



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 2020 RIIO-ED1 Incentive on Connections Engagement**

The Incentive on Connections Engagement (ICE) is an annual process which encourages Distribution Network Operators (DNOs)<sup>1</sup> to identify, engage and deliver on the needs of larger connection customers. If they fail to do so, DNOs can face a financial penalty.<sup>2</sup> Following the conclusion of this year's process, 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. This letter sets out the reasons for our decision and next steps.

**Background**

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

The RIIO-ED1 price control contains a package of connection outputs and incentives to ensure DNOs focus on continuously improving the connection experience for all customers. As part of this, the ICE specifically focuses on the larger connections customers and pushes DNOs to identify, engage and deliver on the particular needs of

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<sup>1</sup> There are 14 licensed distribution network operators (DNOs) in Britain and each is responsible for a regional distribution services area. The 14 DNOs are owned by six different groups. See here for more details: <https://www.ofgem.gov.uk/electricity/distribution-networks/gb-electricity-distribution-network>

<sup>2</sup> ICE Guidance Document: [https://www.ofgem.gov.uk/sites/default/files/docs/2015/02/ice\\_guidance\\_doc\\_revised\\_format\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/02/ice_guidance_doc_revised_format_0.pdf)

these customers. If they fail to do so, DNOs face a penalty in particular segments of the connections market where ICE applies.<sup>3</sup>

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 larger 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:

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

More information on how the ICE works is available in our ICE Guidance Document.<sup>4</sup> In July this year, we sought feedback on the 'Looking Back' and 'Looking Forward' sections of the submissions from each DNO. We assessed DNO performance by reviewing the 'Looking Back' sections of their submissions, alongside the stakeholder responses to our consultation (we have published non-confidential responses on our website<sup>5</sup>). This year we also asked customers to share their views on anything on the following list:

- providing more clarity on the rules and processes for connections as they evolve, including new forms of low carbon technologies (LCTs) such as storage and electric vehicles (EVs), with DNOs engaging with their customers to achieve this;
- ensuring that connection customers receive good customer service throughout the connection process;
- ensuring the connections process is sufficiently flexible to accommodate necessary changes in customers' requirements;
- ensuring that customers fully understand the implications for their connection offer of any changes that can arise, either as a result of changes to their

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<sup>3</sup> See Electricity Distribution Licence – Charge Restriction Condition 2E (Incentive on Connections Engagement) <https://www.ofgem.gov.uk/ofgem-publications/92964/crcslowtrackmaster.pdf>

<sup>4</sup> See <https://www.ofgem.gov.uk/ofgem-publications/94371/iceguidancedoc010415-pdf>

<sup>5</sup> <https://www.ofgem.gov.uk/publications-and-updates/incentive-connections-engagement-consultation-distribution-network-operators-2019-submissions>

requirements or because of other customers that are also seeking to connect in the same area;

- providing more transparency on where to connect;
- helping customers understand how relatively small changes to connection requirements could allow them to get connected to the network quicker and cheaper;
- ensuring availability of flexible connections for all customers, and improving the information available to customers about the possible consequences to them of accepting a flexible connection offer;
- identifying where it would be appropriate for the network operators to work together to improve the consistency of the connection processes across GB;
- promoting certain types of customers (such as storage) in a connection queue if doing so will help others connect more quickly or cheaply; and
- ensuring that connection customers who are aiming to connect new LCTs (such as EV chargepoints) are being appropriately engaged with, and their needs responded to.

We have now finished our assessment. Overall, feedback relating to the level and type of 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.

Stakeholders also expressed positive comments towards the improvements made to DNO's information systems that help provide granular, connections-related network data. These improvements were seen as being beneficial in helping customers make informed decisions.

We did receive feedback of concern in some areas, with stakeholders identifying where it may be appropriate for DNOs to work together to improve the connections process. We discuss this further in the letter and we expect the DNOs to take these into consideration when developing their ICE plans for next year.

On DNO's EV strategies specifically, we generally received positive feedback from stakeholders. However, the feedback received via other mechanisms (outside of ICE) is that the DNOs' connection service to EV stakeholders still needs significant improvement. Specifically, we are concerned about the information provided to EV connection customers (eg information about network capacity) to help them connect to the network

as quickly and efficiently as possible, and the customer service provided to these stakeholders. Stakeholders have also raised issues that relate specifically to the connection of EV chargepoints (eg the ease of the process for connecting chargepoints with vehicle-to-grid capabilities).

Many of these customers are likely to be new to the connections process, and may be less aware of the role of ICE consultations in driving DNO performance. As a result, we will continue to engage with large EV connection stakeholders over the next year to identify key issues and gather feedback on licensee performance. We also expect the DNOs to reach out to these stakeholders as part of their engagement plans. Information on this will allow us to assess the extent to which DNOs have engaged with these large connection stakeholders and responded to their needs. If DNOs fail to do this, they can incur a penalty under the ICE.

