

## **ICE discussion**

ofgem

# Objectives of the ICE

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- To focus DNOs on understanding and meeting the needs of major connections customers.
- To give stakeholders exposure to each DNO's high-level strategy for engagement and delivery.

Business plan and DG workplan processes highlighted how stakeholder engagement can be used to:

- Develop high-quality proposals.
- Ensure public scrutiny and accountability against proposals.

# Assessment process - ED1 Strategy Decision

*We said that...*

- We require each DNO to make a submission, on a periodic basis, demonstrating how they have
  - engaged with a broad range of customers,
  - established relevant performance indicators and
  - developed a forward-looking work plan of actions to improve performance (with associated delivery dates).
- Subsequent submissions should demonstrate performance against their relevant performance indicators and progress against their work plan of actions.
- We will assess submissions against a set of minimum requirements.
- The DNO will incur a penalty if we consider that they have not satisfied minimum requirements for that market segment.
- We will continue to engage with stakeholders to identify key issues and gather feedback on DNO performance throughout RIIO-ED1.

# Assessment process - ED1 Strategy Decision

*We said that...*

- Separate submissions will be required for different market segments; each representing a different type of customer (eg metered demand, DG, and unmetered).
- The penalty will only apply in market segments where there is no effective competition.
- We have consult on how to split total penalty across the market segments. A decision is due shortly.
- The ICE will continue to operate even in those market segments where there is effective competition. However, in these instances, it will only capture the DNOs' provision of non-contestable services and there will be no financial incentive attached.
- Licence drafting working group – suggested that ICE could incorporate Competition Test reporting requirements.
  - The extent to which evidence relied on by the licensee to establish that the Tests were satisfied are still accurate.
  - Where appropriate, how change has occurred in the Relevant Market Segment that is the subject of the evidence relied on in the Competition Test.

# Key areas that we are seeking feedback on

- Assessment process
  - Whether the assessment process should be annual or biennial?
  - What the timelines for submission and assessment should be?
- Assessment criteria
- Potential submission structure
- How to trial arrangements

# Annual assessment vs Biennial Assessment

Annual Assessment	Biennial Assessment
Shorter timescale for DNOs to implement plans.	Longer gaps between Ofgem assessment of DNO performance
Higher regulatory burden for all.	Longer period between DNO performance and when the DNO incurs any penalty.
	There could be large variation in performance over two years.

Which approach do you prefer? Why?

How much time do DNOs need to implement plans and demonstrate change?

How do we ensure that biennial assessments aren't clouded by short term memories?

Does a longer gap between performance and penalty matter?

Our current preference is for an annual assessment.

# Why would we apply a penalty?

- A DNO has not engaged with connection stakeholders.
- A DNO has not secured endorsement from connection stakeholders.
- A DNO has not responded to issues raised by connection stakeholders.
- A DNO has not undertaken activities to improve performance.
- A DNO has not delivered key outputs.

# Potential Assessment Criteria

DNOs will be required to submit evidence to demonstrate the following criteria:

Section	Part 1 (forward looking)	Part 2 (backward looking)
<b>Process</b>	<ol style="list-style-type: none"> <li>1. The DNO has a comprehensive and robust strategy for engaging with connection stakeholders.</li> <li>2. The DNO's proposed strategy, activities and outputs been informed and endorsed by a broad and inclusive range of stakeholders.</li> </ol>	<ol style="list-style-type: none"> <li>1. The DNO has implemented a comprehensive and robust strategy for engaging with connection stakeholders.</li> <li>2. The DNOs activities and outputs have taken into account ongoing feedback from a broad and inclusive range of stakeholders.</li> </ol>
<b>Activities</b>	The DNO has a comprehensive and relevant workplan of activities.	The DNO has undertaken the activities stated in its workplan. If not the reasons provided are reasonable and well-justified.
<b>Outputs</b>	The DNO has set itself outputs that it will deliver in that year (eg targets, KPIs).	The DNO has delivered the outputs that it stated that it would deliver (eg targets, KPIs) in that year. If not, the reasons provided are reasonable and well-justified.

Ofgem will decide whether the criteria of Part 1 and 2 have been met.

