

## **RIIO ED1 Connections Working Group**

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# RIIO ED1 Connections Incentives - Consultation

In March we outlined out RIIO-ED1 Strategy Decision. There were some elements of the incentive structure that we did not finalise in the strategy document.

We intend to consult shortly on the remaining elements of the ED1 incentive design.

# Incentive on Connection Engagement

We will be consulting on:

- a) the approach to scaling the maximum penalty between the nine market segments.

**Next project:** develop assessment framework and evaluation criteria.

We intend to run a trial next year (Summer 2014). This will give all parties the opportunity to trial and test assessment framework in advance of ED1.

# ICE: Scale the maximum penalty between the nine market segments

## Basic Options

Equal split

Split by market value of each market segment (set in advance based on historic values or flexes each year based on actual amounts)

Split by number of customers in each market segment (set in advance based on historic values or flexes each year based on actual amounts)

Combination (eg part equal split, part split by market value)

The incentive amount should incentivise DNOs to meet the objective of the ICE; to understand and meet the need of existing and future major connection customers.

The incentive amount should appropriately reflect the value of engagement with that market segment (ie taking into account the market value of each market segment, the value of engagement to those connection customers and the need for engagement with each market segment).

# Assessment of options

Options	Pros	Cons
Equal Split	<ul style="list-style-type: none"> <li>•Simple</li> <li>•Total exposure and incentive amount for each market segment known at start of period</li> <li>•Places equal value on engagement with customers in each market segment</li> </ul>	<ul style="list-style-type: none"> <li>•Incentive amount will not reflect market value.</li> <li>•May not be reflective of the need for engagement with each market segment.</li> </ul>
Market Value – set in advance (with de minimis 100k)	<ul style="list-style-type: none"> <li>•Total exposure and incentive amount for each market segment known at start of period</li> </ul>	<ul style="list-style-type: none"> <li>•May not be reflective of the need for engagement with each market segment.</li> <li>•May not capture the value of engagement with potential connection customers.</li> <li>•May not be reflective of market value in future years (only reflect year 1).</li> <li>•Does not place equal value on engagement with each market segment.</li> </ul>
Market Value – set each year (with de minimis 100k)	<ul style="list-style-type: none"> <li>•Incentive amount reflects market value each year.</li> <li>•Wholly reflective of one aspect of engagement.</li> </ul>	<ul style="list-style-type: none"> <li>•Incentive amount not known at start of period (total exposure and incentive amount for each market segment).</li> <li>•May not capture the value of engagement with potential connection customers.</li> <li>•May not be reflective of the need for engagement with each market segment.</li> <li>•Does not place equal value on engagement with each market segment.</li> </ul>
Number of customers (with de minimis 100k)	<ul style="list-style-type: none"> <li>•Total exposure and incentive amount for each market segment known at start of period (if set in advance)</li> <li>•Partially reflective of one aspect of engagement.</li> </ul>	<ul style="list-style-type: none"> <li>•Incentive amount will not reflect market value (focus on market segments based on volume only).</li> <li>•Total exposure and incentive amount for each market segment known at start of period (if flexing each year).</li> <li>•May not capture the value of engagement with potential connection customers.</li> <li>•May not be reflective of the need for engagement with each market segment.</li> <li>•Does not place equal value on engagement with each market segment.</li> </ul>
Combination (50% equal split, 50% market value)	<ul style="list-style-type: none"> <li>•Total exposure and incentive amount partially reflects market value.</li> <li>•Partially reflective of one aspect of engagement.</li> <li>•Total exposure and incentive amount for each market segment partially known at start of period.</li> </ul>	<ul style="list-style-type: none"> <li>•Incentive amount partially reflects market value.</li> <li>•Incentive amount partially known in advance.</li> <li>•May not be reflective of the need for engagement with each market segment.</li> <li>•Does not place equal value on engagement with each market segment.</li> </ul>

# Time to Connect

We will be consulting on:

- a) Whether target/max reward score values should be common for:
  - i. All licensees
  - ii. LVSSA/LVSSB
- b) The approach to setting the targets and initial target values.
- c) The approach to setting the max reward scores and initial max reward score values.
- d) How the reward should be split between:
  - i. LVSSA/LVSSB
  - ii. Time to quote/Time to Connect.
- e) The incentive rate

# Time to Connect Data

		WPD E Mid	WPD W Mid	WPD S Wales	WPD S West	EPN	LPN	SPN	SSEH	SSES	NPgY	NPgN	ENWL	SPM	SPD	Ave	SD
Time to Quote	LVSSA	8.24	9.07	7.11	7.51	10.06	9.72	10.40	8.78	8.19	11.12	11.12	7.53	9.28	9.82	9.14	1.31
	LVSSB	14.39	17.15	9.85	10.12	15.62	16.10	17.89	13.70	12.37	19.32	19.82	11.52	11.04	13.50	14.46	3.30
Time to Conne ct	LVSSA	44.22	52.14	42.07	43.60	42.25	49.03	49.09	35.08	39.50	47.63	51.63	74.16	36.83	42.13	46.38	9.53
	LVSSB	55.10	56.52	56.10	57.47	53.70	69.82	63.54	52.71	47.19	59.63	52.69	82.67	45.97	45.02	57.01	9.95

\*Quotations: Data from 18 month period 1 April 2011 to 30 Sept 2012, except for SP which is for the 14 months ending 30 Sept 2012.

