

RIIO-ED2 Customer Service, Vulnerability and Connections Working Group



28 November 2019
RIIO ED Team

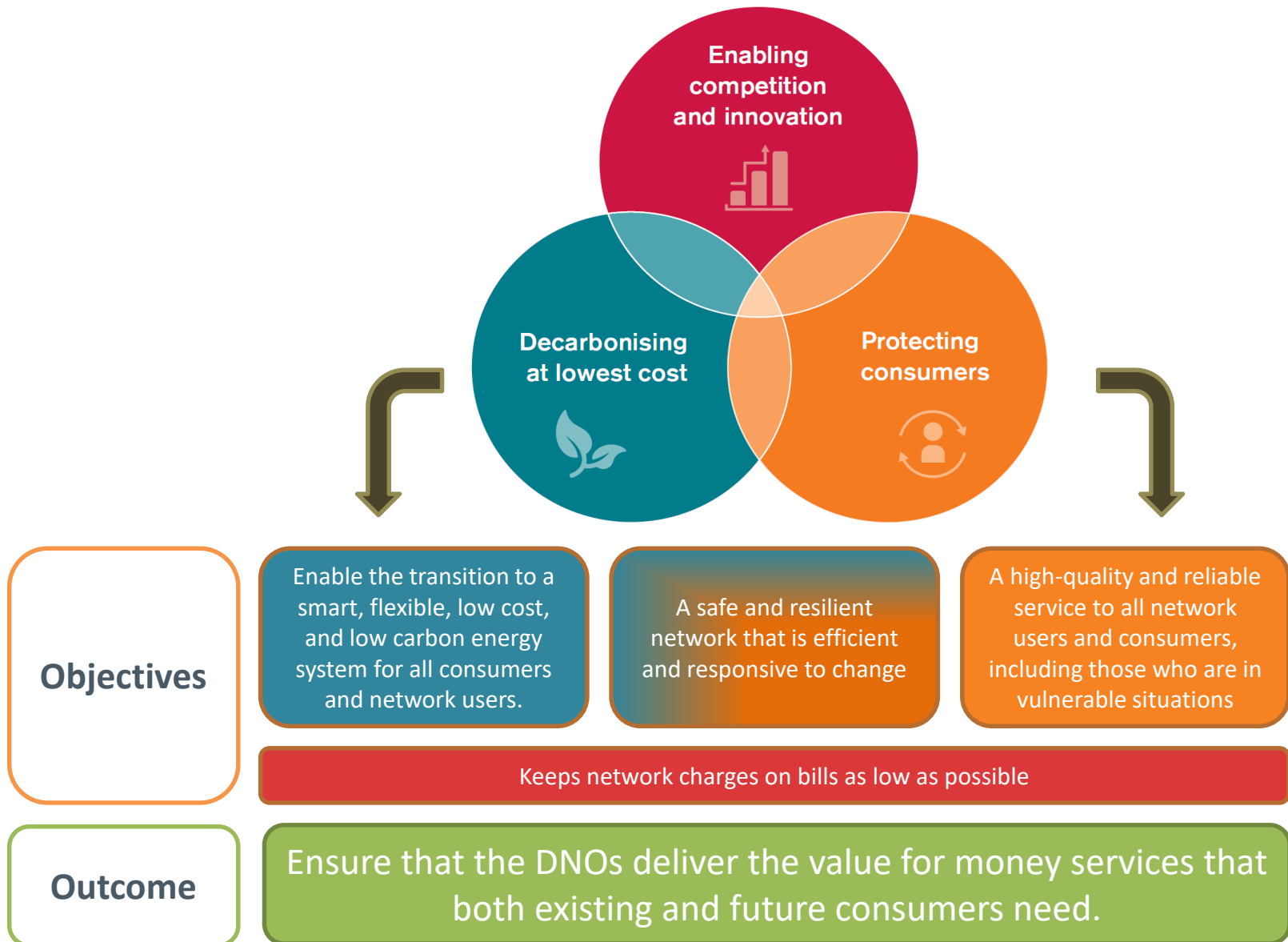
In today's introductory session we will:

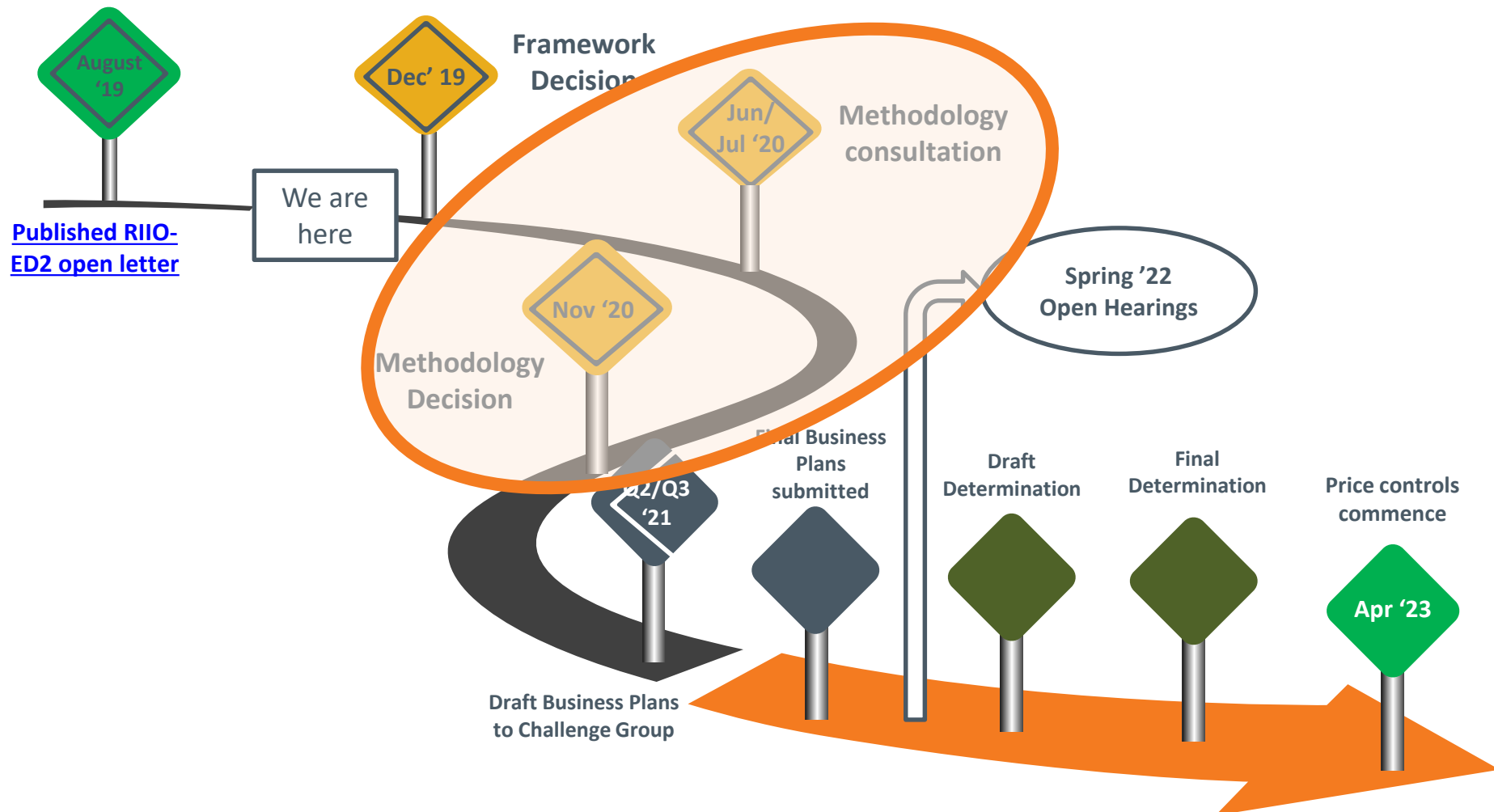
- Set out and seek views on Terms of Reference (ToR) for the Customer Service, Vulnerability and Connections (CSVC) Working Group
- Review arrangements and performance in RIIO-ED1 and present high level views expressed in RIIO-ED2 open letter responses
- Begin discussions on considerations for RIIO-ED2 and priorities for the CSVCWG