Our assessment will take into account feedback from stakeholders and be informed by previous years submissions.

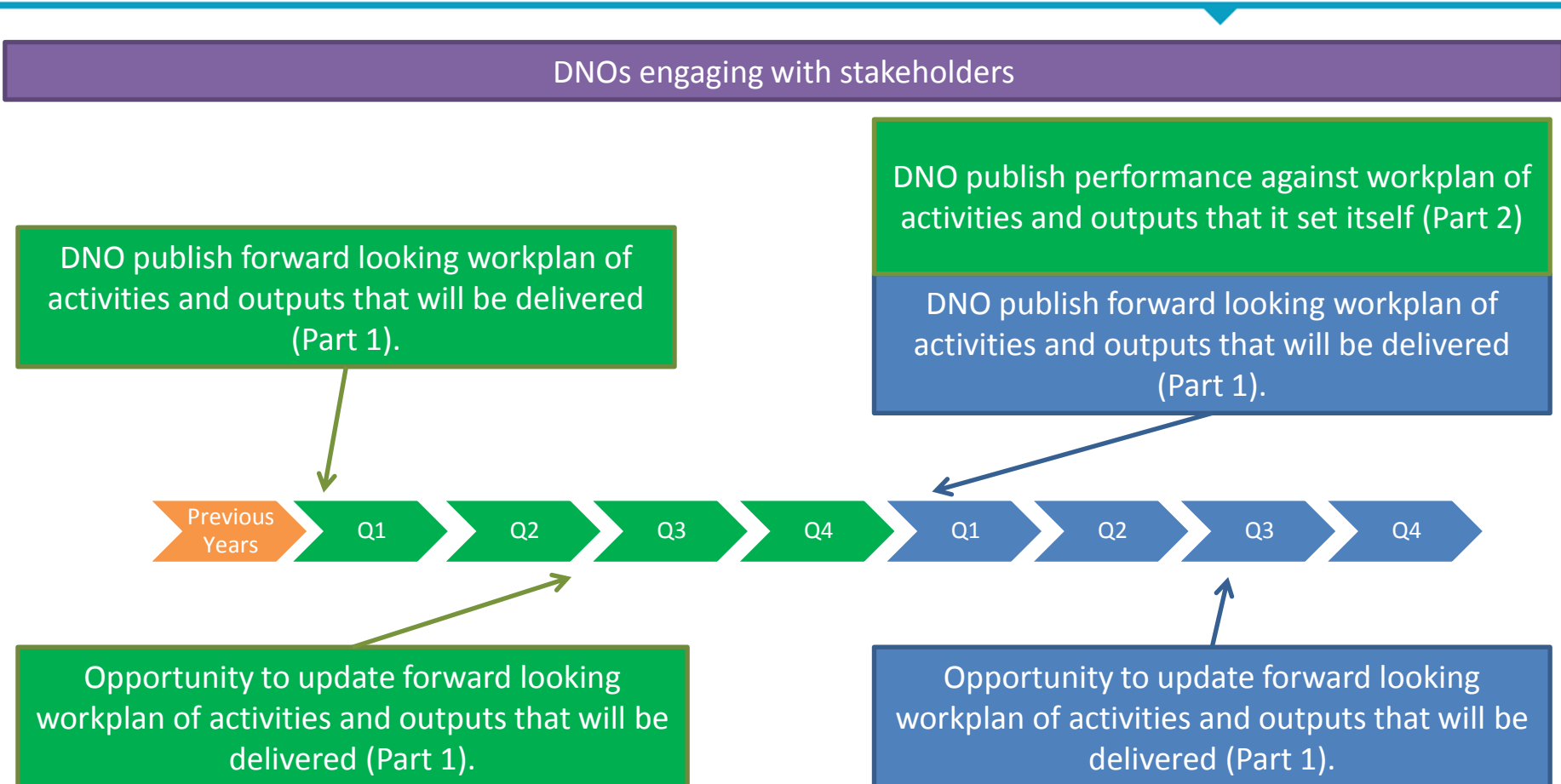
Should a company that fails to meet this criteria incur a penalty?