\*Completed Connections: Data from six month period 1 April 2011 to 30 Sept 2012, except for SP which is for a five months ending 30 Sept 2012.

\*\*\*Used proxy data for DNOs that cannot provide time to quote data ( added average delay between "application received" and "minimum information" to the timescales from minimum information received to issuing quote)

## a) Common Targets

- i. Should all licensees have common targets?
  - There are variations in performance between DNOs.
  - However, we consider that customers should expect similar levels of performance across GB and DNOs should be rewarded equally for the same performance level.
- ii. Common targets for LVSSA/LVSSB connections?
  - There are current variations in performance between LVSSA/LVSSB work
  - We would not performance under this incentive to be adversely affected by mix of work.

### **Minded to position**

- Common targets for all licensees.
- Separate targets for LVSSA/LVSSB



## b)+c) Improvements to target and max reward value

We have committed to increasing targets and max reward values during the period.

Two main options:

- a) Step change in targets
- b) Steady increase in targets

**Minded to:** Step change at mid point, based on data from first four years. To calculate revised values we will use the same approach that we decide upon now.

## b) Targets

**Minded to position:** set target now for first four years based on UQ performance.

Approach	Time to Quote (working days)		Time to Connect (working days)	
	LVSSA	LVSSB	LVSSA	LVSSB
UQ	8.21	11.73	42.08	52.70
Average - 1SD	7.83	11.16	36.85	47.06
Average - 1.75SD	6.85	8.68	29.71	39.59
Industry best performance	7.11	9.85	35.08	45.02

	Options - percentage of reward exposure			
	UQ	Ave – 1SD	Ave – 1.75SD	Industry best
WPD EMid	0%	0%	0%	0%
WPD Wmid	0%	0%	0%	0%
WPD SWales	28%	24%	0%	0%
WPD SWest	21%	14%	0%	0%
EPN	0%	0%	0%	0%
LPN	0%	0%	0%	0%
SPN	0%	0%	0%	0%
SSEH	12%	5%	0%	0%
SSES	13%	0%	0%	0%
NPgY	0%	0%	0%	0%
NPgN	0%	0%	0%	0%
ENWL	11%	6%	0%	0%
SPM	24%	4%	0%	0%
SPD	12%	5%	0%	0%

\*Based on trial data

\*\*Max Reward in each element Average – 2SD

## c) Max Reward Score

**Minded to position:** set max reward score based on average – 2SD.

Approach	Time to Quote (working days)		Time to Connect (working days)	
	LVSSA	LVSSB	LVSSA	LVSSB
Average - 2SD	6.52	7.86	27.32	37.11
20 per cent below industry average	7.31	11.57	37.11	45.61
25 per cent below industry average	6.86	10.84	34.79	42.76
30 per cent below industry average	6.40	10.12	32.47	39.91

	Options - percentage of reward exposure			
	Average – 2SD	20% below ave	25% below ave	30% below ave
WPD EMid	0%	0%	0%	0%
WPD Wmid	0%	0%	0%	0%
WPD SWales	28%	50%	45%	40%
WPD SWest	21%	44%	38%	35%
EPN	0%	0%	0%	0%
LPN	0%	0%	0%	0%
SPN	0%	0%	0%	0%
SSEH	12%	25%	24%	18%
SSES	13%	33%	23%	18%
NPgY	0%	0%	0%	0%
NPgN	0%	0%	0%	0%
ENWL	11%	44%	19%	13%
SPM	24%	74%	54%	37%
SPD	12%	25%	19%	15%

\*Based on trial data

\*\*Max Reward in each element UQ

## b) and c) Targets and Max Reward Score – Simple Approach

Approach	Time to Quote (working days)		Time to Connect (working days)	
	LVSSA	LVSSB	LVSSA	LVSSB
<b>Target</b>	8	11	42	50
<b>Max Reward</b>	6.5	10	32	40

DNO	Percentage of reward exposure
WPD EMid	0%
WPD Wmid	0%
WPD SWales	40%
WPD SWest	30%
EPN	0%
LPN	0%
SPN	0%
SSEH	17%
SSES	13%
NPgY	0%
NPgN	0%
ENWL	8%
SPM	23%
SPD	12%

## d) Splitting the incentive across the four elements

### **How should the reward be split:**

- a) between single LV demand connections (LVSSA) and small project demand connections (LVSSB);
- b) between “time to quote” and “time to complete connection”

### **Factors to consider:**

- DNOs complete more LVSSA connections than LVSSB connections.
- The average value of a LVSSB connection is higher than a LVSSA connection
- DNOs complete issue more quotations than complete connections.
- Customers do not currently pay to receive a quotation. Customers that accept the quotation have to pay for their connection and the costs associated with all quotations.

## d) Splitting the incentive across the four elements

### **Principles**

The incentive amount should:

- a) drive DNOs to improve the timeliness of all aspects of their connection service.
- b) not be overtly disproportionate to the value of the work completed.
- c) not drive any adverse implications.

### **Minded to position:**

- We have not identified any strong rationale to suggest that the incentive amount should be weighted on any size of connection/element of the connection process.
- We therefore support an equal split (0.1 per cent of base revenue on each of the four elements).

## e) The incentive rate

### **Minded to position:**

Incentive Rate = Maximum revenue exposure / (Target value – Max Reward Score value)

This is the same approach that has been used for Customer Satisfaction Survey and Complaints Metric for GD1. We are willing to consider alternative suggestions.

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