Making a positive difference
for energy consumers

**All Distribution Network Operators and interested connections stakeholders**

Direct Dial: 0207 901 7066
Email:Mohamed.Khalif@ofgem.gov.uk
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Dear all,

**Electricity Time to Connect Incentive Targets consultation for Regulatory Years 2019/20, 2020/21, 2021/22 and 2022/23**

We expect distribution networks to connect customers in a timely and efficient way. This includes responding to different customers' specific needs whilst enabling competition. It is a key output under the RIIO-ED1[1] price control – measured under a package of connections incentives.

For smaller connections customers (connections at the lower voltages), the Time to Connect Incentive pushes the Distribution Network Operators to reduce connection times. Connection time is measured in two ways. The "time to quote" is the time from the DNO receiving the initial application to issuing a quotation. The "time to connect" is the time from the customer accepting the quotation to the connection being completed.

All of the DNOs are measured against common targets. For both time to quote and time to connect, we set a minimum reward score that DNOs would have to meet to become eligible for any reward and then a maximum reward score that they would have to meet to be eligible for the maximum reward. The amount of reward they receive increases as their scores move down from the minimum reward score to the maximum reward score level.

For the first four years of RIIO-ED1, the minimum reward score level was based on the upper quartile performance across the DNOs, at the time the target was set. The maximum reward score was set at performance 30% below the average at the time the target was set. The minimum reward score and maximum reward score for the first four years of RIIO-ED1 are outlined in table 1.1 below.

[1] https://www.ofgem.gov.uk/system/files/docs/2017/01/guide_to_riioed1.pdf

**Table 1.1: Time to Connect minimum score reward and maximum score reward for the first half of RIIO-ED1**

| Connection process | Connection size | Minimum reward score (working days) | Maximum reward score (working days) |
|---|---|---|---|
| **Time to Quote** | Single service low-voltage connections (LVSSA) | 8.21 | 6.4 |
| | Small project demand connections (low-voltage) LVSSB | 11.73 | 10.12 |
| **Time to Connect** | LVSSA | 42.08 | 32.47 |
| | LVSSB | 52.70 | 39.91 |

**What are we consulting on?**

We are required to consult under Parts B to E of Special Licence Condition CRC 2F (Time to Connect Incentive). In the licence, we need to set the Time to Quote and Time to Connect minimum reward score for Regulatory years 2019/20, 2020/21, 2021/22 and 2022/23.

We are also required to set the Time to Quote and Time to Connect incentive rate (the rate) for the same period. The rate is the reward the DNO will receive if it improves its performance by 1 day and it is set in £m/day (to be clear, DNOs do not have to improve by a whole day as you can see in the ranges outlined in table 1.3). The maximum exposure (the maximum financial reward a DNO can earn) has been set in the licence up to the end of the price control.

So this means that the rate change implies the range, in days, for each incentive. The lower the rate, the longer it will take to reach the maximum financial reward and so the larger the range (in days).

We will not be changing the maximum exposure at this mid-point but we will be changing the minimum reward score and the rate, thereby changing the maximum reward score and range.

We are now consulting on our proposed targets for the remaining four years of the price control. We will be setting these targets by issuing a Direction following our consultation.

In reaching our minded to position, we have considered:

- Existing industry performance data: particularly how the DNOs have performed against the current targets
- The correlation between this incentive and general connection customers' satisfaction scores
- How this incentive can continue to drive improvement in connecting customers timely and efficiently – specifically looking at the range of the targets (i.e. the number of days between the minimum and maximum reward scores)
- Representations made by the DNOs through the Energy Networks Association.

In considering the above, the evidence suggests that the incentive has driven a meaningful improvement in the timeliness and efficiency of DNOs connecting smaller customers. Table 1.2 below shows average DNO performance over the last four years.

**Table 1.2: Average DNO performance for the first three years of RIIO-ED1**

| Connection process | Connection size | Minimum reward score (working days) | Maximum reward score (working days) | Total DNOs to reach Target | Total DNOs to reach Max reward |
|---|---|---|---|---|---|
| Time to Quote | LVSSA | 8.21 | 6.4 | 14 | 14 |
| | LVSSB | 11.73 | 10.12 | 14 | 11 |
| Time to Connect | LVSSA | 42.08 | 32.47 | 8 | 5 |
| | LVSSB | 52.70 | 39.91 | 11 | 5 |

**The new Time to Connect targets**

*Why the old method of setting the target is no longer effective*

Looking at DNO performance in the last three years, we consider that using the previous method to set the minimum reward score would no longer be appropriate.