Are there other criteria that we are missing?

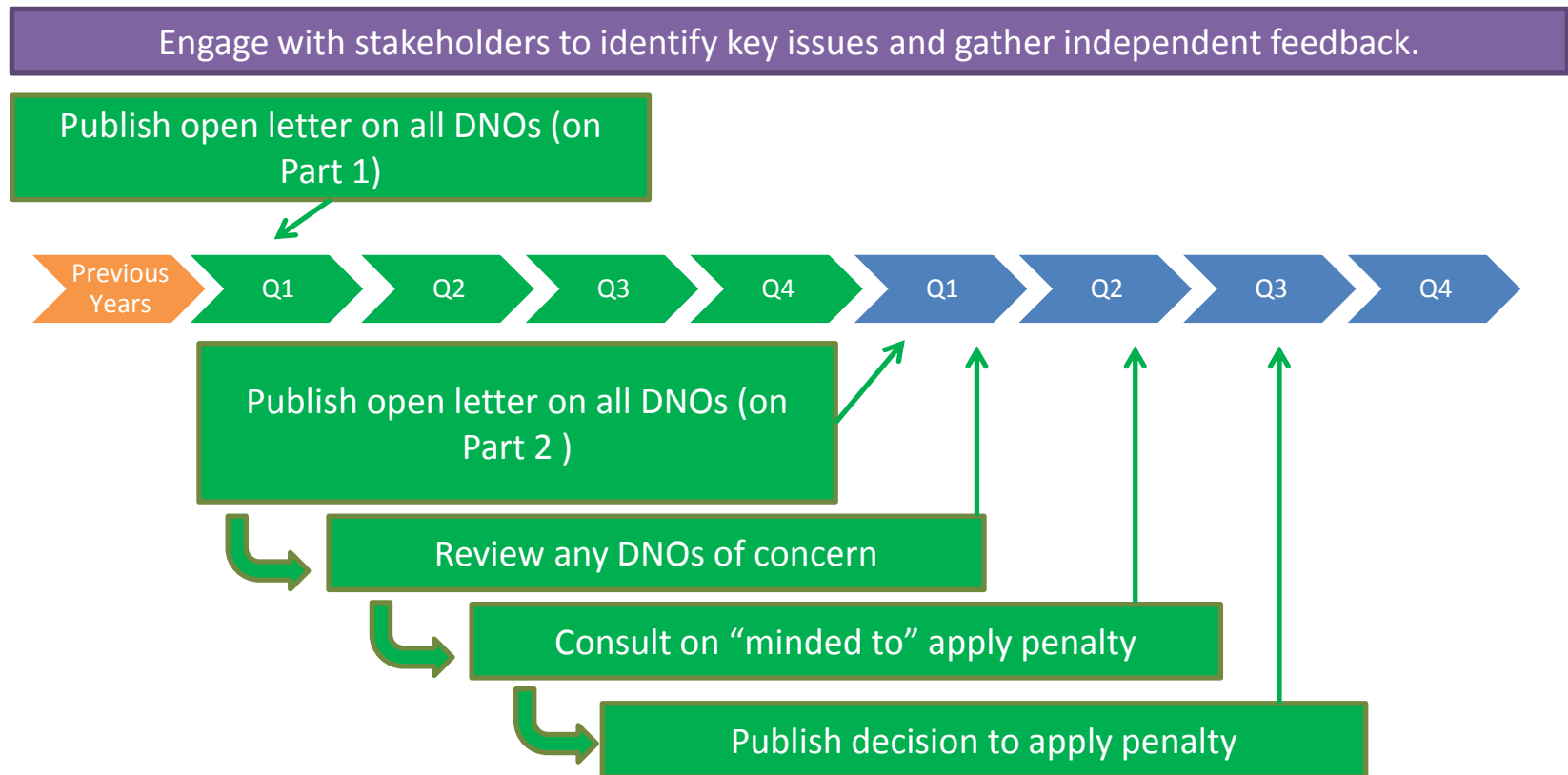
Is the separation between process, activities and outputs useful?



# Potential Submission Timeline



# Potential Assessment Timeline



What do you think of our potential assessment submission and assessment timeline?

