

# Incentive on Connections Engagement (ICE) Guidance Document

## Background

1.1 Connecting customers to the network is a critical function of electricity distribution licensees (“licensees”) that delivers benefits both to individual customers and society more broadly. A good connection service that aligns with customers’ needs allows for new homes to be habitable, businesses to commence operations and distributed generators to export low-carbon energy.

1.2 Through our engagement with connection customers during the development of RIIO-ED1 it became apparent that the needs and demands of small, mainly domestic connection customers were different to the needs of larger, often commercial connection customers.

1.3 The aim of this incentive is to replicate the effects of competition and drive licensees to understand and meet the needs of larger connections customers (as outlined in paragraph 1.5). This may involve improving timeliness of connections, extending the provision of information or enhancing the overall customer experience. This incentive may also improve coordination with other utility connection providers and facilitate connection customers participating in joint connection arrangements.

## Scope of the incentive

1.4 The ICE is designed to capture performance in the Relevant Market Segments of the local connections market as outlined in paragraph 1.6.<sup>1</sup>

1.5 For the purpose of this incentive, the Relevant Market Segments of the local connections market are each of the nine segments listed in Table 1, defined by reference to the nature and volume of the connection activities and the work associated with them.

Table 1: Summary of Relevant Market Segments

<b>Metered Demand Connections</b>	Low Voltage (LV) work: LV connection activities involving only LV work, other than in respect of the Excluded Market Segment
	High Voltage (HV) work: LV or HV connection activities involving HV work (including where that work is required in respect of connection activities within an Excluded Market Segment).
	HV and Extra High Voltage (EHV) work: LV or HV connection activities involving EHV work.
	EHV work and above: extra high voltage and 132kV connection activities.
<b>Metered Distributed Generation (DG)</b>	LV work: low voltage connection activities involving only low voltage work.
	HV and EHV work: any connection activities involving work at HV or above.

<sup>1</sup> The local connections market is defined as the market that exists for the procurement and provision of Connection Activities within the licensee’s distribution services area.

<b>Unmetered Connections</b>	Local Authority (LA) work: new connection activities in respect of LA premises.
	Private finance initiatives (PFI) work: new connection activities under PFIs.
	Other work: all other non-LA and non-PFI unmetered connections work.

1.6 The ICE assesses performance in relation to both contestable<sup>2</sup> and non-contestable<sup>3</sup> connection activities.

1.7 In Relevant Market Segments where the licensee earns a regulated margin<sup>4</sup> and we have not determined that there is effective competition, we will assess whether the licensee meets the assessment criteria in relation to contestable and non-contestable activities. The penalty will apply if the licensee is unable to demonstrate how it meets the assessment criteria outlined in paragraph 1.17.

1.8 In Relevant Market Segments where the licensee is able to earn an unregulated margin and we have determined that there is effective competition,<sup>5</sup> we will assess whether the licensee meets the assessment criteria in relation to non-contestable activities only. No penalty will apply in these markets.

1.9 The ICE does not capture performance in the Excluded Market Segments of the Local Connections Market (which is measured and incentivised under the RIIO-ED1 Time to Connect incentive and Customer Satisfaction Survey).

1.10 The Excluded Market Segments are summarised in Table 2 below.

Table 2: Summary of Excluded Market Segments.

<b>Metered Demand Connections</b>	Single LV work - Single LV single phase service connection.
	Small LV projects 2-4 LV single phase domestic services or for connections to 1-4 LV single phase domestic premises involving an extension to the LV network or a single two or three phase whole current metered connection (not requiring an extension to LV network).

### Submission process

1.11 Each licensee must make an ICE submission for each regulatory year (in accordance with paragraph 1.23. Licensees may make ICE submissions on a company basis or per licensee). Subject to paragraph 1.122, each licensee's ICE submission must consist of two sections: a Looking Forward section and a Looking Back section.

1.12 The first ICE submission must be sent to us by 31 May 2015. This submission will only have a Looking Forward section covering 2015-16. All subsequent ICE submissions will have two sections.

