

Electricity Transmission Policy (Large Capital Projects and Quality of Connections Survey) Working Group Minutes

From: Ofgem

Date: 17 June 2019

Time: 13:00 – 16:30

Location:
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

This document summarises the working group’s discussions and any follow-up actions. This document focuses on capturing the main issues and themes raised in discussion.

All minutes and notes were recorded in accordance with the Terms of Reference for workshops and Chatham House rules, meaning comments are non-attributable, except for the presentations made to the group. For the presentation material, please refer to the accompanying working group slides.

1. Welcome and Housekeeping - 13:00-13:10

2. Successful delivery of large capital investment projects – 13:10-15:00

- Ofgem presented an overview of large capital investment projects policy as set out in the decision document in May 2019.
- Some participants noted that the proposals for the large capital investment projects did not set out a reward for early delivery and noted that there would be potential benefits for both TOs and consumers if this was introduced.
- One participant discussed the Network Options Assessment (NOA) process and noted that this process is limited in that there is no facility to incentivise delivery earlier than the delivery timeline specified by the TOs, even when there is benefit to consumers in doing so. This means that there is some potential benefits to consumers being missed, while also acknowledging that rewarding early delivery was open to gaming through overstatement of project timelines.
- Several participants noted the importance of confirming the characteristics of large capital projects, so that the impact and risk of this policy area can be fully assessed.
- One participant raised concerns about the lack of a proposed reward for early delivery for projects and asked if an impact assessment had been carried out demonstrate the value of our proposed approach. Ofgem noted that it aimed to ensure that TOs were not unfairly penalised, however it was important that consumers were protected in the event of poor quality or unsuccessful delivery.
- Several participants noted there was a risk that a milestone based approach and / or penalty mechanism for late delivery could drive TOs to overstate the timelines for project delivery in order to avoid potential sanctions or penalty. The additional costs and risks could be passed onto the TOs contractors and supply chain.

Presentation on Incentives for the successful delivery of large capital investment projects (National Grid Energy Transmission)

- NGET presented its views on the large capital investment project incentives set out within the Ofgem SSMD document.

- The group discussed the milestone approach and the importance of balancing the number of milestones with the potential additional administrative burden. Several participants agreed that the key milestone would be completion/final commissioning of the project, while another participant noted the benefits of defining the milestones near to the beginning of the project, once the project details have been clearly identified.
- One participant queried whether a bespoke ODI could potentially be proposed in this area. Another participant noted that it would be difficult to propose a bespoke ODI in this area due to the scope and policy for large capital projects not yet being finalised. Ofgem noted that TOs were welcome to propose bespoke ODIs for areas they felt they could provide sufficient evidence of the benefits and noted the Business Plan Guidance sets out the criteria for bespoke ODIs.
- The working group discussed the proposed penalty, with one participant noting that Ofgem should allow TOs the opportunity to demonstrate a consumer benefit, and provide evidence, as sometimes it can be of wider benefit to delay delivery.
- A participant highlighted the risk that Ofgem could distort the competitive market by imposing a penalty mechanism on the TOs for failure to deliver their outputs, but that this penalty would not be imposed on any competitively appointed companies (i.e. through CATO).
- Several participants noted risks of applying penalties through the milestone approach, including the potential for a reduction in innovation spending, increases in the cost of capital and contractor prices. It was also noted that there was a risk that TOs could spend inefficiently at the end of a project to avoid a penalty, especially if they have a lower sharing factor.
- The group discussed the consumer detriment element of the large capital investment projects policy, with one participant noting that basing this on actual constraint costs would be very risky for TOs due to the large variance in costs and difficulty in calculating/quantifying this.
- The group discussed how the commercial contracts are typically agreed between the TOs and contractors. Some participants noted that liabilities paid to the TOs from the contractors tend to be difficult to achieve and representative of costs they have incurred.

Next steps and policy areas for further development

- The group discussed the characteristics of large capital investment projects and what they should include. Several participants noted that there would be benefits to linking this to the existing Strategic Wider Works (SWW) mechanism.
- One participant noted that the milestone approach should take into account consumer detriment and proposed that a penalty should only be applied to the final milestone.
- The group discussed the proposal for minimising consumer detriment after a project has been delivered and the value of ensuring network asset availability post-energisation. One participant raised the Offshore Transmission Owners (OFTO) process and said that this would be a potentially different approach. They also noted that the OFTO process does not have a similar penalty, as proposed under the large capital investment projects criteria.
- The group discussed scenarios and scope where the large capital investment projects would potentially apply, and several participants argued that this would add risks and

costs to these projects, particularly where there was a lengthy period of unavailability post-energisation. A couple of participants also raised concerns that introducing this for RII02 may be difficult due to timing issues.

- The working group discussed the possibility of introducing a measure of the value of availability. One participant noted that the ESO does not currently collect this level of data. One participant noted that constraint costs are generally increasing long term, so this would add to the potential cost impact of a policy here.
- One participant asked Ofgem if the large capital investment projects policy would apply to the ET sector only. Ofgem noted that this is yet to be confirmed but it may be possible to apply the same sort of framework in other sectors. Ofgem also noted that given the size and nature of the projects delivered in ET, this policy area is likely to be more applicable in this sector in comparison to other sectors.

