

RIIO-ED2 Customer Service, Vulnerability and Connections Working Group



Purpose of today's session:

- Begin to answer some of the priority questions noted down for connections, in particular for major connections:
 1. Are principles and baseline standards appropriate?
 2. What kinds of metrics and commitments could be used to assess performance within period?
 3. Reviewing the boundary between major and minor connections customers - how to do this and when? What are the interactions with other connections proposals?

Timings	Agenda item
09:30-10:00	<ul style="list-style-type: none">- Intro and agenda- Brief update from DNOs on Connections Steering Group (in relation to questions 1 and 2)
10:00-11:20	<ul style="list-style-type: none">- What kinds of metrics and commitments could be used to assess performance within period? Lessons learned from other sectors- Interactions with other connections proposals: reviewing the boundary between major and minor connection customers
11:20-11:30	<ul style="list-style-type: none">- Next steps, actions and AOB

- We expect DNOs to carry out some activities as part of BAU. **Progress that companies have made in RIIO-ED1 should now serve as the new baseline level of service** all DNOs are expected to provide in RIIO-ED2. We think there should be consequences for companies that do not meet baseline levels of service.
- In relation to the proposal for major connections customers, failure to deliver strategies in line with baseline standards could result in penalties.

RIIO-2 Design Principles

- Outputs (including bespoke outputs) should be set to reflect the attributes of network service quality that are of **most value to current and future consumers based on rigorous consumer research and engagement**.
- **Outputs should be specific, measurable and substantively within the control of network companies to deliver.**
- In calibrating **rewards/penalties for improving/falling short of the required standards, we will seek where appropriate to reflect the value to the consumer of the service improvement/degradation**, measured by methods such as willingness to pay.
- Where value to the consumer is difficult to assess, we may use relative incentives in cases where the outputs are broadly comparable across network companies.

Relevant considerations for common vs. bespoke outputs (RIIO-2 Draft Determinations Core Document)

- In assessing RIIO-2 business plans, where Business Plan Guidance conditions were satisfied, we:
 - identified bespoke proposals for similar outputs and **considered whether it would be more appropriate for the proposed bespoke output to be a common output.**
 - accepted bespoke output proposals in cases where a **common output or alternative mechanism would be less appropriate** than the proposal submitted by the company.

Example of a bespoke ODI in RIIO-ET2 DDs we have proposed to accept

- **Company proposal and output type:** NGET's environmental scorecard, ODI F
- **Purpose:** NGET will further reduce its carbon emissions, improve the environment and reduce its resource use for the benefit of existing and future consumers.
- **Details:** ODI-F to reward/penalise NGET's performance in seven environmental areas compared to an annual target improvement in each area.
- **Rationale for proposing to accept:**
 - NGET has proposed a **symmetric reward and penalty mechanism**, with **quantifiable metrics**, clearly **time-bound baseline targets**, and a **dead-band range**.
 - We considered the RIIO-2 targets that NGET proposed to be a **step change in ambition compared to RIIO-1**, and targets to be **at least comparable to or exceed those of its peers, and other external benchmarks**. (NGET would not be rewarded under the ODI-F for achieving the RIIO-2 targets in its EAP, however it would receive a penalty if, on balance, it under-performed across the different metrics compared to the targets. Conversely, it would only receive a reward if it out-performed, on balance, across the seven metrics.)
 - We have concerns about some areas including the proposed weightings of the seven areas in scope as well as the proposed incentive rate that would apply. **We are consulting on proposed amendments** to these areas in DDs.

By way of example, connections principle 1: Support connection stakeholders to make informed decisions by providing accurate, comprehensive and user-friendly information.

(First three) associated baseline standards:

- Establish and maintain up to date guidance on how, and where, customers can connect to the distribution network. This should include information about the application and delivery process...and the provision of [documentation] to clarify, at a granular level, where capacity is available, where network services may be beneficial, and likely curtailment levels in constrained areas.
- Offer a range of connection options which suit customers' requirements, including where customers are looking to provide energy services, for example to the System Operator.
- Provide customers with clear connection quotation cost breakdowns, listing out the cost components and any assumptions used in the formulation of a quote. This should include:
 - Simple explanations of products and pricing options
 - Clear outline of what prices include and exclude, including contestable cost elements
 - Where appropriate, the likely implications for the customer's connection offer if any changes arise, either as a result of changes to their own requirements or because of other customers that are seeking to connect in the same area.

For all baseline standards, DNOs will need to report on delivery against the specific actions they set out in their strategy including the date and frequency of delivery.