Timings	Agenda item
10:00 – 10:30	1. Welcome and introductions
10:30 – 11:15	2. What is the working group seeking to achieve? <ul style="list-style-type: none"> a) Aims and objectives of the Group incl. review of Terms of Reference b) Proposed programme of work, timelines for activities and deliverables
11:15 – 12:15	3. What can we learn from RIIO-ED1? <ul style="list-style-type: none"> a) Review of current arrangements and high level performance b) Views expressed in Open Letter
12:15 – 13:00	Lunch
13:00 – 15:00	4. What can we learn from RIIO-ED1? DNO presentations: <ul style="list-style-type: none"> a) Customer Service b) Vulnerability c) Connections
15:00 – 15:30	Actions and next steps

Item 2: What are we seeking to achieve?

What are we seeking to achieve in RIIO-ED2?





Objective

A high-quality and reliable service to all network users and consumers, including those who are in vulnerable situations

- Deliver great customer service
- Help fuel-poor households, and those that are most vulnerable from a loss of supply
- Support new customers in getting connected to the grid efficiently
- Enable people to produce their own energy and sell it easily

Purpose:

- Inform the development of regulatory policy, including outputs and incentives, related to customer service, vulnerability and connections in RIIO-ED2.
- Outputs will inform proposals included in the RIIO-ED2 Sector Methodology Consultation in June/July 2020.

Scope:

- The Group will identify key challenges and barriers to ensuring DNOs deliver a high-quality and reliable service to all network users and consumers, including those who are in vulnerable situations.
- The Group will identify and provide the analysis necessary to inform the development of regulatory policy.

Output:

- The provision of evidence and information that Ofgem can use to:
 - Analyse the effectiveness of current arrangements and their applicability for RIIO-ED2,
 - Establish options for change and provide the analysis that can help to assess the impact of these options,
 - Identify interlinkages with other parts of the RIIO programme,
 - Identify and evaluate the costs, benefits and risks associated with these options; and
 - Identify resourcing implications for progressing, implementing and operating options.

The Group is an advisory, rather than a decision making, body. Ofgem will participate in discussions and consider views raised by members of the Group. Discussions in meetings and views expressed or implied therein are without prejudice to, and shall not limit Ofgem's discretion with regard to, the content of the sector methodology documents.

- We propose to hold a WG session approximately every three-four weeks.
- We plan to run sessions in the Glasgow and London Ofgem offices.
- Depending on room availability, we may need to restrict the number of representatives that each member organisation sends to meetings of the Group

WG session	Date	Time	Location
1. Introductory session	28 November 2019	10am-4pm	Ofgem London offices (Room 1.17)
2. Vulnerability	23 January 2020	10am-4pm	Ofgem London offices (Room 1.13)
3. TBC	06 February 2020	10am-4pm	Ofgem London offices (Room 1.11)
4. TBC	27 February 2020	10am-4pm	Ofgem London offices (Room 1.17)
5. TBC	19 March 2020	10am-4pm	TBC
6. TBC	9 April 2020	10am-4pm	TBC
7. TBC	30 April 2020	10am-4pm	TBC

Item 3: What can we learn from RIIO-ED1? (Ofgem-led)

**RIIO-ED2
objective**

A high-quality and reliable service to all network users and consumers, including those who are in vulnerable situations

RIIO-ED1 arrangements

Customer Service

Broad Measure of Customer Service (BMCS):
Customer satisfaction surveys

BMCS:
Complaints metric

BMCS:
Stakeholder Engagement and Consumer
Vulnerability Incentive

Worst-served customers

**Social obligations/
Vulnerability**

BMCS:
Stakeholder Engagement and Consumer
Vulnerability Incentive

Licence conditions such as SLC10 to establish
and maintain a Priority Services Register (PSR)

**Covered in the Safety, Resilience and
Reliability Working Group**

Connections

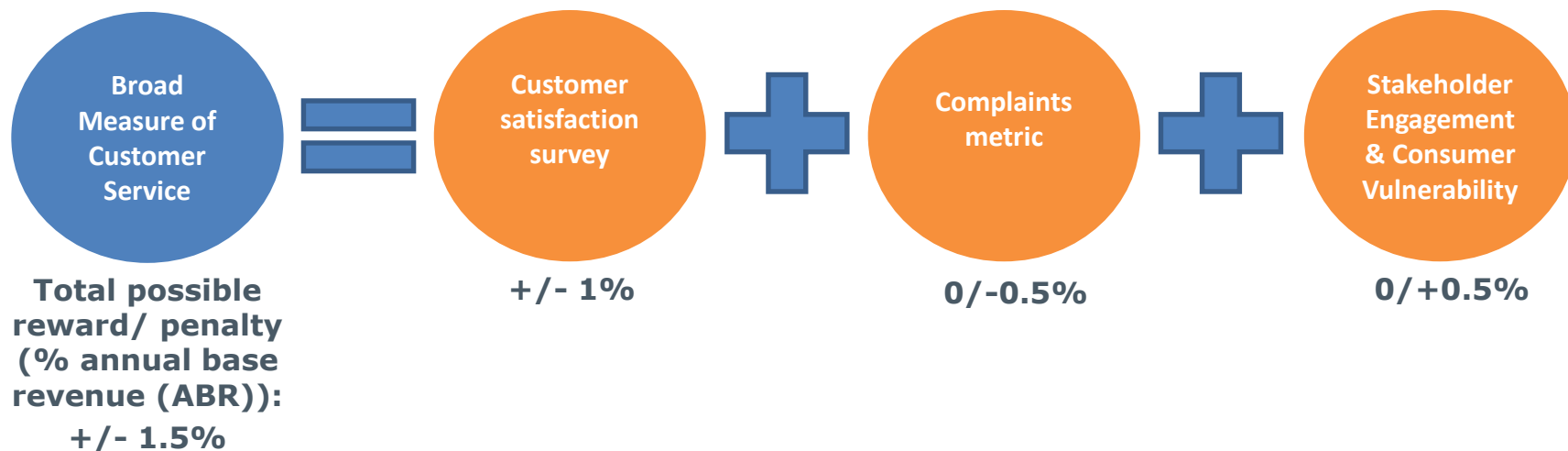
Incentive on Connections Engagement (ICE)