#### *Looking Forward section*

<sup>2</sup> Contestable activities are activities comprising or associated with the provision, modification, or retention of a connection to the licensee's Distribution System that may, in accordance with the licensee's Connection Charging Statement, be undertaken by persons other than the licensee, where those activities are fully funded by the customer.

<sup>3</sup> Non-contestable activities are activities comprising or associated with the provision, modification, or retention of a connection to the licensee's Distribution System that may not, in accordance with the licensee's Connection Charging Statement, be undertaken by persons other than the licensee.

<sup>4</sup> In accordance with the provisions of CRC 2K (Margins on Licensee's Connection Activities)

<sup>5</sup> In accordance with the provisions of CRC 2K (Margins on Licensee's Connection Activities)

1.13 The Looking Forward section of the ICE submission should give connection stakeholders visibility of the licensee's high-level strategy for engagement, workplan of activities and key performance outputs for the forthcoming regulatory year.

1.14 Each licensee is required to produce an ICE Submission that meets the following criteria in its Looking Forward section:

- The licensee has a comprehensive and robust strategy for engaging with connection stakeholders and facilitating joint discussions where appropriate;
- The licensee has a comprehensive workplan of activities (with associated delivery dates) to meet the requirements of its connection stakeholders. If not, then the reasons provided are reasonable and well justified;
- The licensee has set itself relevant outputs that it will deliver during the regulatory year (eg key performance indicators, targets, etc); and
- The licensee's proposed strategy, activities and outputs have been informed and endorsed by a broad and inclusive range of connection stakeholders. If endorsement is not possible, licensees must provide robust evidence that they have pursued reasonable endeavours to achieve this.

1.15 Licensees have an opportunity to update the Looking Forward section of the ICE submission during the regulatory year. If a licensee wishes to update the Looking Forward section of the ICE submission it must explain the reasons for resubmission (eg change in stakeholder requirements or business priorities).

#### *Looking Back section*

1.16 The Looking Back section of the ICE submission reviews the licensee's performance against the strategy for engagement, workplan of activities and key performance outputs that the licensee set itself in the Looking Forward section of its ICE Submission.

1.17 In the Looking Back section of an ICE submission, each licensee is required to demonstrate how it meets the following assessment criteria:

- The licensee published a Looking Forward section in their previous ICE Submission, in accordance with paragraph 1.14;
- The licensee has implemented its comprehensive and robust strategy for engaging with connection stakeholders. If not, then the reasons provided are reasonable and well justified;
- The licensee has undertaken its comprehensive workplan of activities (with associated delivery dates) to meet the requirements of its connection stakeholders. If not, the reasons provided are reasonable and well justified;
- The licensee has delivered its relevant outputs (eg key performance indicators, targets etc). If not, the reasons provided are reasonable and well justified; and
- The licensee's strategy, activities and outputs have taken into account ongoing feedback from a broad and inclusive range of connection stakeholders. If not, the reasons provided are reasonable and well justified.

1.18 In assessing whether the licensee has met the assessment criteria, we need to be satisfied that the information presented in its ICE submission is sound, robust and verifiable. Where appropriate, licensees must provide evidence to support its ICE Submission.

1.19 We want DNOs to deliver workplans that meet the requirements of their stakeholders. For the avoidance of doubt, we are supportive of DNOs setting themselves

ambitious workplans and outputs. DNOs should not be penalised for failing to deliver stretching targets, as long as the risk for underachievement is understood at the outset and the reasons provided for failing to meet the target are reasonable and well justified.

### **Gathering information from stakeholders**

1.20 It is important that the licensee's strategy, workplan of activities and outputs are transparent and reflect the needs of major connection stakeholders. ICE submissions will be published on our website and feedback will be sought on all licensees' performance. The timescales for reporting are outlined in paragraph 1.28.

