

# RIIO-ED2 Customer Service, Vulnerability and Connections Working Group



Timings	Agenda item
10:05-10:25	<i>Customer Satisfaction (SPEN)</i> <ul style="list-style-type: none"><li>- Proposal for how RIIO-ED2 targets could be set and how rewards and penalties could be calculated</li></ul>
10:25-11:00	<i>Connections (Ofgem)</i> <ul style="list-style-type: none"><li>- Time to Connect Incentive options</li><li>- Competition Test (verbal update)</li></ul>
11:00-11:20	<ul style="list-style-type: none"><li>- <i>Business Plan Data Templates: Vulnerability and Large Connections (Ofgem)</i></li></ul>
11:20-11:30	<ul style="list-style-type: none"><li>- <i>AOB</i></li></ul>

## **Customer Satisfaction Survey**

# BMCS – Methodology - Target Setting

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12.11.20

### OFGEM Key Principles

- ☐ Use Industry Average Performance data from ED1
- ☐ Rewards applied to scores above upper quartile
- ☐ Penalties applied below the average
- ☐ Targets for reward should continue to encourage excellent performance
- ☐ Companies should be penalised for falling below what is now considered business as usual performance

DNOs reviewed numerous models with the aim of achieving the above principles

Reviewed against external data

Reviewed against the likely changes in ED2 period in terms of new work and volumes

**2 DNOs do not support a dead band model as suggested in SSMC**

## Preferred DNO Model – (Dead band)

Interruptions		Targets
Max Reward	Mean + SD	9.20
Start of Reward	Upper Quartile	9.04
Dead band		8.95 – 9.03
Start of Penalty	< Mean	8.94
Max Penalty	Mean - SD	8.51

Connections		Targets
Max Reward	Mean + SD	9.08
Start of Reward	Upper Quartile	8.87
Dead band		8.72 – 8.86
Start of Penalty	< Mean	8.71
Max Penalty	Mean - SD	8.09

Enquiries		Targets
Max Reward	Mean + SD	9.47
Start of Reward	Upper Quartile	9.36
Dead band		9.17 – 9.35
Start of Penalty	< Mean	9.16
Max Penalty	Mean - SD	8.66

### 4 DNOs Support this model

- Using OFGEMs proposed model
- Applying 1 SD from the mean for Max Reward and Max Penalty
- Start of reward is above upper quartile ED1 performance
- Start of penalty is below the mean ED1 performance
- Targets illustrated here are based on ED1 performance using 2020/21 current performance out to the end of the period.

### Points of note

- This moves start of reward significantly up from 8.2 in ED1
- This moves max reward up significantly up from 8.9 in ED1
- Connections and General Enquiries are likely to see significant change in volume due to LCT and so this is a real stretch when taking into account the impact of the net zero transition.
- This model whilst limiting the extremes drives very high targets EG - GE at 9.47 at max reward and penalty starting at 9.16.
- We should therefore be flexible in the approach to potentially cap extreme scores seen by the end of the period.

### Data Referenced back to ICS

- The Top performing company John Lewis when references to this model would come out in Penalty in 2 Categories and in GE would actually come out lower than max penalty. *(No 1 ICS John Lewis 8.63)*

## 2 DNOs Support No Dead Band Model – No Preferred model

ED1	Target based on 2015-2020 Weighted Average Scores	Weighted Score (2015-2023)
Max Reward	Top Performer (No. 1)	9.1
Break even	Mean	8.88
Max Penalty	Worst Performer (No. 14)	8.46

### 1 DNOs Supports this model

- Model with no dead band
- Max Reward at Top Performer across 7 year ED1 period
- Max Penalty at Worst Performer across 7 year ED1 period
- Start of reward is above mean ED1 performance
- Start of penalty is below the mean ED1 performance
- Targets illustrated here are based on ED1 performance using 2020/21 current performance out to the end of the period.