- When will the DNOs be able to submit their submission?
- Will our proposed approach incorporate the views of stakeholders in the assessment process?
- Will this approach allow DNOs to adequately update submissions?

# General guidelines for submission

- DNO to submit on a company basis.
- Submissions should be accessible for stakeholders.
- Separate submissions for each market segment required, with information highlighting how processes, activities and output fit into overall connection strategy.
- DNO to split market segments as desired (this may not necessarily reflect our nine market segments).
- For those that pass the Competition Test, DNOs will only need to report on non-contestable services. No penalty will be attached to non-contestable performance.

# Potential submission structure

Overall connection strategy					
Demand		Unmetered		Generation	
Part 1	Part 2	Part 1	Part 2	Part 1	Part 2
Process	Process	Process	Process	Process	Process
Activities	Activities	Activities	Activities	Activities	Activities
Outputs	Outputs	Outputs	Outputs	Outputs	Outputs

In this example; green =passed, red = not passed)

Competition Test Reporting??

What do you think of the proposed structure? Should Competition Test reporting be included?

We want to hear your feedback on our proposals at the next working group.

## Trial Arrangements

- To test arrangements, we are keen to trial assessment process in Summer 2014 and 2015.
- If we do this, DNOs will be required to submit a draft workplan (Part 1) early next Summer.
- We intend to produce a initial draft governance document early next year.

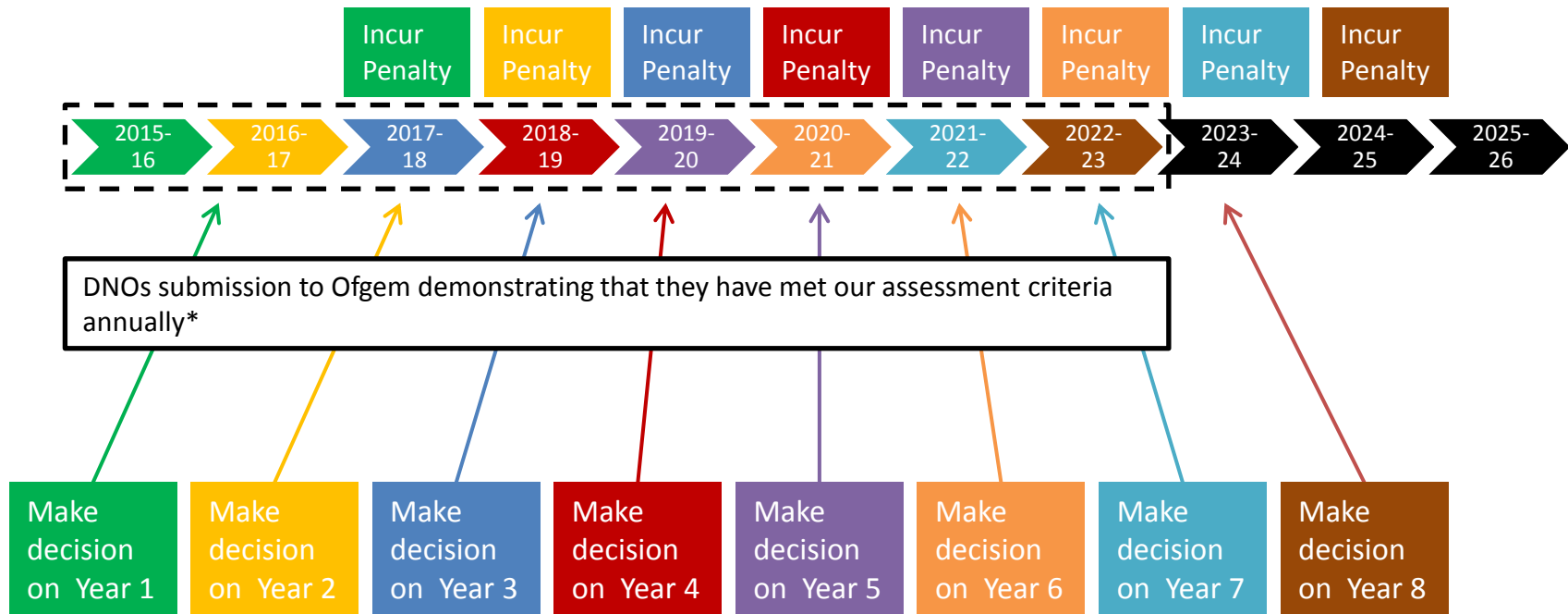
DNOs will need to submit first live submission at start of 2015-16.