Time to quote (TTQ) and time to connect (TTC)
incentive

Guaranteed Standards of Performance (GSoPs)

Licence conditions

Broad Measure of Customer Service (BMCS) incentive consists of three components:



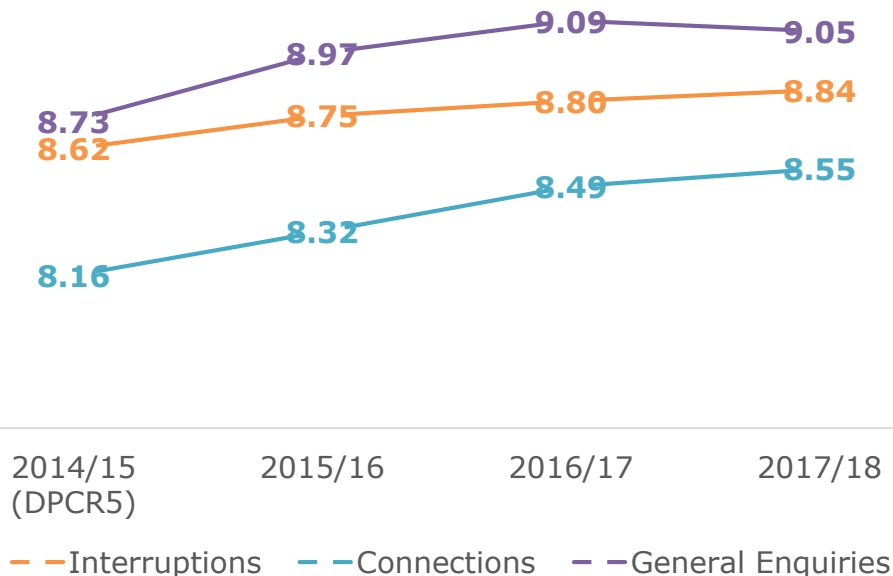
- When setting RIIO-ED1, we increased the overall maximum revenue exposure from +/- 1 per cent of base revenues in DPCR5 to +/- 1.5 per cent of annual base revenue (ABR).
- Aim was to ensure that DNOs were sufficiently incentivised to improve performance in customer-facing activities over a longer-term price control period. **Aimed to improve service to customers, including connection customers, as well as to ensure DNOs engage more broadly with stakeholders, with a specific focus on their role in addressing consumer vulnerability.**

DNOs earn c. £49.2m/year in RIIO-ED1 (collectively) under the Broad Measure of Customer Service

Customer Satisfaction Survey (CSS)

- **What is it?** Aims to capture customer experience across a wider range of services. Focuses on 3 customer categories: minor connection customers (weighted 50%), customers experiencing an interruption (30%) and customers making a general enquiry (20%).
- **How does it work?** Incentive with reward or penalty of up to +/- 1% annual base revenue.
- **How have DNOs performed?** All DNOs either met or outperformed their CSS targets in the first three years of RIIO-ED1 (target is 8.2 out of 10).

INDUSTRY AVERAGES



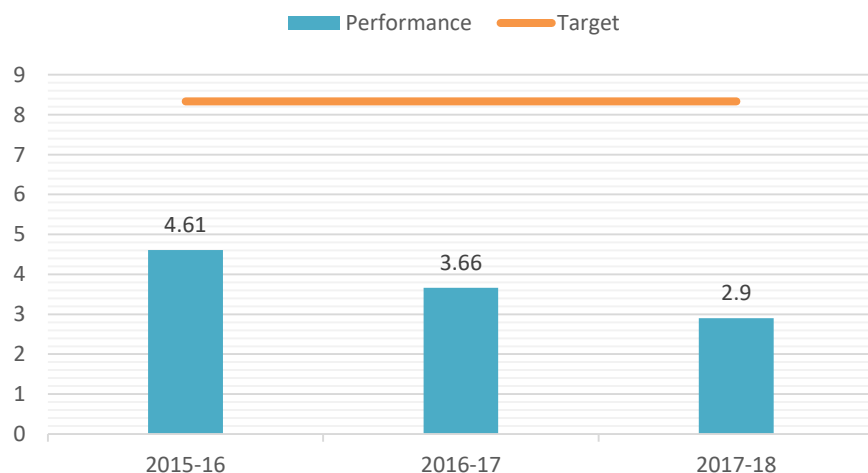
Key questions:

1. Does the survey cover the right groups of customers/focus on the right services? Are there new services that should be covered?
2. Customer satisfaction levels are high – is this an area that we should continue to incentivise performance against?
3. If yes, why? And if yes, are we trying to improve, or avoid a deterioration in, performance?
4. Is there evidence to suggest that consumers value these service improvements? Would the cost associated with improving customer satisfaction scores in ED2 match the value to consumers?

Complaints Metric

- **What is it?** Four components: % of total complaints outstanding after (i) 1 day; (ii) after 31 days; (iii) % of total complaints that are repeat complaints; and (iv) no. of Ombudsman decisions against DNO.
- Broadly equivalent to those that applied to the complaints metric used in DPCR5 but we changed the methodology used to assess Energy Ombudsman (EO) decisions that go against the DNO, reducing the weighting applied to this element from 20% to 10%, with the remaining 10 per cent being added to component (ii) the percentage of total complaints outstanding after 31 days.
- **How does it work?** If DNOs fail to achieve target levels of performance (8.33 out of 10 or below), they are exposed to a penalty up to -0.5% of annual base revenue.
- **How have DNOs performed?** All DNOs outperformed their targets for the first three years, and continue to improve their performances in this area.