### **Reasons for our decision**

In reaching our decision, we reviewed each DNO's ICE submission (Looking Back section) for 2019-20 and considered stakeholders' responses to our 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 was judged not to be open to competition, which varies between DNO regions.<sup>6</sup>

The assessment criteria are as follows:

- the licensee published a Looking Forward section in its previous ICE submission, in accordance with paragraph 3.4 of the ICE guidance document<sup>7</sup>;
- 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;

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<sup>6</sup> In accordance with the provisions of CRC 2K (Margins on Licensee's Connection Activities)

<sup>7</sup> ICE Guidance Document:

[https://www.ofgem.gov.uk/sites/default/files/docs/2015/02/ice\\_guidance\\_doc\\_revised\\_format\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/02/ice_guidance_doc_revised_format_0.pdf)

- 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 this summer 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.

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 have concluded that all the DNOs met the assessment criteria in the market segments in which they could face penalties. As such, we will not be consulting further on penalties.

However, we note that there were some issues raised that, while not being sufficient to mean the DNOs did not meet the minimum criteria, could be of concern if not addressed in future years. We also note that issues were raised in market segments not open to penalty. We expect DNOs to engage with stakeholders on these issues where appropriate.

### **Concerns raised**

#### *Connections information and information systems rollout.*

The increased rollout and improvements made to connections information and information systems were widely viewed as a key common positive amongst this year's responses. However, there were some complaints over the functionality of some of the systems that hindered their usefulness. Therefore, we feel that DNOs should look to engage with the customers to help identify ways in which their systems and connections-related information could be improved.

#### *Request for additional information / engagement on the Distribution Service Operator ('DSO') transition*

This year we received comments from connection stakeholders suggesting the need for additional information / engagement on how customers and connections processes could be affected by DNOs' developing their roles. Although DNOs do provide evidence of

engagement with stakeholders on this concern, we encourage DNOs to become increasingly proactive in their engagement on this issue, given the uncertainty amongst stakeholders.

#### Issues in the connections process relating to customer service

While the majority of responses we received were positive towards DNO performance, there were some complaints that highlighted difficulties in relation to the application and feedback processes. While we understand connection applications may present individual challenges, we believe DNOs should ensure the application process is handled efficiently and feedback provided to customers promptly.

We would like to see DNOs engage with stakeholders on their connections application systems and processes, in order to understand stakeholder needs and to communicate challenges where they exist to increasing mutual understanding.

#### Electricity Connections Offer Expenses and the concerns stakeholders raised in its application

The Electricity (Connection Offer Expenses) Regulations ('COE') was introduced in 2018 which allowed for DNOs to charge customers for certain connection offer regardless of whether it was accepted or not.<sup>8</sup> COE includes the cost incurred (time / resources), when preparing the connection offer. They are also referred to as assessment and design fees or 'A&D fees'.

Stakeholders highlighted how the inconsistencies in DNOs' application of A&D fees across DNO regions is a concern. We welcome the efforts by DNOs to bring consistency of approach in description and presentation, while noting where there are differences these can be driven by a number of factors, including different business structures, user behaviour, demographics and local stakeholder requirements. This has been reflected in more information being set out in each DNOs' published Connection Charging Methodology. We encourage DNOs to continue to work with each other to keep their approach under review and provide a forum for stakeholders to raise issues.

#### Reforms to the ICE process

Some stakeholders highlighted concerns in relation to the operation of the current ICE mechanism and suggested that it could benefit from reforms. These included concerns

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<sup>8</sup> COE legislation - <https://www.legislation.gov.uk/uksi/2018/254/contents/made>

that some DNOs are not setting sufficiently challenging and ambitious deliverables within their work plans.

While we think that DNOs this year have satisfied the minimum criteria, we acknowledge stakeholders' views that the ICE process could benefit from improvements.

This summer we published our RIIO-ED2 Sector Specific Methodology Consultation in which we set out proposals for the outputs and incentives we will apply in the next price control period.<sup>9</sup> We received similar comments from stakeholders in relation to the operation of the ICE mechanism and, on reviewing stakeholder responses, we are considering how to best design outputs and incentives to ensure DNOs deliver high quality connection services in RIIO-ED2. We will publish our decision on 17 December 2020.

### **Next steps**

This document concludes our assessment of the DNOs' performance under the ICE in 2019/20.

We expect DNOs to review consultation responses and identify where they can improve, or learn from each other, for future years. If licensees wish to update their Looking Forward workplan, they have an opportunity to do so during the regulatory year. The licensee must explain the reasons for resubmission (e.g. change in stakeholder requirements or business priorities).

By 31 May 2021, the DNOs must submit their 'Looking Back' reports on their delivery of their plans for 2020/21, as well as their Looking Forward plans for 2021/22. Once we receive the submissions from the DNOs, we will publish a consultation to seek stakeholders' views on both the Looking Back reports and the Looking Forward plans.

Yours faithfully

**Jon Parker**  
**Head of Electricity Network Access**

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<sup>9</sup> RIIO-ED2 Sector Specific Methodology Consultation: <https://www.ofgem.gov.uk/publications-and-updates/riio-ed2-sector-specific-methodology-consultation>