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Minutes

Minutes of RIIO-ED1 Connections Working Group (ConWG)

Minutes of RIIO-ED1 ConWG meeting held at Ofgem on Wednesday 05th June 2013	From	Stephen Perry	05 June 2013
	Date and time of Meeting	05th June 2013 13:00 to 15:00	
	Location	9 Millbank, London, SW1P 3GE	

1. Present

Ofgem
James Veaney
Olivia Powis
Stephen Perry

Stakeholders
Ray Farrow
Tim Russell
Alex Spreadbury
Mike Harding
John Christie
Diana Chklar

DNOs
Alison Sleightholm (WPD)
Keith Noble Nesbitt (Northern Powergrid)
Ian Cobley (Northern Powergrid)
Brian Hoy (ENWL)
Cathy Falconer (SSE)
John Davies (Scottish Power)
Steve Wood (UKPN)

2. Introduction (slides attached)

2.1. James Veaney (JV) welcomed everyone to the latest RIIO-ED1 ConWG.

2.2. JV noted that earlier this year, we made our high-level decision on the outputs that each electricity distribution network operator (DNO) and the associated incentive mechanisms. JV stated that we will be consulting shortly on how each connection incentive will operate and that this working group was an opportunity to share our initial views.

3. DNO presentation on splitting the ICE penalty (slides attached)

3.1. In the ED1 Strategy Decision we stated that the overall penalty would be 0.9 per cent of base revenue, however we did not set out how this would be split across the nine market segments. Brian Hoy (BH) provided an overview of how the Incentive on Connections Engagement (ICE) penalty could be split across the nine relevant market segments (eg equal split, by market value, by customer numbers, by average project value).

3.2. The working group noted that if based on market value, the majority of the penalty for at least some DNOs would be placed on one or two market segments (eg the High Voltage market segment). The working group noted that if we split the penalty by number of customers, then we would need to define the difference between "customers" and "projects".

3.3. The working group discussed the potential difficulties of defining "market value" consistently across the DNOs (eg assuming value of ICP/IDNO work). KNN considered that there is a lot of data available and noted that the value does not need to be exact, as it is approximate indicator for the purpose of splitting the penalty.

3.4. The working group noted that there is limited historic data on the extent to which values of each market segment change over time. JV stated that fixing the incentive value based on market value in one year may not be reflective of future changes in that market's value.

4. Northern Powergrid presentation on splitting the ICE penalty (slides attached)

4.1. Keith Noble Nesbitt (KNN) provided an overview of Northern Powergrid's views on how the Incentive on Connections Engagement (ICE) penalty could be split across the nine relevant market segments. KNN considered that splitting the penalty based on market value is the best approach, as it mimics the incentives to focus customers needs that would be expected in a competitive market. KNN considered that this approach also provides the strongest incentive for DNOs to pass the Competition Test in the market segments with the highest market value (where there are the largest potential benefits for customers).

4.2. KNN also provided an overview of the potential options for licence drafting.

4.3. Tim Russell (TR) noted that in a competitive environment, DNOs would engage more with high-value customers. TR therefore considered that the ICE penalty should be based on market value to mimic competitive behaviours.

4.4. However Alex Spreadbury (AS) considered that the DNOs should not be placing all their focus on large value connections to the detriment of other market segments. AS therefore considered equal value should be placed on engagement with all market segments.

4.5. MH suggested that a complex approach based on market value may drive the DNOs to "game the incentive" rather than improve actual performance. MH supported a simple approach that was transparent to both DNOs and connection customers.

5. Ofgem presentation on the ICE incentive (slides attached)

5.1. JV outlined our view how the Incentive on Connections Engagement (ICE) penalty could be split across the nine relevant market segments. JV considered that the incentive amount should incentivise the DNOs to meet the objective of the ICE; to understand and meet the needs of existing and future major connection customers. JV considered that the incentive amount should appropriately reflect the <u>value</u> of engagement with that market segment (ie taking into account a range of factors including the market value of each market segment, the need for engagement with each market segment and the cost of engagement).

6. DNO presentation on splitting the Time to Connect incentive reward (slides attached)

6.1. BH presented DNO feedback on the various options of splitting the Time to Connect Incentive reward amount between LVSSA/LVSSB and Time to quote/Time to connect. BH suggested that there was no strong rationale to place a stronger weighting on any one element of the incentive. BH therefore suggested placing an equal split across the four elements of the incentive.

7. Ofgem presentation on the Time to Connect incentive

7.1. Stephen Perry (SP) provided an overview of the elements of the Time to Connect Incentive that we would be consulting on shortly.

7.2. SP stated that we supported common targets for all licensees, to ensure that DNOs are rewarded equally for the same level of performance. SP stated that we supported different targets for LVSSA/LVSSB connections, to reflect the different amount of work required for smaller/larger connections (as evidenced in the data).

7.3. The working group discussed the approach to calculating the target/maximum reward score. The DNOs were generally supportive of revising the target/maximum reward score after four years (rather than a gradual annual change). BH requested to know the revised target before the start of the start of the fifth regulatory year of ED1.

7.4. SP explained that we support targets that reward good performance and incentivise all licensees to improve performance. SP considered that a target based on upper quartile performance could achieve this. SP noted that DNOs had not been directly incentivised to improve connection timescales beyond Guaranteed Standard timescales before and that the potential improvements are therefore unknown. SP therefore supported setting a challenging maximum reward score that only rewards DNOs for exceptionally good performance (eg average – two standard deviations). CF considered that it would be difficult for DNOs to make that level of improvement in performance.

7.5. SP proposed that we split the incentive equally across the four elements of the Time to Connect Incentive (LVSSA/LVSSB, Time to Quote/Time to Connect).

7.6. SP proposed that we determine the incentive rate for each element by dividing total revenue exposure by the difference between the maximum reward score and the target score.

8. Next Working Group

8.1. The next working group will be held at the end of August at 9 Millbank, SW1P 3GE.

8.2. SP noted that the next working group will be focused on reviewing responses to our consultation and developing the assessment framework (eg the minimum criteria) for the ICE incentive.

Action: All parties to consider possible approaches to assess ICE submissions, in advance of the next working group.