#### Points of note

- Start of reward above current ED1 Max Reward

When Referenced back to ICS - Top Performer John Lewis would come out in Penalty/Max Penalty in both models

Interruptions		Targets
Max Reward	Upper Quartile + SD	9.29
Start of Reward	Mean	8.97
Start of Penalty	< Mean	8.96
Max Penalty	Mean - SD	8.72

Connections		Targets
Max Reward	Upper Quartile + SD	9.22
Start of Reward	Mean	8.72
Dead band		
Start of Penalty	< Mean	8.71
Max Penalty	Mean - SD	8.36

Enquiries		Targets
Max Reward	Upper Quartile + SD	9.65
Start of Reward	Mean	9.17
Dead band		
Start of Penalty	< Mean	9.16
Max Penalty	Mean - SD	8.88

### 1 DNOs Supports this model

- Model with no dead band
- Applying 1 SD from the mean for Max Penalty
- Applying 1 SD from the UQ for Max Reward
- Start of reward is above mean ED1 performance
- Start of penalty is below the mean ED1 performance
- Targets illustrated here are based on ED1 performance using 2020/21 current performance out to the end of the period.

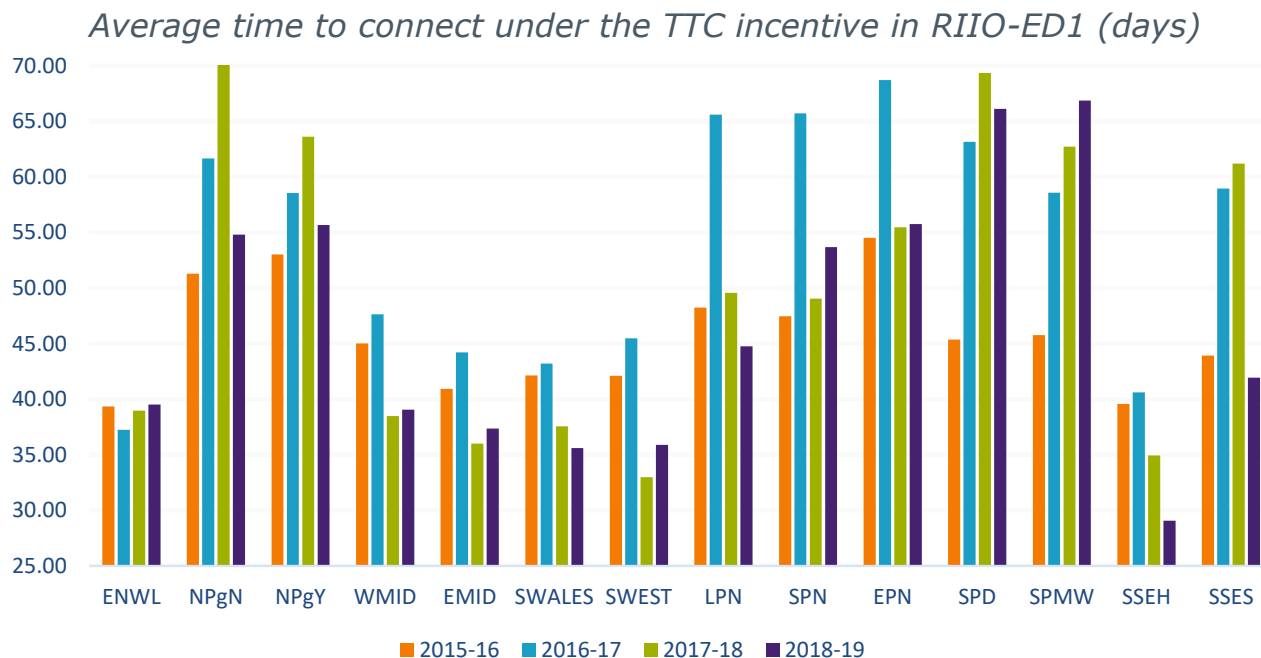
#### Points of note

- DNO feels the dead band weakens the incentive

**Time to Connect Incentive**



- The aim of the TTC is to drive DNOs to review their end-to-end business processes on an ongoing basis and seek opportunities to identify efficiencies and reduce timescales.
- We consider DNOs to be delivering good outcomes under the TTC incentive and while we are not concerned with absolute performance, we **want to ensure performance doesn't deteriorate in ED2 relative to ED1.**
- RIIO-ED2 will be a period of significant transition and **price control arrangements need to support the transition, not be a blocker to it.**



Performance in ED1 suggests the incentive has driven improvements in the timeliness and efficiency of connections. DNOs have earned £55 million in rewards under the incentive in RIIO-ED1 to date and in most cases, DNOs are meeting their targets.