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**Our priority is to protect and to make a positive difference for all energy consumers. We work to promote value for money, security of supply and sustainability for present and future generations. We do this through the supervision and development of markets, regulation and the delivery of government schemes.**

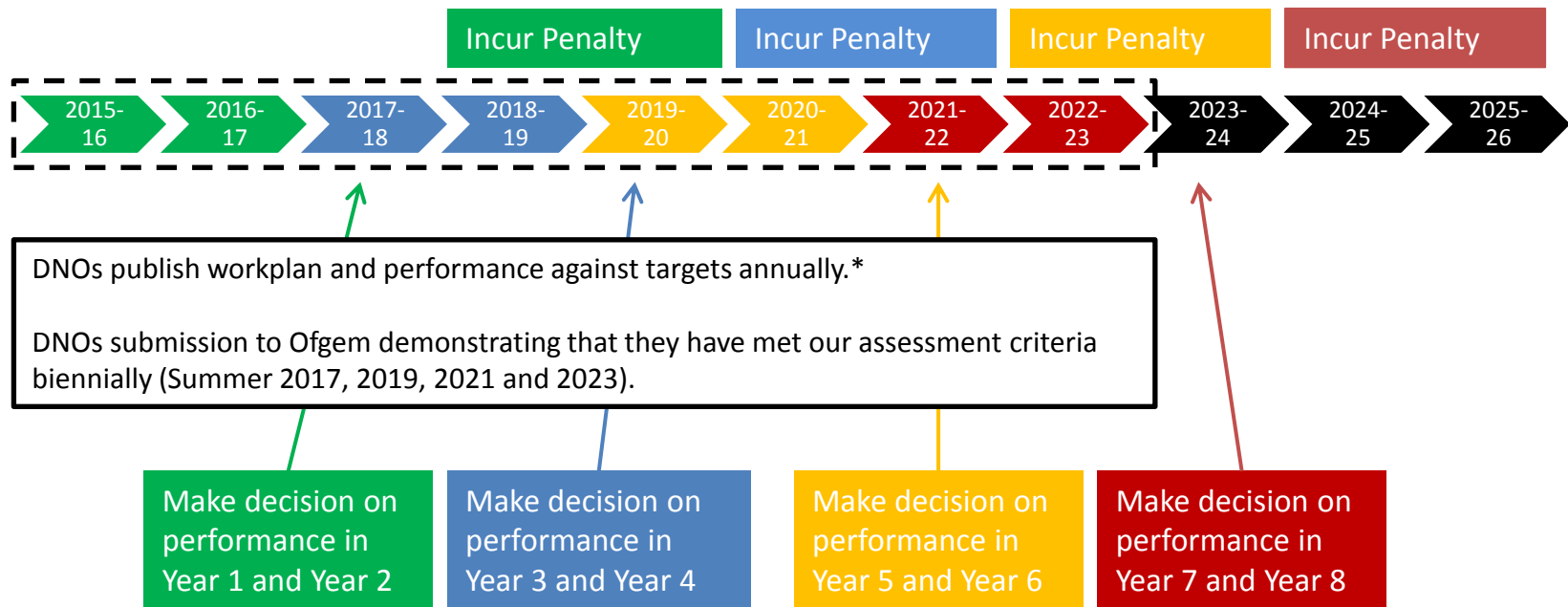
**We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.**

# Annual Assessment



\*First one due start of 2015-16 (looking forward over 15-16), last one due start of 2023-24 (looking back over 22-23). With opportunities to amend every six months.

# Biennial Assessment



\*First one due start of 2015-16 (looking forward over 15-16), last one due start of 2023-24 (looking back over 2022-.23). With opportunities to amend every six months.