

Time to Connect Incentive

Discussion at CONWG

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- **Action: Phil Swift (PS) and Brian Hoy (BH) to consider and assess the various options of splitting the reward and report back to the working group by the end of May.**
- Two options have been considered:
 - An equal split of the incentive over the four elements
 - ie split between LVSSA, LVSSB and between time to quote and time to connect
 - A split based on equal incentive per customer

		DNO 1		DNO 2	
Time to Quote	LVSSA	3,000	50%	4,800	80%
	LVSSB	3,000	50%	1,200	20%
	<i>Combined LVSSA & B</i>	6,000		6,000	
Time to deliver	LVSSA	1,500	50%	2,400	80%
	LVSSB	1,500	50%	600	20%
	<i>Combined LVSSA & B</i>	3,000		3,000	
<i>TOTAL Volumes</i>		9,000		9,000	

Max Reward

£1,600,000

£1,600,000

- To model the impact two generic DNOs have been used
- Both have the same
 - Overall volumes of activities
 - the mix of LVSSA & LVSSB represent the range across DNOs
 - The same Maximum Reward
 - The same targets
- The modelling assumes the same average performance for each scenario

Equal split across elements

	Incentive equal 4 way split	Incentive	Incentive per activity	Incentive	Incentive per activity
Quoting	LVSSA	£400,000	£133	£400,000	£83
	LVSSB	£400,000	£133	£400,000	£333
Delivery	LVSSA	£400,000	£267	£400,000	£167
	LVSSB	£400,000	£267	£400,000	£667

- Allocation
 - By definition the allocation across each element is the same for each modelled DNOs
 - Note will vary in reality as total incentive linked to allowed revenue
 - The incentive per activity varies dependent on the mix of each activity for the modelled DNOs
 - Ratios seem logical ie LVSSB>LVSSA; Delivery>Quoting
 - Again will vary in reality as no direct correlation between allowed revenue and LVSSA & LVSSB volumes
- Incentive properties
 - Value of incentive known in advance for each element
 - Same average performance results in same incentive
 - Different weightings per activity within each DNO

Split based on equal incentive per customer

	Incentive weighted by volume	Incentive	Incentive per activity	Incentive	Incentive per activity
Quoting	LVSSA	£533,333	£178	£853,333	£178
	LVSSB	£533,333	£178	£213,333	£178
Delivery	LVSSA	£266,667	£178	£426,667	£178
	LVSSB	£266,667	£178	£106,667	£178

- Allocation
 - Allocation across each element varies dependent on mix for each DNO
 - And in reality also by value of allowed revenue
 - By definition the incentive per activity is the same for each activity for the modelled DNOs
 - Will vary in reality due to differences in allowed revenue and mix of activity
- Incentive properties
 - Value of incentive not known in advance for each element (assuming calculated after year end based on actual mix)
 - Same average performance results in different incentive reward
 - Same incentive per value within each DNO

Incentive properties

		DNO 1		DNO 2	
		Target	Max Reward	Target	Max Reward
Quoting	LVSSA	8	6	8	6
	LVSSB	12	6	12	6
Delivery	LVSSA	42	28	42	28
	LVSSB	53	38	53	38

		Performance	Performance
Quoting	LVSSA	7	7
	LVSSB	9	9
Delivery	LVSSA	32	32
	LVSSB	45	45

		Incentive equal 4 way split	
Quoting	LVSSA	£262,900	£262,900
	LVSSB	£184,626	£184,626
Delivery	LVSSA	£282,214	£282,214
	LVSSB	£206,231	£206,231
		<u>£935,970</u>	<u>£935,970</u>
		Incentive weighted by volume	
Quoting	LVSSA	£350,533	£560,852
	LVSSB	£246,168	£98,467
Delivery	LVSSA	£188,142	£301,028
	LVSSB	£137,487	£54,995
		<u>£922,331</u>	<u>£1,015,343</u>

- If assume the same targets for both DNOs
- If assume the same actual average performance for each of the four elements
- Equal four split of incentive results in the same incentive reward
- Incentive on equal incentive per activity results in different incentive rewards