Industry averages



Key questions:

1. Complaints are falling and DNOs are outperforming targets – should we continue to incentivise performance in this area?
2. If yes, why? And if yes, are we trying to improve, or avoid a deterioration in, performance?
3. If yes, does our current approach to measuring and rewarding performance work effectively?

Stakeholder Engagement and Consumer Vulnerability Incentive

- **What is it?** Encourages DNOs to engage proactively with stakeholders to anticipate their needs and deliver a consumer focused, socially responsible and sustainable energy service. Specifically encourages DNOs to identify and address vulnerability issues.
- **How does it work?** Rewards up to 0.5% ABR, performance judged by panel of independent experts.
- **How have DNOs performed?** Most DNOs are delivering fair to good SECV outcomes for customers, although some DNOs are performing better than others.
 - ✓ DNOs taking more strategic approach to engagement, considering how future challenges can be addressed.
 - ✓ Evidence from DNOs of board-level buy in and behavioural change and that some companies are using feedback to influence their decisions on projects.
 - ✓ Helping the vulnerable is now part of DNOs' strategic priorities, and DNOs have demonstrated that they have a good understanding of how varied vulnerability can be.

DNO	2015-16		2016-17		2017-18		2018-19	
	Score	Reward (£m)	Score	Reward (£m)	Score	Reward (£m)	Score	Reward (£m)
ENWL	6.90	£0.98	6.38	£0.82	5.75	£0.63	4.54	£0.20
UKPN	7.53	£4.04	7.53	£4.12	7.25	£3.94	7.95	£4.94
NPg	6.50	£1.43	6.50	£1.46	7.50	£2.12	7.01	£1.88
SSEN	5.73	£1.13	5.23	£0.82	5.50	£1.04	3.95	£0.00
SPEN	6.78	£1.94	6.28	£1.63	6.35	£1.74	6.71	£2.07
WPD	8.75	£6.35	8.53	£6.17	8.75	£6.72	8.35	£6.35

Key questions:

1. Does our current approach to measuring and rewarding performance work effectively?
2. Has stakeholder engagement become BAU? If so, should it be incentivised in RIIIO-2?
3. If yes, how do we ensure mechanism delivers value commensurate to rewards?
4. If yes, how do we ensure mechanism not overly burdensome for DNOs and regulator?

In our Open Letter we welcomed thoughts on how to ensure that we continue to protect the interests of vulnerable consumers, particularly in light of the energy system transition

Retain SECV as financial incentive – amend to penalty and reward scheme

Develop BMCS specifically for PSR customers or incorporate PSR customers into existing incentive

DNOs can contribute to reducing bills through energy efficiency measures

Introduce a UIOLI allowance targeted at low income and vulnerable consumer support

Introduce a standalone vulnerability incentive

Introduce a vulnerability principle into the licence

Support needed to ensure ‘nobody left behind’ by the low carbon transition – ‘participation support’

Repurpose the NIA to support vulnerable consumers

Responses emphasised importance of partnerships

Time to Connect (TTC) incentive

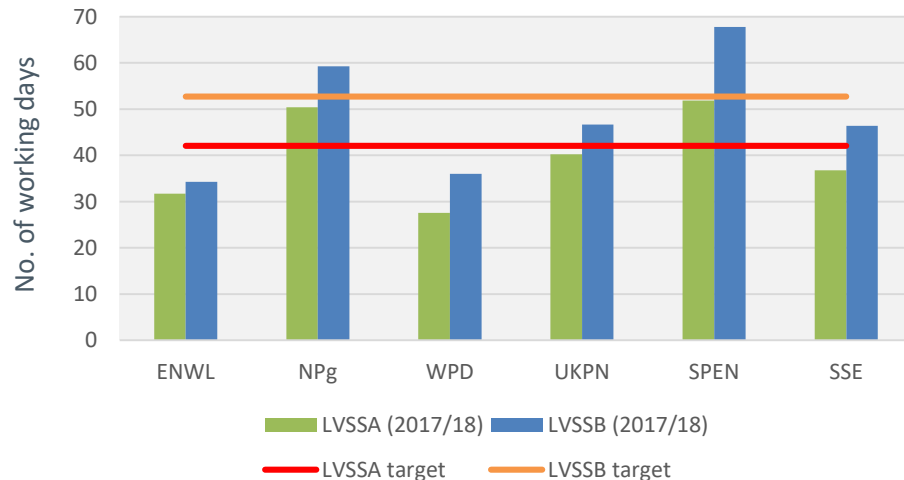
What is it?

- Rewards for reducing average time taken to connect smaller, less complex customer connections
- Measures the (i) average time to produce a quote (Time to Quote - TTQ) and (ii) average time taken from quotation acceptance to completion of works (Time to Connect – TTC)

How does it work?

- Targets set at the beginning of ED1 based on DCPR5 and updated this for the remaining 4 years. The targets are designed to get tougher as the price control progresses
- Rewards up to 0.4% ABR

Time to Connect Performance 2017-2018



How have DNOs performed?

- Prompted performance improvements, but not all DNOs are routinely meeting targets
- £12.8m paid across all 14 DNOs in 2017/18 – 6 of 14 licensees missed targets

Incentives on Connections Engagement

- **What is it?** Introduced in RIIO-ED1, designed to drive improved engagement for larger or more complex connection customers as well as higher levels of service
- **How does it work?** DNOs submit evidence each year that they engage with their stakeholders and respond to their needs. Ofgem consults with large connections stakeholders on the DNOs Looking Back report. Ofgem can apply a penalty up to 0.9% of annual base revenue
- **How have DNOs performed?** No penalties have been applied in RIIO-ED1. Despite the DNOs meeting minimum criteria under the ICE, areas of concerning performance are still being highlighted and although improvement in engagement is clear, it is not evident if this translates into improvement in service

Connections Guaranteed Standards of Performance

- **What is it and how does it work?** The GSOPs set out the minimum timescales for delivering specified connections activities. If DNOs fail to hit these timescales the DNO has to pay the customer affected
- **How have DNOs performed?** All DNOs performed well under the Connections GSoPs in 2017-18. All DNOs have met or exceeded target of 98% compliance, receiving a green RAG status (although it should be noted that the licence requires only 90% compliance)

Key questions:

1. Are the connections outputs and incentives targeting the correct customers?
2. Does our current approach to measuring and rewarding performance work effectively?
3. Do ICE and TTC drive performance improvements that translate into higher levels of service?
4. If yes, is there evidence to suggest that consumers value these service improvements? Would the cost associated with continued improvement in ED2 match value to consumers?
5. Has good connections service become BAU? If so, should it be incentivised in RIIO-2?