- a) Publish ICE Submissions: Once all ICE Submissions have been received, we will publish them on our website and will invite views from stakeholders. Stakeholders and licensees will have at least 28 calendar days to respond. All non-confidential responses will be published.
- b) Publish Updated ICE Submissions: If we receive any updated ICE submissions, we will publish them on our website and invite views from stakeholders. Stakeholders and licensees will have at least 28 calendar days to respond. We will publish all non-confidential responses.

1.21 Outside of these formal consultation periods, we will continue to engage with stakeholders, to identify key issues and gather feedback on licensee performance (eg hosting events, commissioning research or where we have been made aware of specific issues, requesting information from licensees). Specific focus may be placed on licensees where we have concerns.

### **Assessment of ICE Submissions**

1.22 The ICE assessment process is highlighted below:

- a) Information from stakeholders: An internal panel of Ofgem employees will review the ICE Submission, and any supporting evidence provided by the licensee. The panel will also consider feedback received from external stakeholders via the formal consultation process and other means of ongoing consultation (eg the DG Forums).

For Relevant Market Segments where we consider that there is sufficient evidence that stakeholders support the level of engagement, the activities undertaken and the outputs delivered, we will not apply the penalty.

For Relevant Market Segments where we receive little, no or mixed feedback from stakeholders on engagement, the activities undertaken and the outputs delivered, we will assess the ICE submissions against the minimum criteria set out in paragraph 1.17 to decide whether to apply the penalty.

- b) Assess ICE Submissions against minimum criteria: An internal Ofgem panel will assess whether the licensee meets the assessment criteria identified in paragraph 1.17. The panel will review each Relevant Market Segment separately.

If the panel considers that it requires additional information, then we may undertake a further information gathering process. This process could take many different forms. For example, it may involve consulting again with stakeholders, requesting further information from the licensee or evaluating licensee performance across related performance indicators.

- c) **Penalty consultation:** For those Relevant Market Segments where we consider that the licensee has failed to meet the assessment criteria identified in paragraph 1.17, we will issue a consultation specifying the reasons why it proposes to issue a penalty. Stakeholders and licensees will have at least 28 calendar days to respond and we will consider all representations or objections received.
- d) **Penalty decision:** If we decide that a licensee has failed to meet the assessment criteria we will issue a direction determining the level of any penalty in accordance with CRC 2E (Incentive on Connections Engagement) and give reasons for our decision.

## Reporting requirements

### *Format of the submissions*

1.23 Licensees may make submissions on a company or licensee basis. If a licensee decides to submit on a company basis, then it is the company’s responsibility to demonstrate how the submission is relevant to all licence areas or how relevant sections apply to specific licensees.

1.24 Licensees may make one submission for all Relevant Market Segments, separate applications for each Relevant Market Segment or a combination of both. If licensees decide not to submit separate applications for all Relevant Market Segments, then it is the licensee’s responsibility to demonstrate how the ICE submission is relevant to all market segments.

1.25 We are flexible about the format of the application and the use of graphics. There is no restriction on the font sizes used in ICE submissions.

1.26 There is no limit on the length of any submission. However consideration should be given to the purpose and audience of the submission.

1.27 ICE Submissions should be easy to read for all stakeholders and published on their websites. Interested parties should be able to easily understand the licensee’s engagement strategy, workplan of activities and proposed outputs.

### *Timescales for reporting submissions*

1.28 The deadlines for submitting the ICE submission are outlined below:

Table 3: ICE Submission deadlines

<b>Submission</b>	<b>Deadline</b>
ICE Submission	31 May each year
Updated ICE Submission (if required) and reasons for resubmission	31 October each year

1.29 In addition to submitting an ICE submission by 31 May each year, we expect all licensees to publish the Looking Forward workplan of activities by 30 April each year. This will give stakeholders early visibility of service that they can expect from the DNO, for the forthcoming regulatory year. This incentive should give stakeholders access to each licensee’s high-level connection strategy and workplan of activities.

1.30 We will not consider any submission that is received after the deadline date, unless the licensee has consent from us for late submission.

1.31 All submissions should be emailed to us at [connections@ofgem.gov.uk](mailto:connections@ofgem.gov.uk).