### SSMC proposals:

- Proposed to retain the incentive in RIIO-ED2.
  - Think DNOs should be rewarded if they are able to connect customers in timescales that on average are shorter than they are now.
  - Think penalties should apply to companies whose performance deteriorates in RIIO-ED2. Proposed to introduce a reopener to review performance and apply penalties if service levels deteriorate within the period.
- Proposed to expand the scope of the incentive to include customers who have similar characteristics to LVSSA and LVSSB customers if they meet certain conditions (sufficient volumes & absence of competition).

### Stakeholder views:

- Majority respondents **supportive of proposal to retain** TTC.
- **Stakeholders generally supportive of introducing penalties, but mixed views regarding use of reopener to defer introduction**, with some stakeholders favouring penalties being applied from the beginning of RIIO-ED2. This would be less complex and administratively burdensome compared to a reopener and would provide customer protection from beginning of ED2.
- One stakeholder noted that the symmetric CSS may be sufficient to ensure performance doesn't deteriorate.
- **Most stakeholders agreed with reviewing boundary between major and minor but not with expanding scope** (issues with setting targets and reduces comparability between ED1 and ED2 and between DNOs).

## 1. Adopt a reward and penalty scheme in ED2

- ✓ Rewards drive performance improvements whilst penalties provide deterrent to worsening performance.
- ✓ Removes regulatory uncertainty of a reopener, which stakeholders noted could undermine incentive properties/dissuade companies from making improvements. Mechanistic, not complex to administer.
- ✓ Would provide consumer protection from beginning of ED2 (while there appears to be some correlation between reducing connection timescales and increased satisfaction scores, the trend isn't consistent. It's not clear this alone would be sufficient to ensure performance doesn't deteriorate in ED2.)

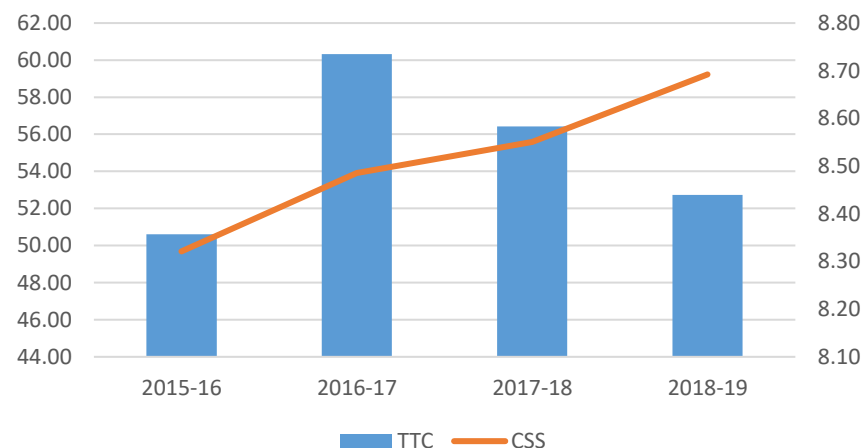
### a) Adopt a reward and penalty TTC scheme (+/-0.4%), inclusion of a dead-band on the downside.

- We recognise that factors could influence performance that is outside DNOs' control.
- Under this option, we would need to carefully calibrate penalties to ensure that top ED1 performers are not penalised for good performance in ED2. Key things to consider would be:
  - The elements of the mechanism that would be subject to penalties?
  - How targets are set and applied, absolute or relative?
  - How a dead-band is applied? Should this be absolute or relative?

### b) Request as part of the BPI, bespoke commitments from DNOs to improve and not worsen performance connections performance in ED2

- Under this option, we would award CVPs for commitments, on the condition that commitments include a proposal for financial consequences if DNO does not meet own targets.
- DNO retains reward if commitment is met. Clawback reward, and impose consequences, if commitment not met.

*All DNOs Time to Connect and Connections Survey Performance*



## **Competition Test (verbal update)**

## **Business Plan Data Templates: Large Connections and Vulnerability**

We set out in our SSMC that we would baseline fund strategies and therefore need to ensure costs are captured in the Business Plan Data Templates. We are seeking views on whether the approach to BPDTs for RIIO-ED1 is sufficient to capture costs whether new tables are needed.

For both vulnerability and large connections, assumption is that all relevant costs are already captured in existing CV tables.

**Question for the WG: Is a memo table required to capture specific schemes related to the large connections and vulnerability ODIs? Regarding vulnerability, if included, should a memo table be more detailed than the ED1 social memo table (for instance, linking to the relevant CV table or primary driver)?**

## **Actions, AOB and next steps**