Table 1.3 shows what the targets would be for the second half of RIIO-ED1 if we were to reset them by applying the previous method to the DNO performance data from the first three years of RIIO-ED1.

**Table 1.3: New targets set using the previous method**

| Connection process | Connection size | Minimum score reward(working days) | Maximum score reward (working days) | Range |
|---|---|---|---|---|
| Time to Quote | LVSSA | 3.57 | 3.39 | 0.18 |
| | LVSSB | 6.09 | 5.49 | 0.60 |
| Time to Connect | LVSSA | 31.90 | 27.50 | 4.40 |
| | LVSSB | 40.32 | 33.56 | 6.76 |

We consider that using this approach risks not providing any incentive for some DNOs to continue to improve performance as they may not think it sufficiently likely that they would be able to achieve the new minimum reward score. This score would be significantly lower than for the first half of RIIO-ED1, and we consider that it is likely to become harder for DNOs to continue to make the same level of improvements going forward, over-incentivising improvements beyond the value that they would provide for customers.

One aspect of this is that if the scores are too low they risk encouraging DNOs to drive improvements in time at the cost of quality, for example in providing a less accurate quote to customers. Another aspect is that the range between meeting the minimum score and the maximum score is squeezed.

For those DNOs who are able to make the minimum target, a very small improvement beyond that (0.18 days in the example above) would result in a disproportionate financial reward as it would allow them to then achieve the maximum reward. We do not think this would reflect the value of such improvement to connections customers, and so do not see it as a desirable outcome.

The incentive package that the Time to Connect is part of was balanced to ensure that the DNOs were not over incentivised to chase arbitrary reductions in time – and we believe that using the old method to set the new targets would not reflect this spirit.

*Our minded-to proposal on the method used to set the new targets*

In setting new targets, we are minded to use average DNO performance data to set the minimum reward score and to keep the previous method of setting the maximum reward score at 30% below the average level.

This means that the targets will still get tougher and harder to reach. But it also means that:

a) there is less risk of the minimum score being considered out of reach for a number of DNOs; and
b) we maintain a good range between the minimum reward score and the maximum reward score.

We think this is important as we believe this will ensure that the Time to Connect incentive still acts as an effective incentive for all DNOs, whilst also ensuring that any improvement from the minimum reward score warrants a proportionate financial reward. We believe that setting the targets in this way strikes the right balance between making the incentive tougher and maintaining a good incentive for the DNOs.

We have outlined the proposed new targets below in table 1.4.

**Table 1.4: Time to Connect Targets for Regulatory Years 2019/20, 2020/21, 2021/22 and 2022/23**

| Connection process | Connection size | Minimum score reward(working days) | Maximum score reward (working days) | Range |
|---|---|---|---|---|
| Time to Quote | LVSSA | 4.84 | 3.39 | 1.45 |
| | LVSSB | 7.84 | 5.49 | 2.35 |
| Time to Connect | LVSSA | 39.28 | 27.50 | 11.79 |
| | LVSSB | 47.94 | 33.56 | 14.38 |

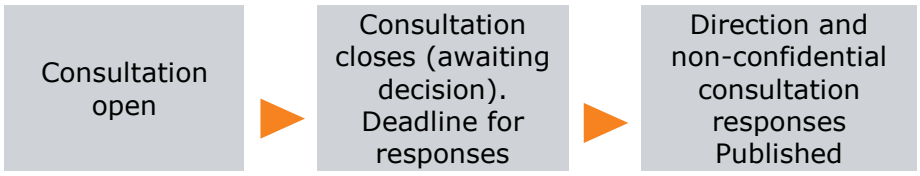
*Questions*

*Question 1: Do you agree with the methodology we propose to use to set the new targets?*

*Question 2: Do you agree that it is beneficial to maintain a good range between the minimum and maximum reward scores to ensure the incentive is effective?*

*Question 3: Do you agree with our minded-to position in setting these targets?*

**Consultation dates**




The consultation will close on 5 April 2019 at which point we will consider any responses received. We propose to make our decision, including the Direction to set the minimum reward score, towards the end of April 2019.

**How to respond**

We want to hear from the DNOs as well as any interested connections stakeholders. Please send your response to Mohamed.khalif@ofgem.gov.uk.

We will publish non-confidential response on our website at www.ofgem.gov.uk/consultations

**Jon Parker**
**Head of Electricity Network Access, Charging & Access Systems & Networks**