Baseline standards

Rewards **could** apply if DNOs can identify in BPs:

- Specific/Targeted outcomes
- Quantifiable measures
- Valued by consumers
- Challenging targets/Demonstrably beyond baseline

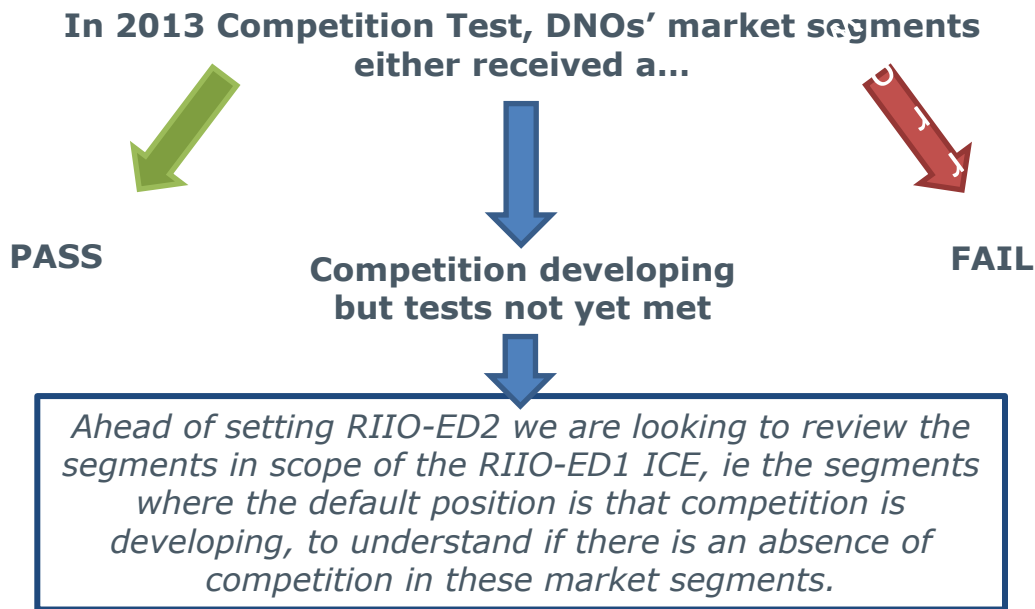
Penalties could apply where the baseline standards are not met.

Issue highlighted in WGs and SSMC:

- In RIIO-ED1 we applied different regulatory approaches for customers seeking small, or minor, connections and those seeking large, or major, connections.
- We consider that some connection customers in market segments currently defined as 'large', and are subject to the ICE arrangements, may have more in common with those requiring LVSSA or LVSSB connections. We proposed moving customers in market segments where there is no prospect of competition into the BMCS and TTC arrangements for RIIO-ED2.

Reviewing competition in the connections market

- Aim of 2013 competition test was to establish where effective competition existed.
- The purpose of reviewing the boundary between major and minor connection customers ahead of RIIO-ED2 would not be to establish evidence of effective competition, but rather to establish if there are market segments where there is no competition and no prospect of competition.



Ahead of setting RIIO-ED2, we propose to review the level of competition in market segments where competition developing but tests not yet met. The possible outcomes include:

1. Prospect of/some effective competition

- Retain a 4% margin;
- Only downside incentives should apply.

2. No competition

- Remove the 4% margin;
- There may be an opportunity for upside incentives;
- Moving new market segments to BMCS and TTC could make it more difficult to set targets and to compare within period performance (with different market segments in scope depending on outcome of the review). **Instead of moving market segments, these upside incentives could mirror BMCS/TTC arrangements within the major connections customers ODI F, or alternative/shadow arrangements could be established.**

Interactions with other connections proposals: reviewing the boundary between major and minor connection customers

RIIO-ED2 Option 1

TTC and BMCS
LVSSA, LVSSB, **Metered demand LV, DGLV***

Major connections framework

Metered demand HV

Metered demand HV and EV

RIIO-ED2 Option 2

TTC and BMCS
LVSSA, LVSSB

Major connections framework

Metered demand LV

DGLV

Metered demand HV

Metered demand HV and EV

The major connections framework would be by default penalty only **unless two conditions are filled:**

1. Market segments where there is no prospect of competition are in scope of the major connections framework (option 2); and
2. Robust metrics and associated challenging targets are identified in DNOs' business plans which will be used to assess performance within period.

*** Results from hypothetical review of competition in connections market. For these segments, for DNO X, there is no prospect of competition**

Questions

- Do you have views on whether market segments where there is no competition should be (i) moved into 'minor connections' arrangements, or (ii) retained in major connections framework and that DNO performance be reviewed under shadow BMCS/TTC or similar metrics?