Objective: "A high-quality and reliable service to all network users and consumers, including those who are in vulnerable situations"

Emerging challenges for RIIO-ED2:

- The cost of energy system transition may fall disproportionately on those most vulnerable. How can the price control provide a fairer balance?
- How should we distinguish between DNO and DSO roles in relation to funding and incentives?

For all policy areas within scope, we also need to consider:

- In the RIIO-ED2 period, what will be the challenges and barriers to achieving the above stated aim? What are the key enablers required for change?
- In light of these challenges and barriers, what role do we expect the DNOs to play in these policy areas and what do we expect them to deliver?
- What parts of RIIO-ED1 (in the areas of customer service, vulnerability and connections) are driving value and what parts are potentially redundant? How do we capture and embed the achievements of RIIO-ED1?

Item 4: What can we learn from RIIO-ED1? (DNO-led)

Supporting Consumers in Vulnerable Situations

Agenda

- SSEN view of Consumer Vulnerability
- What went well in ED1
- Discussion on improvements for ED2

SSEN: Consumer vulnerability

We've evolved our services since the start of ED1 taking into account changes such as digitalisation, inclusivity and greater support for those in fuel poverty

We now have four stakeholder led core action points...

Driving forward PSR provision and promotion

Expanding on fuel poverty and energy efficiency activities

Widening our partnership network and collaborative activities

Ensuring our services are inclusive and accessible, now and in the future

What went well in ED1 for vulnerable consumers

Driven desirable behaviours amongst DNOs



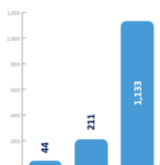
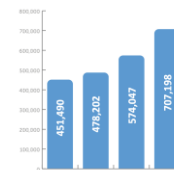
The focus on outcomes has increased



Accessibility and inclusivity has improved across the board



The Priority Service Register has thrived



Fuel poverty help has risen

Added a whole range of services for consumers



Service levels are up



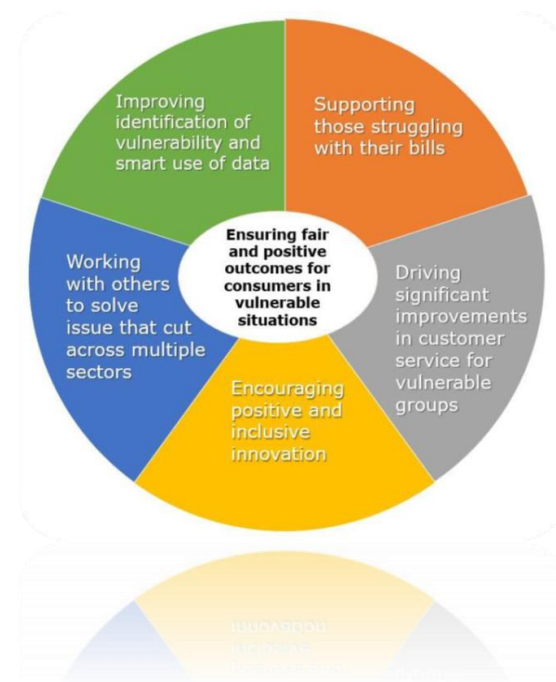
More partnerships, and of a higher quality



Discussion on improvements for ED2

Simpler, better and easier for customers...

- ✓ Aligned to CVS2025?
- ✓ Single PSR point of registration?
- ✓ How do we best protect the vulnerable in the transition to a low carbon world?
- ✓ Benchmarking?
- ✓ Transparency on what is considered to be best practice?
- ✓ Clearer expectations for energy efficiency?
- ✓ More incentive for collaboration?



Customer vulnerability in RIIO-ED1

What's working

- Ofgem's approach strikes the right balance between mandating action while allowing companies the freedom to develop services and partnerships to respond to the specific customer needs.
- The introduction of the SECV reward stimulated innovation in service provision.

What isn't working

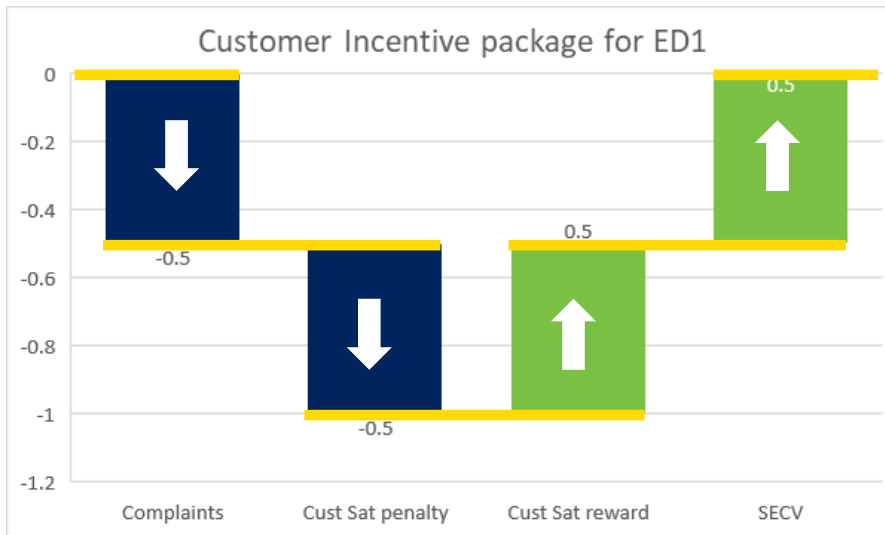
- The variability in the SECV reward, and therefore the budget for the following periods, makes it difficult to provide long-term commitments to charity partners.
- Accessing the right level of customer insight and data is difficult, mainly due to the sensitivity of the data and sharing limitations.
- Ensuring that data is both robust and secure is very expensive.

What we need going forward

- Clarification of roles and expectations on DNOs – particularly in relation to the transition to DSO.
- Licence that sets out the minimum required standards (including data sharing).
- Business plan incentive to ensure companies offer enhanced services beyond the minimum requirement.
- Ex ante allowances for companies to deliver customer vulnerability commitments.



