9.11. DNOs agreed there is a need to think about the incentive rate. If the current scheme based on an average spend of £1,000 per customer isn't attractive enough, what would it have to be for it to work. JB indicated that if we converted the existing DR5 mechanism we could create a calibration point for a starting point.

9.12. The guaranteed standards options for WSC was discussed, Ofgem would appreciate it if DNOs could give us any information on ideas or mechanisms surrounding the incentive rate and guaranteed standards, as well as how much they anticipate paying to customers.

9.13. The sharing factor also plays a part. Say you have two DNOs: one has a 100% sharing factor, and none of this is in ex-ante allowances. If they spend £1 million, it will all come out of their allowances. Another DNO that has a 50% sharing factor, if they spend £1 million it will cost them £500,000 plus the incentive rate, leaving them with £500,000. The second DNO is therefore more likely to spend the money.

9.14. There have been discussions about what the definition of WSCs should be, and there is a preference that outputs are comparable across companies for consistency across the industry.

9.15. DNOs appear to be closer to 12 as the definition for WSCs – this seems to be closer to what the reasonable thresholds might be moving from 15.

9.16. The extension of WSC to be defined based on LV data was raised by Ofgem. The roll out of smart meters should assist any move such as this. AM felt that this would be feasible by ED2. BD'A felt that LV is less of an issue as DNOs tend to address LV issues and the interruptions then go away (particularly on a 12 month timeframe). Ofgem may put something to this effect in the February document, i.e. a strategy on identifying or recording LV interruptions. It is worth thinking about now and what could be captured consistently during ED1 for ED2.

Action point: Ofgem to review what we have in our possession for WSC definitions (i.e. what was previously submitted) and to circulate this around DNOs by the end of November.

**Person –
Ofgem**

10. Any Other Business

10.1. The September document included two paragraphs on whether cut-out failures should be counted in the IIS in ED1. The current RIGs describe how to report on cut outs faults where for example one customer is affected and to fix requires all other customers on the feeder to be interrupted, should not be counted under IIS. RF asked whether this should be counted as planned or unplanned if they have to go back and pull fuses as part of smart metering. MS raised the point that there are some cut out problems where DNOs may need to go back to the substation and restore it safely and this is not reported in cut outs. If calculations for how many emergency cut outs DNOs may need to do is not included for ED1, that is another 8 years where it is not reported, a proxy approach could be based on LV Services. BD'A felt that this could result in a very large effect on the IIS. JH indicated that the weighting could be less than 1.

10.2. KH raised a query that Ofgem had received with the group, the query was around customers contacting the DNO enquiry service during power cuts and the customers having to use their mobile phones and being charged for this. Under the licence DNOs are required to offer a free service (from the point of use) for customers to contact them for example during power cuts. KH will raise this with his colleagues in the Customer Service working group, and he requested that DNOs inform Ofgem of their response to this.

Action point: Ofgem to circulate RIGs section that states where cut-out failures are reported

**Person –
Ofgem**

Action point: DNOs to think about the impact of reporting cut outs in the IIS and feed views back to Ofgem

**Person –
DNOs**

Action point: DNOs to confirm via email to Ofgem about their obligation to provide a free enquiry service *at the point of use* for customers to contact them. Ofgem and DNOs to share this issue with their Customer Service Working Group colleagues.

**Person –
DNOs**