



Making a positive difference
for energy consumers

All Distribution Network Operators and interested connection stakeholders

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Dear all,

Outcome of our assessment under the 2018 RII0-ED1 Incentive on Connections Engagement

Connecting new customers to the electricity network is one of the most important services provided by Distribution Network Operators (DNOs). We expect DNOs to provide a consistently high quality service to all their customers.

The RII0-ED1 price control contains a package of connection incentives to ensure DNOs are focused on continuously improving the connection experience for all customers. As part of this, the Incentive on Connections Engagement (ICE) specifically focuses on the larger connections customers and pushes DNOs to identify, engage and deliver on the particular needs of these customers. If they fail to do so, DNOs face a penalty in particular segments of the connections market¹.

The incentive is designed to drive continuous improvement in DNO performance over a number years. As such, we may look at recurring issues from previous years, seeking feedback from customers and stakeholders, or place expectations on DNOs around issues raised in the current year. We expect DNOs to improve their service continuously, ensuring their priorities are shaped by current and ongoing customer's needs, including all issues we identify through the ICE process.

The ICE requires DNOs to submit evidence to us (by 31 May each year) that demonstrates how they have improved their service, including by:

1. engaging effectively with connection customers;
2. developing plans which adequately address all reasonable requests; and
3. delivering on these plans.

Evidence of such actions is provided in two parts:²

- a **Looking Back** report on their activities during the previous year demonstrating how they have met the needs of large connection customers;
- and a **Looking Forward** plan for the coming year describing the activities they plan to undertake.

¹ See Electricity Distribution Licence – Charge Restriction Condition 2E (Incentive on Connections Engagement) <https://www.ofgem.gov.uk/ofgem-publications/92964/crcslowtrackmaster.pdf>

² The exact scope of the Incentive is confirmed in Table 2 of the ICE Guidance Document - <https://www.ofgem.gov.uk/ofgem-publications/94371/iceguidancedoc010415-pdf>

More information on how the ICE works is available on our website.

In June this year, we sought feedback on the 'Looking Back' and 'Looking Forward' sections of the submissions from each DNO, for the third year of ICE. We assessed DNO performance by reviewing the 'Looking Back' sections of their submissions, alongside the stakeholder responses to our consultation (we published responses on our website on 17 August 2018³). We have now finished our assessment.

Overall, feedback relating to engagement from all DNOs has been positive, with the majority of respondents to our consultation confirming they are satisfied with DNO performance. We note that all DNOs have mechanisms in place to ensure engagement from a wide range of customers and capture a good cross section of stakeholder needs. We have however received feedback of concern in some areas. We will discuss this further in this letter and we expect the DNOs to take these into consideration when developing their ICE plans for next year.

Taking everything into consideration, we believe the DNOs have met the minimum criteria under the ICE for this year and as such we have decided to not consult on potential penalties. We have reached this decision after following an in-depth information gathering process which included stakeholders and DNOs.

The reasons for our decision are explained in this letter.

Reasons for our decision

In reaching our decision, we evaluated the evidence against the assessment criteria. This involved reviewing each DNO's ICE submission (Looking Back section) for 2017-18 and considering stakeholders' responses to our stakeholder consultation.

We can apply penalties where a DNO has failed to meet the assessment criteria relevant to the 'Looking Back' section of its submissions. We can only apply penalties in market segments where the DNO is not open to competition and this varies between DNO regions.

The assessment criteria are as follows:

- the licensee published a Looking Forward section in its previous ICE submission, in accordance with paragraph 3.4;
- 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 a comprehensive work plan of activities (with associated delivery dates) to meet the requirements of its connection stakeholders and, if not, the reasons provided are reasonable and well justified;
- the licensee has delivered its relevant outputs (e.g. key performance indicators, targets etc.) and, 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 and, if not, the reasons provided are reasonable and well justified.

We consulted from 22 June 2018 until 20 July 2018 to seek stakeholder views on how the DNOs performed in the last regulatory year. We reviewed the ICE submissions with the feedback we have received from this stakeholder consultation and applied a pass or fail criterion to each relevant market segment.

³ <https://www.ofgem.gov.uk/publications-and-updates/incentive-connections-engagement-consultation-distribution-network-operators-2018-submissions>

Where we required further information, we engaged bilaterally with stakeholders as well as the DNOs. Based on this exercise and considering the evidence overall, we concluded that all the DNOs met the assessment criteria in the market segments they face penalties in. As such, we will not be consulting further on penalties.

