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RIIO2 Outputs and Incentives

Next steps on framework

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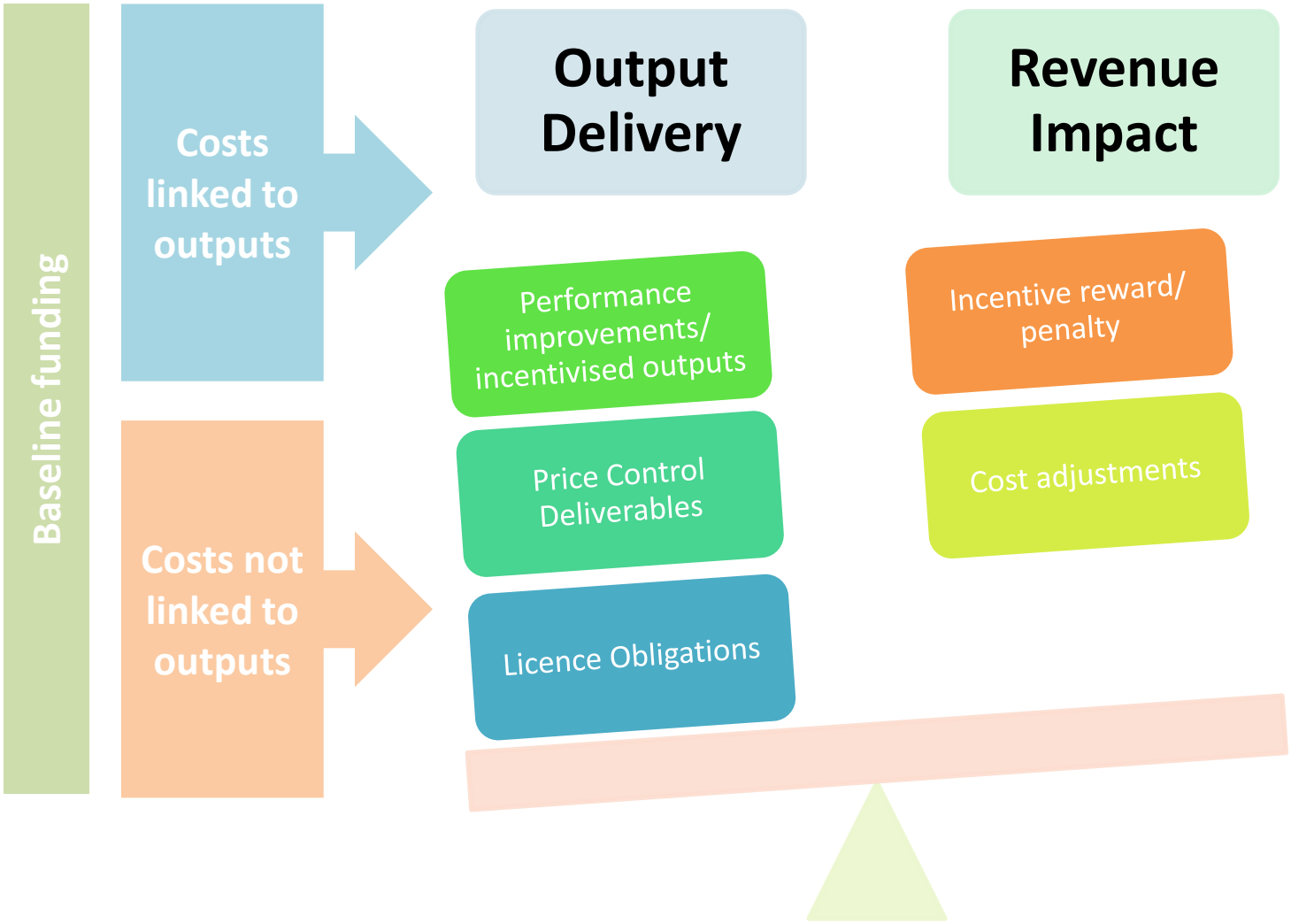
Purpose of today

- Update stakeholders and seek feedback on our current thinking relating to:
  - Output categories
  - Types of outputs
- Provide stakeholders with an early steer on:
  - Role of the companies/ enhanced engagement in setting outputs – with a focus on Output Delivery Incentives

- Policy development in these areas is **on-going**
- We will be consulting on proposals formally in **December 2018**

- The price control settlement seeks to achieve **the right balance** by ensuring network operators deliver the outputs consumers want at a fair price.



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What we said in the Framework Decision

We will specify outputs as a **set of consumer-facing outcomes** that we expect network companies to deliver.

We will set **minimum standards** and these will be imposed as a condition of the licence.

We will apply **output delivery incentives** where service quality improvements beyond the minimum standard may be in the interest of consumers.

We will establish **price control deliverables** where appropriate… the framework will set out a **clear methodology** of what happens if an input or output delivery is not delivered/ delivered late/ to a lower or different specification.

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Output Categories

We will specify outputs as a **set of consumer-facing outcomes** that we expect network companies to deliver.