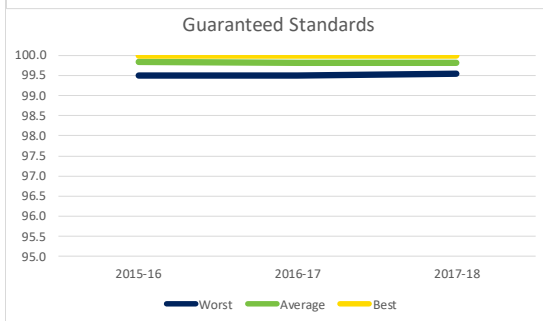
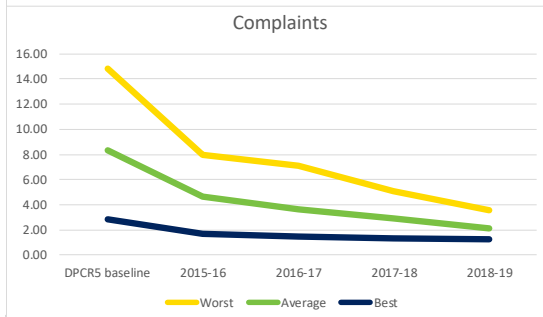
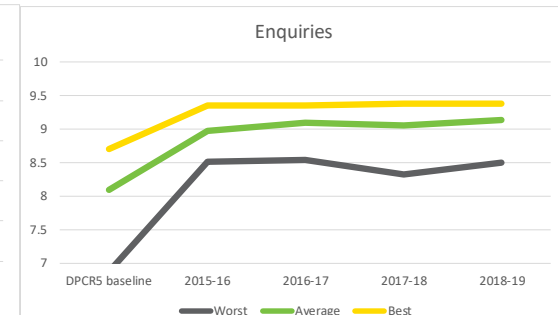
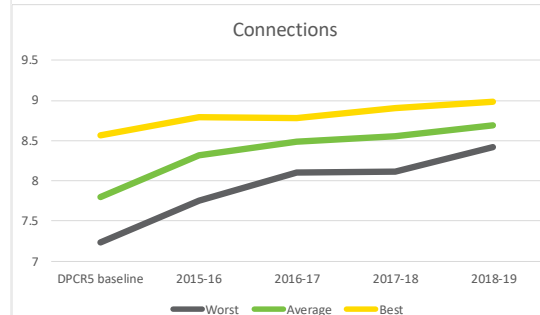
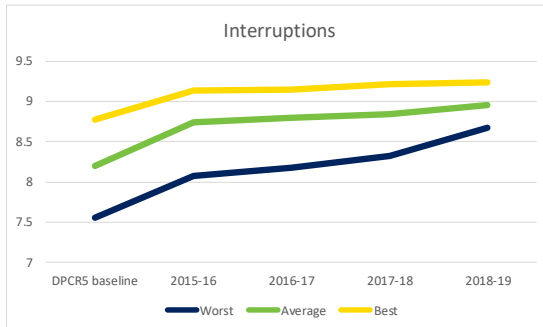
What are they?



- Penalty & rewards based on percentage of base revenue
- Therefore scaled based on size of DNO

- Complaints
 - Penalty only regime
 - Incentivises quick resolution of complaints
 - Measured by recording time to resolve
- Broad measure of customer satisfaction
 - Symmetrical reward and penalty regime
 - Incentivises improving customer satisfaction across
 - Interruptions
 - Connections
 - General enquiries
 - Measured by independent telephone survey of customers that have experienced the service
- SECV
 - Reward only regime
 - Incentivises enhanced stakeholder engagement and support for vulnerable customers
 - Assessment by Ofgem panel
- Guaranteed standards of performance
 - Payments to affected customers if standards not met
 - Incentivises better than 'backstop' performance

How are they working?



- Customer service across the board has delivered good outcomes for customers in ED1
- Customer expectations and reliance are increasing yet...
 - Performance has improved
 - Performance has converged
- Absolute targets have been beneficial
 - Has supported improvements
 - Has supported sharing of best practice



- DNOs will be at early stages of tailored programmes of engagement so unlikely to have well developed proposals
- Engagement likely to be making use of existing established insights and frameworks therefore early confirmation of scope welcomed
- Incentives have a key role but...
 - Need to have balance between penalty and reward; reputation also drives behaviours
 - How is high and consistent performance maintained?
 - Is incremental improvement still valued by customers?
 - Are there regional differences in how services are valued?
- Absolute targets appear to have benefit to customers overall
 - Need to balance collaboration vs competition
- Need to consider certain groups of customers
 - Worst served, vulnerable, fuel poor, customers left behind by decarbonisation
 - Need to ensure mechanisms are appropriately focussed and targeted (eg stakeholder engagement and customers in vulnerable situations are different things)
- Do Guaranteed Standards need review?
 - By which working group?

Jul-19 Rank	Organisation	Sector	Jul-19 Score	Jul-18 Score	Jul-18 Rank	Change in score Jul-18 to Jul-19
1	first direct	Banks & Building Societies	86.8	85.6	5	1.2 ▲
2	Debenhams	Retail (Non-food)	86.7	80.5	61	6.2 ▲
3	Suzuki	Automotive	85.9	80.2	67	5.7 ▲
4	John Lewis	Retail (Non-food)	85.3	86.5	2	-1.2 ▼
5	Next	Retail (Non-food)	85.1	86.1	3	-1.0 ▼

Source: Institute of Customer Service

<https://www.instituteofcustomerservice.co.uk/customer-satisfaction-index-launch-institute-of-customer-service-index-launch>

28th November 2019

Customer Service, Vulnerability & Connections Working Group

Customer Service

How effective have arrangements been in ED1 – Customer Satisfaction

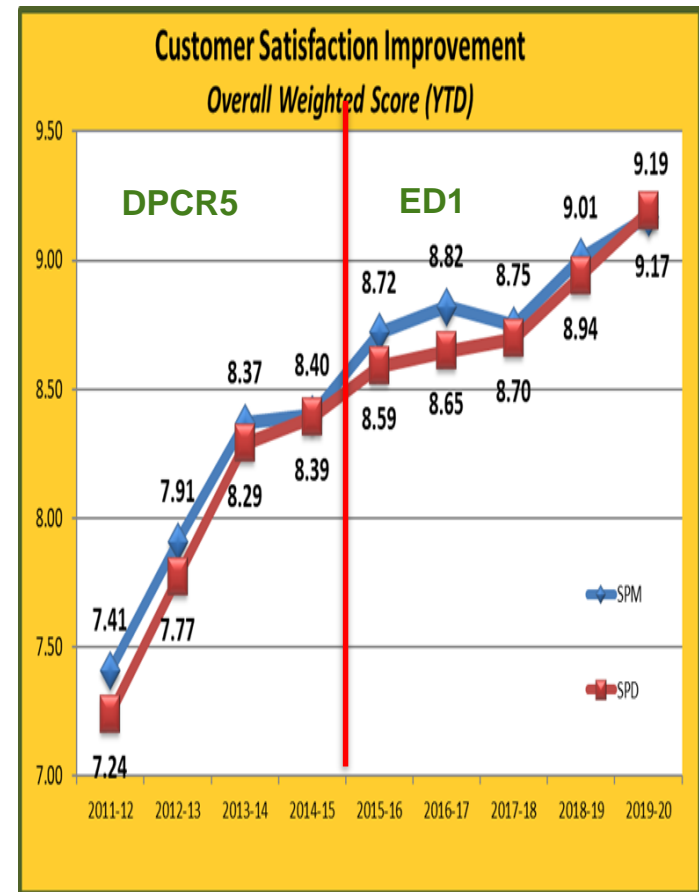
DNO Mean Improvement over price control



- Mean scores for ALL DNO's have increased significantly across DPCR5 and ED1
- DNO's now achieving a mean score of 9.01 as at October even with a 50% connections weighting
- A number of DNO's also independently benchmark against UK Customer Service Index.