BREAK - 15:00-15:15

3. Quality of Connections Survey – 15:15 –16:15

Summary of the SSMD on Quality of Connections Survey

- Ofgem summarised the position on the Quality of Connections Survey as set out in the May 2019 decision document .

Presentation on the Quality of Connections Survey (SHE Transmission)

- SHE-Transmission presented their latest thinking on the Quality of Connections Survey.
- One participant highlighted that it is easier to capture feedback straight after each stage rather than having customers try to remember their experience from e.g. a month ago. They also commented that the methodology is important to avoid stakeholder fatigue.
- One participant suggested that the baselines would move throughout the price control and these could be dynamic targets. Another participant also suggested that baselines could be different for each stage of the customer engagement process.
- One participant suggested the possibility of a different weighting to each pinch-point depending on their importance. This was identified by the group as an area that could be explored further.
- One participant questioned how far along the customer journey should the customers be surveyed. For example, the relationship could be considered finished once a customer is denergised/decommissioned, rather than that the end of the connections process. This is also an area that requires further consideration.

Presentation on the Quality of Connections Survey (Scottish Power Transmission)

- SPT provided a presentation on their perspective of the decision to introduce a Quality of Connections Survey.
- One participant was concerned that narrowing the survey could diminish how the TOs are assessed. For example, narrowing the performance assessment to only a handful of customers is likely to make it increasingly difficult to prove outperformance against the baseline.

- One participant was concerned that the overall price control package is moving away from output incentives which is reducing output incentive opportunities.
- One participant stated that the transition to RIIO-2 should be incremental and build on RIIO-1 and it should not be an obvious change for the customer.
- One participant highlighted their concerns with introducing a pilot survey because customers may get frustrated and cause stakeholder fatigue due to overlapping with the existing RIIO1 survey.
- One participant suggested that the survey could be one quantitative metric that forms part of a wider qualitative assessment.
- Concerns were also raised around the size of the survey sample, now that we are narrowing the survey scope. It was suggested that TOs could expand the surveys to customers after connection and this would increase numbers of people being surveyed.

Next steps for Survey development (Group discussion)

- One participant suggested that best practice from market research principles could be applied. The participant suggested that rather than measuring each stage in the customer process, the survey should capture 'moments that matter'.
- One participant stated that the change to the TOs role as a service provider is becoming more broad – but this is being diminished rather than encouraged by the proposed incentive. The participant outlined that the incentive should have the most monetary value possible to help drive important changes.
- One participant also stated that customers would rather sit and talk to the TO directly if they have feedback rather than fill out a survey.
- Ofgem outlined their view that a pilot survey should be introduced in the final year of RIIO-ET1, to test the survey and develop evidenced baselines for the incentive. Ofgem also highlighted a preference to ensure that this pilot survey should not eat into RIIO-ET2, as it did in RIIO-ET1. There was some support from participants for a pilot survey to be carried out in 2020, however not all participants agreed this was necessary.
- One participant highlighted that it was important to note that due to connection customers generally being corporate entities, changes in personnel often occur during the lifecycle of assets connecting to the transmission network. This would potentially effect scores between milestones.
- It was highlighted that a standardized survey would mean TOs need to think about who is considered a customer. One participant stated that there would be potential complications with a standardized approach. For example, if the survey service provider stops working for one TO and not another this could lead to complications. One participant emphasised the value of being able to change and choose providers as it can result in better delivery. It was suggested that the methodology and some questions could be standardized rather than the entire survey and service provider. It was generally supported by participants that introducing some standardization may be beneficial for consistency.
- Ofgem stated that there needs to be further discussion on these policy areas.
- One participant proposed that we could meet monthly to discuss this policy area.

4. Close and AOB – 16:15 – 16:30

Appendix 1 – Summary of Actions

Action	Allocated to	Due date
TOs to provide clarification to Ofgem on the potential detriment faced in the event of poor quality and / or unsuccessful delivery of large capital investment projects.	TOs	31 st July
Ofgem to set up regular calls amongst the TOs and Ofgem to continue to develop the Quality of Connections Survey area.	Ofgem	5 th of July

Appendix 2 – Working Group List

Attendee	Organisation
Jonathan Ashley	National Grid Energy Transmission
Jason Hicks	National Grid ESO
Richard Marther	National Grid ESO
Sara McGonigle	SHE Transmission (phone)
Danny McMillan	SHE Transmission
Lauren Logan	SHE Transmission
Alan Kelly	SP Energy Networks
Gareth Hislop	SP Energy Networks (phone)
Charlotte Friel	Ofgem
Fraser Glen	Ofgem
Roland Susman	Ofgem
Diana Deju	Ofgem
Ben Pirie	Ofgem
Dale Winch	Ofgem
Eilidh Alexander	Ofgem
Cissie Liu	Ofgem (phone)