

**All Distribution Network
Operators and interested
connection stakeholders**

Email: connections@ofgem.gov.uk

Date: 15 October 2019

Dear all,

Outcome of our assessment under the 2019 RIIO-ED1 Incentive on Connections Engagement

Connecting new customers to the electricity network is one of the most important services provided by Distribution Network Operators (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 incentives to ensure DNOs are focused on continuously improving the connection experience for all customers. As part of this, the Incentive on Connections Engagement (ICE) specifically focuses on the larger connections customers and pushes DNOs to identify, engage and deliver on the particular needs of these customers. If they fail to do so, DNOs face a penalty in particular segments of the connections market.¹

The incentive is designed to drive continuous improvement in DNO performance over a number of years. As such, we may look at recurring issues from previous years, seeking feedback from customers and stakeholders, or place expectations on DNOs around issues raised in the current year. We expect DNOs to improve their service continuously, ensuring their priorities are shaped by current and ongoing customer's needs, including all issues we identify through the ICE process.

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 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 large 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.²

¹ See Electricity Distribution Licence – Charge Restriction Condition 2E (Incentive on Connections Engagement) <https://www.ofgem.gov.uk/ofgem-publications/92964/crcslowtrackmaster.pdf>

² See <https://www.ofgem.gov.uk/ofgem-publications/94371/iceguidancedoc010415-pdf>

In June this year, we sought feedback on the 'Looking Back' and 'Looking Forward' sections of the submissions from each DNO, for the fourth year of ICE. 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 website³). We have now finished our assessment.

Overall, feedback relating to 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. We have however received feedback of concern in some areas. We discuss this further in this letter and we expect the DNOs to take these into consideration when developing their ICE plans for next year.

Taking everything into consideration, 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. We have reached this decision after following an in-depth information gathering process which included stakeholders and DNOs.

The reasons for our decision are explained in this letter.

Reasons for our decision

In reaching our decision, we evaluated the evidence against the assessment criteria. This involved reviewing each DNO's ICE submission (Looking Back section) for 2018-19 and considering stakeholders' responses to our stakeholder 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 is not open to competition, which varies between DNO regions.

The assessment criteria are as follows:

- the licensee published a Looking Forward section in its previous ICE submission, in accordance with paragraph 3.4;
- 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;
- 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 from 21 June 2019 until 22 July 2019 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

³ <https://www.ofgem.gov.uk/publications-and-updates/incentive-connections-engagement-consultation-distribution-network-operators-2019-submissions>

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 still expect DNOs to engage with stakeholders on these issues, incorporating actions into their ICE plans where appropriate.

We would like to highlight to stakeholders that the most effective way to feed into our consultation is by ensuring you have engaged with the DNOs first. By doing so, you are able to feed into their respective ICE plans or their business as usual processes – ensuring your specific needs are addressed.

Raising concerns to the DNOs during the ICE process allows us to review how the DNO has engaged with you and ultimately whether or not your reasonable needs have been met. As mentioned previously, penalties may apply where we believe that DNOs have not made reasonable efforts to do this.

Concerns raised

Lack of notification on ICE plans

In this year's ICE assessment, we have noted a number of comments from stakeholders which suggest they did not receive notification of the DNO work plans. Although DNOs welcome stakeholders to sign up for ICE correspondence, we feel that DNOs should take a more proactive approach in reaching out to their connections stakeholders relevant for the ICE assessment and updating stakeholders with ongoing developments.

Difficulties signing up for communication

Some stakeholders highlighted difficulties in signing up to DNO mailing lists, in order to receive ICE work plans and other correspondence. We are minded to agree with stakeholders that some DNOs do not provide an easily accessible sign up page and we expect those DNOs to promptly remedy this issue.

Request for additional engagement methods

This year we received comments from connection stakeholders suggesting the need for additional engagement methods from DNOs, such as online webinars. Although DNOs do provide evidence of undertaking alternative engagement methods, we encourage DNOs to become increasingly proactive in their engagement and consider options such as webinars, social media and other online methods to reach out to connection stakeholders.

More quantitative outputs

We have received a few comments from stakeholders in relation to DNOs not providing quantitative KPIs in their ICE work plans with outputs seeming vague or generic. We agree that DNOs should be proactive in providing a quantitative method of assessing themselves against their KPIs in, as opposed to focusing on qualitative indicators, such as quotes from stakeholder feedback.

Connections process

We received comments from stakeholders which highlight difficulties in relation to the application, progressing and variation of connections. While we understand connection applications and variations may present individual challenges, we believe DNOs should ensure that their project management and other processes adequately consider stakeholder engagement requirements. We would like to see DNOs engage with stakeholders on

connection applications and variation requests to understand stakeholder needs and to communicate challenges where they exist to increasing mutual understanding.

Next steps

This document concludes our assessment of the DNOs' performance under the ICE in 2018/19.

We expect DNOs to review consultation responses and identify where they can improve, or learn from each other. The DNOs may publish revised Looking Forward Plans for 2019/20 by 31 October 2019.

In next year's ICE assessment, the DNOs will be assessed against their delivery of these updated plans.

By 31 May 2020, the DNOs must submit their 'Looking Back' reports on their delivery of their plans for 2019/20. Once we receive the submissions from the DNOs we will publish a consultation to seek stakeholders' views on both the Looking Back report and the Looking Forward plan.

Jon Parker
Head of Electricity Network Access