EG : SPEN achieved 88.4 in 2019 (1.7 points ahead of top ranked company First Direct)

EG : SPENs Improvement over price control Demonstrates the impact the price controls have delivered.



Considerations



Considerations

We could increase focus on PSR customers in ED2 in terms of their satisfaction

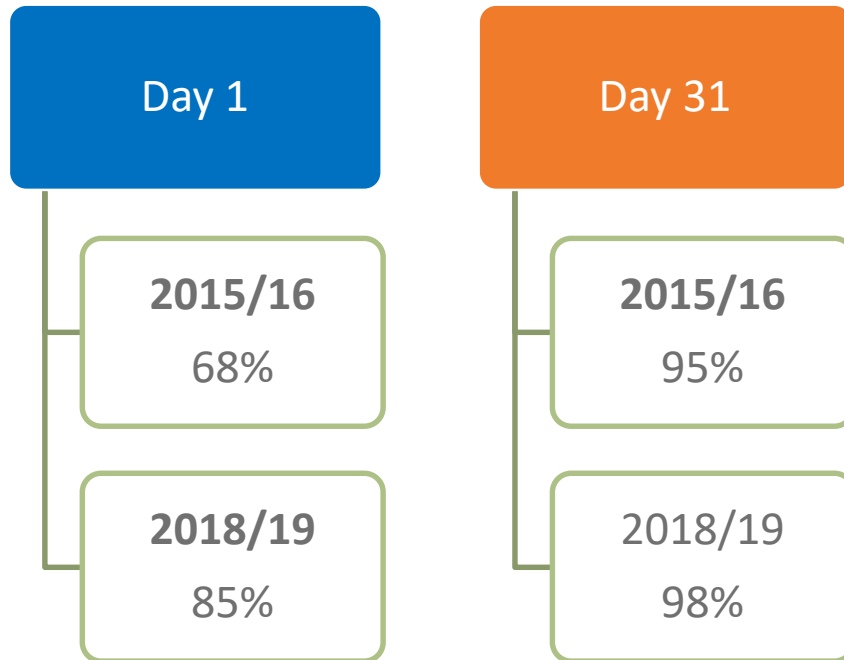
We need to protect customer satisfaction levels – especially if we need customers to share data with us in the future. Excellent service underpins trust

We know customers want more personalised service in the future – Given the likely uptake of new technologies the high standards we are achieving will be harder to achieve as expectations increase

Uptake of new technologies such as EV will have an impact, consider how these are included and if weightings are correct for ED2.

How Effective have arrangements been in ED1 – Complaints

Average ALL DNO Performance



- Average performance of DNO's has improved across ED1.
- Day 1 average increased by 17%
- Day 31 average increased by 3% but already high
- ICS benchmark also includes complaints handling

How Effective have arrangements been in ED1 – SECV

- ❑ SECV has helped to drive significant improvement in stakeholder engagement and the support of vulnerable customers across ED1
- ❑ The incentive has also driven companies to measure the impact of their actions and make decisions in a structured and informed way as a result.
- ❑ More transparency in terms of scores and feedback is needed
- ❑ In the changing energy landscape where customers will need to access new technologies to benefit from new markets, it is important vulnerable customers are not left behind in this transition.
- ❑ SECV could be extended
 - to test how DNO's are supporting this transition
 - to test how DNO's are helping customers to overcome any blockers through initiatives, partnerships & collaboration.

How Effective have arrangements been in ED1 – Connections

BMCS

- Customer Satisfaction surveys have been very successful across ED1 in improving Customer satisfaction results

Average DNO Connections Performance



TTQ & TTC

- Time to Quote and Time to Connect have been successful in driving improvements in timescales.
- This needs to be balanced against BMCS as customers need time to understand and talk through the quotation - this incentive can be in conflict with customer satisfaction. This works well if the balance is right.

ICE

- ICE Incentive has driven improvement in engagement with large connections customers.
- Can be subjective and risk of DNO's being distracted by those who shout loudest.
- Inclusion of IDNO's should be considered as some IDNO's now have over 1m customers.
- Benefit in extending ICE and opening this up to a reward mechanism focused on achieving Net Zero, encouraging flexibility & better utilisation of the existing network.
- Consider some higher volume segments for movement back into BMCS



Serving the Midlands, South West and Wales

Customer Service, Vulnerability & Connections Working Group 1

Alex Wilkes – External Affairs Manager

27 November 2019

Customer Service (BMCS)

➤ Survey - *Retain*

- Significant performance gains: Industry average from 8.01 (2013) to 9.01 (2019 RYTD)
- DNO performance high compared to UK Customer Satisfaction Index – DNO av. >9 (YTD) vs UKCSI 7.71 (July '19) and UKCSI highest rated – 8.68 (First Direct)

➤ Complaints - *Retain*

- Works well, drives the right behaviour
 - Retain absolute target but review level
-
- Maintaining high performance will be challenging as the BCMS will include DNOs response to Net Zero and “new future” services such as EV
 - Should new services such as EV be separately identified?

Vulnerability (SECV)

➤ Stakeholder Incentive - *Retain & improve*

- SECV is driving high performance behaviour through reward and competition
- Further gains to be made - range of performance in the industry (8.35/10 vs to 3.95/10)
- Key Ofgem priority to ensure vulnerable customer are protected in the Net Zero “new future” – leave no vulnerable customer behind in a period of significant change
- Setting ODIs and PCDs for areas of future services (that are currently uncertain), may not deliver the best outcomes for stakeholders or encourage continuous improvement/innovation
- SECV can navigate uncertainty and keep up with stakeholder needs and drive innovation
- Potential symmetrical penalty and reward for areas of particular interest for customers e.g. EVs/other priority street furniture – driving us to respond over and above

Connections

➤ **Connections GSOPs - *Retain***

- Works well to deliver minimum standards
- Fairly future proof as not technology specific
- Application of CIC standards naturally fall away as work becomes contestable
- CIC COP in place to protect the competitive market – consider de-scoping for larger connections