- We will specify outputs as a set of **consumer-facing outcomes** that we expect network companies to deliver.
- We are proposing to consolidate existing output categories into three new proposed categories as described below.
- We have incorporated early feedback on these from our various sector-specific working groups.

Improve the consumer and network user experience

- *Network companies must deliver a high quality and reliable service, to all network users and consumers, including those who are vulnerable*

Support the energy system transition

- *Network companies must enable the transition to a low carbon, consumer-focused energy system*

Improve the network and its operation

- *Network companies must deliver a safe, sustainable, and resilient network that is more responsive to change*

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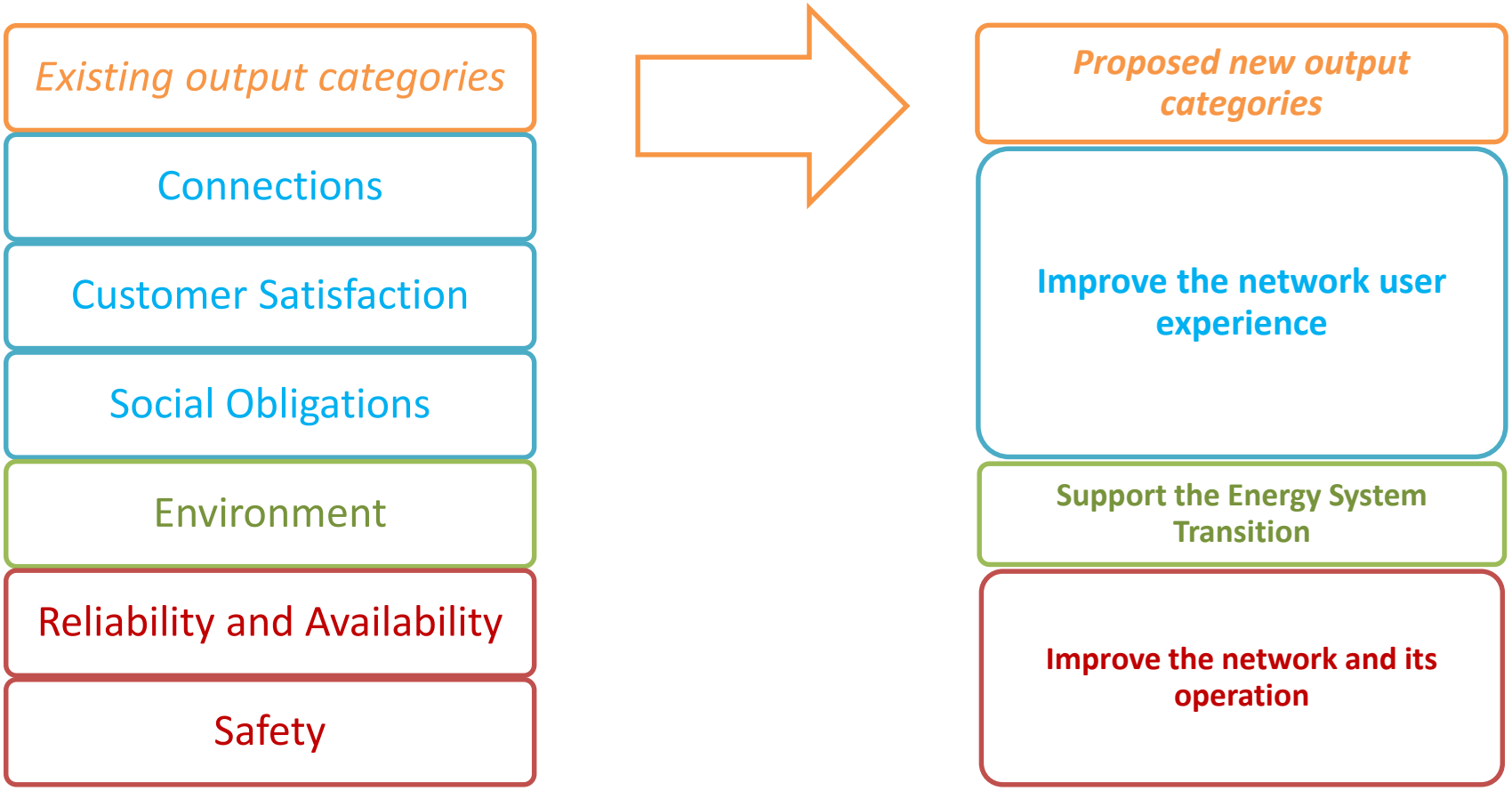
Output Categories

- For the purpose of illustration, we have mapped existing output categories to the three new output categories we are seeking feedback on.
- As with RIIO-1, there is likely to be some overlap between categories.



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Mapping Output Measures

- For the purpose of illustration, we have mapped existing output measures to the three new proposed output categories we are seeking feedback on.
- As with RIIO-1, there is likely to be some overlap between categories.