We do, however, note that issues were raised in market segments *not* open to penalty. We still expect DNOs to engage with stakeholders on these issues, incorporating actions into their ICE plans where appropriate.

We would like to highlight to stakeholders that the most effective way to feed into our consultation is by ensuring you have engaged with the DNOs first. By doing so, you are able to feed into their respective ICE plans or their business as usual processes – ensuring your specific needs are addressed.

Raising concerns to the DNOs during the ICE process allows us to review how the DNO has engaged with you and ultimately whether or not your reasonable needs have been met. As mentioned previously, penalties may apply where we believe that DNOs have not made reasonable efforts to do this.

Concerns raised

Engaging with stakeholders that use third parties to connect

This year we received comments from Openreach on their engagement with all of the DNOs. Whilst we found that all of the DNOs had met the ICE assessment criteria, there are two issues of note -

- Openreach employs a range of intermediaries (in this case Independent Connection Providers) for much of their work. Where possible DNOs should ensure that this does not impact consideration of issues raised through such intermediaries.
- With regard to re-connection (in this case for unmetered supply points), we found that the engagement strategy of each DNO varied considerably. We would encourage each DNO to review their process and ensure they are adopting best practice.

We understand the practical challenges that working through intermediaries may bring, but emphasise that all DNOs must ensure these customers do not receive a lower quality service than those directly engaging with the DNOs. Similarly, should a customer using a third party to connect to a DNO's network want to engage with a DNO's ICE plan, efforts should be made to ensure that this is facilitated. Using a third party to connect **does not** exclude anyone from being able to engage in a DNO's ICE activities.

As mentioned in previous years, the ICE is a multi-year process, and this is something we will look at again in next year's ICE process.

Assessment & Design Fees

In this year's ICE assessment, we have noted a trend of stakeholders commenting on the introduction of Assessment and Design fees (A&D Fees).

Whilst DNOs can now charge A&D fees, we still expect the DNOs to engage with stakeholders on the implementation of these fees as well as ensuring that pre-quote information available to stakeholders improves significantly. It is clear that stakeholders want consistent, good quality and transparent information from DNOs - both throughout the quotation and connection offer process and through ongoing self-help tools such as congestion heat maps.

Under the ICE process, we expect these to be continuously developed and enhanced in line with stakeholder feedback. We also expect each DNO to provide additional detail on their engagement and commitments where applicable within their ICE plans.

DNOs should also ensure that the support connections customers get throughout the life-cycle of a project is tailored and of continuously improving quality.

Proportionality

We have received a few comments from DNOs on proportionality in the context of the ICE framework.

The ICE was designed with stakeholder engagement at the heart of the incentive. Our concern was that DNOs were not incentivised adequately for delivering on the needs of larger connections customers. This in part due to the fact they had potentially limited numbers of these customers, and subsequently did not understand fully what they required and what was the most urgent.

The needs of these customers vary considerably, given the scope of projects they relate to and the connections they require. We want to ensure DNOs engage with such customers across a wide range of topics and customer types to make sure they understand what these needs are, and how they can be delivered where practical.

We take *all* stakeholders concerns seriously, even if a concern is only expressed by one stakeholder, as this may lead to significant impact on this stakeholder's particular needs. As such, we consider that the ICE process can and will consider situations where concerns are voiced by individual customers, particularly if such customers are denied an opportunity to engage and raise concerns. We also consider severity and impact as part of any assessment – and in this context, we consider the ICE to be proportionate.

Next steps

This document concludes our assessment of the DNOs' performance under the ICE in 2017/18.

We have published all responses (redacting confidential information). We expect DNOs to review these and identify where they can improve or learn from each other. The DNOs may publish revised Looking Forward Plans for 2018/19 by 31 October 2018.

In next year's ICE assessment, the DNOs will be assessed against their delivery of these updated plans.

By 31 May 2019, the DNOs must submit their 'Looking Back' reports on their delivery of their plans for 2018/19. Once we receive the submissions from the DNOs we will publish a consultation to seek stakeholders' views on both the Looking Back report and the Looking Forward plan.

Chris Brown
Head of EST Strategy and Emerging Issues