RIIO-ED2 Proposals – Connections

Brian Hoy

Overview

	Repl for		
	ICE	BMCS	TTC
LV	?	?	?
HV - LVHV	?	?	?
HV - HVHV	Yes		
HV & EHV work:	Yes		
EHV work & above	Yes		
DGLV	?	?	?
DG HV & EHV	Yes		
Unmetered LA	Yes		
Unmetered PFI	Yes		
Unmetered Other	Yes		

	Passed	Not passed	% passed
LV	2	12	14%
HV	4	10	29%
HV & EHV work:	6	8	43%
EHV work & above	6	8	43%
DGLV	0	14	0%
DG HV & EHV	6	8	43%
Unmetered LA	8	6	57%
Unmetered PFI	10	4	71%
Unmetered Other	0	14	0%

- For market segments that haven't passed the Competition Tests
 - Seven market segments would be subject to 'Strategy Delivery ODI' ie replacement for ICE
 - Three market segments identified as potential options:
 - subject to 'Strategy Delivery ODI' ie replacement for ICE or
 - Added to scope of Broad Measure and/or Time To Connect Incentive
- If Competition Tests are re-run, the number of segments any of these mechanisms could apply to could reduce

Broad Measure

Based on 2013 Competition Test results

- LV market segment passed by two DNOs (ENWL & SPEN)
 - May need differentiated targets between DNOs
 - SPEN could end up with different targets between licence areas
- HV market segment passed by three DNOs (ENWL, SPEN & NPg)
 - LVHV is a subset of this market segment
 - Need to consider viability of 'Strategy Delivery ODI' if only applied to HVHV
 - May need differentiated targets between DNOs
 - SPEN could end up with different targets between licence areas
- DGLV market segment not passed by any DNOs
- Having different performance standards makes direct comparison not possible
 - Is this an issue?

Broad Measure

- Target setting
 - Getting sufficient volumes of surveys in DPCR5 to have statistically significant results was a challenge when all “major” connections were included
 - Inclusion of some or all of LV, LVHV and DGLV will be a smaller population
 - Separate target for segments added therefore may not be feasible
- If a single target was needed then no historic information on performance
 - Could set target based on external benchmark eg CSI
 - Could run pilot to get current satisfaction levels
 - Would adequate volumes be achievable to use to set targets
 - Would need to consider methodology to combine with historic data to set target scores
 - If satisfaction levels for these new categories of customers differ then mix of volumes between DNOs might lead to inequalities

Broad Measure

- Performance monitoring
 - If satisfaction levels for these customers differs from current scope then the performance could be very sensitive to which customers surveyed
 - DNOs with a higher proportion of these types could be disadvantaged
 - The range of types of customers in these segments is greater than current scope and likely to vary between DNOs
- Moving only a subsets of a market segments adds some additional considerations
 - Balancing between the incentive mechanisms
 - If only a small subset goes then may have limited impact on the survey; would this drive DNO behaviour?
 - If a large subset goes then need to consider the viability of the incentive mechanism for the residual

Time To Connect

- Many of the issues identified for Broad Measure also apply to Time To Connect, additional points...
- Target setting
 - Would expect that separate targets would be identified for TTQ and TTC for any market segments added
 - Therefore less on an issue on comparability
 - Need to review to see if any data issues on historic data for use in target setting
 - Very few actual connections in DGLV as mainly retro fit on existing premises
 - Larger schemes more likely to have protracted deliver periods
 - Housing sites can run for many years
 - Performance could be skewed by small number of very long running projects
 - Work mix between DNOs likely to be more widespread than current scope
- Performance could be very sensitive to work mix
 - Generally these customers have advance programmes and meeting them more important

AOB, actions and next steps

Proposed focus of 15 October WG:

- For **Connections**, DNOs to present views on:
 - Suitability of baseline standards, should all standards apply to all market segments in scope of connections ODI framework?
 - Kinds of metrics that could be used to measure performance within period
- For **Vulnerability**, WG members to present views on:
 - Recommendations on any proposed changes to the vulnerability baseline standards

All material to be shared with Ofgem by Friday 9 October

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We do this by:

- **working with Government, industry and consumer groups to deliver a net zero economy at the lowest cost to consumers.**
- **stamping out sharp and bad practice, ensuring fair treatment for all consumers, especially the vulnerable.**
- **enabling competition and innovation, which drives down prices and results in new products and services for consumers.**