	GD	GT	ET	ED
Improve the consumer and network user experience	**Reliability and Availability** • Interruptions • Guaranteed standards • Stkhldr engagement **Customer Satisfaction** • Customer surveys • Complaints **Social Obligations** • Carbon monoxide safety • Vulnerable customers • FPNES **Safety** • Emergency response **Connections**	**Customer Satisfaction** • Stakeholder surveys • Stkhldr engagement **Reliability** **Connections**	**Customer Satisfaction** • Stakeholder satisfaction • Stkhldr engagement **Connections**	**Reliability and Availability** • Interruptions • Guaranteed standards • Worst-served customers **Customer Satisfaction** • Customer surveys • Complaints • Stkhldr engagement • Vulnerable customers **Connections**
Support the energy system transition	**Environment** • BCF • Green gas • Green company ops	**Environment** • Low carbon (compressor emissions)	**Environment** • BCF • SF6 • EDR • Losses • Visual impact	**Environment** • BCF • SF6 • Oil leakage • Energy efficiency • Losses • Visual impact
Improve the network	**Reliability and Availability** • Resilience (NOMs) • Repex • MOBs • Shrinkage	**Reliability and Availability** • Resilience (NOMs)	**Reliability and Availability** • Resilience (NOMs) • ENS	**Reliability and Availability** • Resilience (NOMs)

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Role of different groups

- The role of the different groups can be described as follows:

Ofgem - decision-maker

Sector-specific Working Groups

Core role: support development of common outputs and incentives, and approach to cost assessment

Input to Ofgem policy development on sector-specific issues

Independent RIIO2 Challenge Group

Core role:

Support Ofgem's Business Plans assessment and challenge Ofgem policy development

Output: independent report

Network Operators

Independent User Groups/ Company Groups

Core role: provide challenge to company Business Plans + support development of bespoke outputs

Output: independent report

Network Operator stakeholder engagement

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Type of outputs in RIIO2

- In our RIIO2 Framework Decision, we identified three types of outputs

→ **Licence obligations**

→ **Price Control Deliverables**

→ Service level improvements incentivised through **Output Delivery Incentives (ODIs)**

- In this slide, we describe the role we expect Ofgem and companies to play in terms of proposing/ setting outputs. **Ultimately Ofgem will retain final decision-making on all aspects of the price control settlement.**

ODIs (financial + reputational)		Price Control Deliverables	Licence Obligations
Common (sector-wide) ODIs	**Bespoke ODIs**	**Activities to be delivered to a specified standard, are significant and/ or high-value** (incl. activities funded in baseline)	**Minimum standards of service**
Metrics/ measures determined by Ofgem	Companies to propose metric/ measures with Ofgem oversight	Companies to propose deliverables with Ofgem oversight	Minimum standards determined by Ofgem
Targets/ incentive rates (where applicable) set by Ofgem	Companies to propose targets/ incentive rates (where applicable) with Ofgem oversight	Companies to propose options for what happens if output not delivered Ofgem oversight	Consequences in form of penalty/ enforcement determined by Ofgem
Opportunities for companies to propose targets/ value of incentive	Ofgem to determine final targets/ incentive rates	Ofgem to determine what happens if output not delivered	

- All activities led by Ofgem (orange) will involve significant stakeholder engagement and consultation.
- We expect companies to engage proactively and make extensive use of their user/ customer groups in developing and putting forward proposals (green). The onus is on the companies to put forward evidence-based proposals.

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Output Delivery Incentives

- **Output Delivery Incentives** (ODIs) will incentivise service level improvements by setting target service levels, rewards, and penalties.
- We propose to set a number of *common ODIs* within each sector, and potentially across sectors – these will be determined by Ofgem. E.g.:
  - ✓ Reliability
  - ✓ Environment/ low-carbon
  - ✓ Stakeholder surveys
- ODIs may be financially incentivised, or reputational only in nature – this will depend on a number of factors, for example how confident we are in our ability to set targets.
- In setting ODIs, we will consider whether some of these mechanisms may operate better on the basis of relative performance.

Opportunities for Network Operators:

- Opportunities to propose ***bespoke ODIs,*** in collaboration with their stakeholders and Customer/ User Groups:
  - ✓ Potential areas suited to bespoke outputs could include vulnerability.
  - ✓ We will set clear criteria against which we will assess proposals for bespoke outputs.

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Proposing bespoke ODIs

- In our December consultation, we will set out proposed criteria against which we will assess any proposals for bespoke ODIs.
- We are still in the process of working these out – overall we will consider whether proposals deliver **value for money**.

In assessing proposals, we are likely to consider amongst other things:

- Whether the output reflects a service that consumers expect to receive from a network company that cannot be funded through the price control settlement
- Whether the existing level of service that consumers receive and the extent to which the target level is an improvement on this
- Where appropriate, the level of service provided by other companies/comparators
- The value that consumers will receive from the service level being targeted/increases in existing service levels
- The reward consumers believe is appropriate for achieving the target level/increments of improvement above the target level
- The penalty consumers believe is appropriate for not achieving the target level/increments below the target level
- The activities (and indicative cost) associated with achieving the targeted level of service
- Proposals for licence conditions is performance falls below existing service levels