➤ **BCMS Connections Score – *Retain***

➤ **TTQ/TTC – *Do not retain***

- Has driven some good behaviour in improving service levels to customers
- Improved average performance is now BAU
- Average performance is limited by customer and third party delays
- No further gains without compromising service quality
- Connections GSOPs and BCMS focus on quality and timeliness

Connections - enabling Net Zero

➤ “ICE +” - *Refocus & Reward*

- DNO engagement with larger connections customers now BAU
- Has delivered substantial improvements through ICE plans and stakeholder collaboration
- Has been responsive to changing stakeholder priorities and new services
- Stakeholders see limited opportunities for further substantial gains as currently scoped
- Penalty only incentive and link to Competition Test outcomes has limited ambition within industry
- Refocus towards Open data, flexibility, whole systems planning, whole systems operation
- Reward DNOs for embedding new stakeholder engagement to facilitate collaboration on “new future” and net zero services
- Symmetrical penalty and reward providing drive for innovation and competitive behaviours
- A dynamic plan with reward/penalty based on how well DNOs engage with stakeholders to determine what areas should be focussed on and developed

UK Power Networks

Customer Service, Vulnerability, Connections – Ofgem RIIO-ED2 Working Group

28 November 2019



Summary

Customer Service	RIIO-ED1	RIIO-ED2	Observations
Broad Measure Customer Satisfaction	Worked well in ED1	Continue	Review weightings (50:30:20) Review bandings – are new categories required e.g. EVs, LCTs Expansion of channels used for survey to mirror where possible the customer's chosen channel Review target levels – is 8.2 still reasonable? What are we comparing to when setting targets – history, external benchmarks?
Unsuccessful calls	Simple measure	Review	May need to refine in light of 9 th August LFDD event
Complaints	Backstop measure in ED1	Continue	Believe rationale of penalty only still applies Review the weightings across the bands and tighten RIGs to ensure consistency of reporting Assessment of any revised targets should look across other sectors rather than ratcheting purely within good performing companies

SECV	RIIO-ED1	RIIO-ED2	Observations
Stakeholder Engagement and Consumer Vulnerability	Key focus area driving tangible improvements to customers	Retain/ Enhance/ Split	Given focus on vulnerability may be merit in separate Vulnerability Incentive Stakeholder Engagement could expand to include wider engagement on decarbonisation transition, including transport and heat. Depending on arrangements elsewhere in the price control resilience, data openness etc could be incorporated

Connections	RIIO-ED1	RIIO-ED2	Observations
ATTQ/C	Driven reductions in quote and connection times	Review/ Refine/ Drop	Arguably done what was intended in ED1 Question mark over how much further performance can be improved More sophisticated target setting required if retained
ICE	Significant volume of work undertaken across the industry	Drop	No penalties applied to date Market has changed significantly since last competition tests back in 2013 Opaque and doesn't work
GSOPs	Work	Continue	Review timeframes and payment levels to ensure still appropriate

ATTQ/C – thoughts for RIIO-ED2

- Question mark over whether to retain
- Has been a positive influence in ED1 bringing attention to a specific area of performance
- However, given the performance improvements that have been made, there is a question as to whether focusing purely on the time to connect may not reflect customers' wider expectations
- Third party and customer-driven factors are included within the incentive despite DNOs having limited control and therefore no ability to improve performance relating to these factors (i.e. traffic mgmt)
- Potential to include timeliness within BMCS e.g. a targeted, scored, question on whether the customer's desired timescales were met for both quote and connect
- If retained then significant refinement required, both for quote and connect elements
- More sophisticated target setting needed to recognise external factors impacting performance

Incentive on Connections Engagement (ICE)

- The competition test was held in 2013 and it was identified that in a number of market segments competitors had not developed a service offering
- Over the intervening period the CiC Code of Practice has been embedded and competition has even been introduced into the LVSSA & LVSSB markets
- There are 14 IDNOs and more than 100 ICPs active in the UKPN area alone

The current ICE incentive

- Not transparent, using qualitative data from a small sample of customers to reach a conclusion against a set of criteria that are ill defined. This has disenfranchised customers who don't see the value of investing time in providing feedback
- Contrast the ICE methodology with the Stakeholder incentive where the format of the submission is prescribed and the marking criteria published

Incentivising DNOs in ED2

- With competition established and the challenges posed by the electrification of heat and transport the focus should move away from tactical service improvements to incentivising the use of innovative products and services to maximise utilisation of the existing network
- This will deliver cost effective and timely connections which are the key drivers of satisfaction

The incentive in its current form lacks credibility with our stakeholders and has limited value in a market where competition is flourishing

2015 – to date



- **148** Initiatives delivered
- **53** events held
- **1250** stakeholders engaged F2F
- **40** Consultation responses

Wider Connections Policy

Market distortions – Capacity Ramping

- IDNOs are able to secure capacity indefinitely
 - Bilateral agreement secures capacity; no requirement for on-going reservation charges on unused capacity
- All other connecting customers, via DNO or ICP connections work, would pay for securing capacity either via DUoS availability charge or via capacity reservation
- DNOs are obliged to maintain availability of the IDNO's capacity
- Drives earlier reinforcement, impacting all customers adversely
 - New connection customers will tend to pay earlier for load-related reinforcement contribution
 - Existing connected customers pay increased DUoS charges for load-related or load growth reinforcement

Market distortions – Asset Discounting

- Regulatory framework for deriving income differs between IDNOs and DNOs
 - The cost of providing new connections is in many cases subsidised through future DUoS revenue by IDNOs
 - It is not permitted for DNOs to do this
- This is particularly attractive where the connection costs are relatively low to the DNO network
 - e.g. where there is relatively little or no reinforcement required on the DNO network
- Developers will be the main beneficiary of the reduced connection costs
- Incrementally, this drives increased reinforcement cost towards DNO-connecting customers and away from developers connecting via IDNO
 - All DNO and IDNO DUoS charges will tend to increase as a result

Thank you



- Next meeting: 23 January 2020, 10am-4pm, Ofgem London offices
- The focus of the next WG meeting will be vulnerability:
 - What are the existing, and emerging, challenges?
 - What are the key enablers to achieving good consumer outcomes?
 - What could the DNOs deliver?
 - What should be the role of the DNOs in addressing vulnerability and achieving good consumer outcomes?

Our core purpose is to ensure that all consumers can get good value and service from the energy market. In support of this we favour market solutions where practical, incentive regulation for monopolies and an approach that seeks to enable innovation and beneficial change whilst protecting consumers.

We will ensure that Ofgem will operate as an efficient organisation, driven by skilled and empowered staff, that will act quickly, predictably and effectively in the consumer interest, based on independent and transparent insight into consumers' experiences and the operation of energy systems and markets.