Making a positive difference
for energy consumers

DNOs, ICPs, IDNOs, connection customers, consumer groups and representatives and other interested parties

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Date: 04 September 2013

Dear stakeholders,

We are consulting on RIIO-ED1 customer service and connection incentives

Earlier this year, we decided what outputs each electricity distribution network operator (DNO) needs to deliver during the next price control period (RIIO-ED1). [1] We also identified the incentives that we will use to motivate DNOs to deliver these outputs.[2]

In our RIIO-ED1 Strategy Decision we said we would consult on how the detailed arrangements for our customer service and connections incentives will work.

We are now seeking views on our proposals.

About customer service and connections

Customer service and connections are two of the six output categories that companies are required to deliver against under the RIIO price control framework. In our RIIO-ED1 Strategy Decision we made it clear that we expect DNOs to provide high-quality service to all customers, including those who need new connections. We want DNOs to understand consumers' needs and proactively engage with them to make sure these are met.

Customer service

To encourage DNOs to deliver good customer service, we are keeping the current Broad Measure of Customer Service but strengthening the associated incentives. The Broad Measure of Customer Service consists of three elements -

- a customer satisfaction survey (CSS),
- a complaints metric, and
- a stakeholder engagement incentive.

Connections

RIIO-ED1 also includes a package of incentives aimed at encouraging DNOs to provide a better service for customers connecting to the network. These include -

- a time to connect incentive, and
- an incentive on connections engagement (ICE).

[1] The next electricity distribution price control, RIIO-ED1, will be the first to reflect the new RIIO model and will run from 1 April 2015 until 31 March 2023.
[2] RIIO-ED1 Strategy Decision http://www.ofgem.gov.uk/Networks/ElecDist/PriceCntrls/riio-ed1/consultations/Documents1/RIIOED1DecOutputsIncentives.pdf

What we are seeking your views on

In this consultation letter, we are seeking stakeholders' views on the arrangements to determine the level of reward or penalty that DNOs will get under the customer service and connection incentives.

- In Appendix 1, we seek views on the arrangements for the CSS. Specifically, we are consulting on the target levels of performance, the approach to calculating penalties/rewards and how to penalise DNOs if customers are unable to contact them about a power cut.
- In Appendix 2, we seek views on our approach to setting the target and calculating the penalties for the complaints metric.
- In Appendix 3, we seek views on the arrangements for the time to connect incentive. Specifically, we are consulting on the target we set, the approach to calculating the reward, and how to split the reward across the different parts of the incentive.
- In Appendix 4, we seek views on how to split the penalty for the ICE, across each of the connection market segments.

These issues have been discussed with stakeholders as part of our RIIO-ED1 customer and social issues working group and our RIIO-ED1 connections working group. Information on other options proposed by stakeholders and the rationale for our "minded to" position is set out in Appendices 1 to 4, alongside some detailed questions.

If you are unfamiliar with some of the statistical and regulatory terms we use in the consultation, please refer to Appendix 5.

Responses should be sent to RIIO.ED1@ofgem.go.uk by **30 October 2013**. Unless clearly marked as confidential, responses will be published on our website. We will review consultation responses and issue a decision later this year.

If you have any questions about this consultation, please email us at RIIO.ED1@ofgem.gov.uk or phone us on 0207 901 1861.

Yours faithfully

James Veaney
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Appendix 1: Customer satisfaction survey (CSS)

"Minded to" position:	
Common targets/maximum reward/penalty score	Common target and maximum reward/penalty scores for all DNOs and all categories of customer
Target	8.2
Maximum reward score	8.9
Maximum penalty score	6.8
Incentive rate	The maximum reward/penalty exposure divided by the difference between the target and the maximum reward/penalty score.
Unsuccessful calls	Penalty of 0.02 per cent of base revenue for each 1 per cent of calls that are unsuccessful (not answered)

Questions

Question 1: Do you agree with setting a common target for all DNOs? If not, why do you consider that we should introduce separate targets for different DNOs?

Question 2: Do you agree with setting a common target for all customer categories? If not, please give reasons for taking an alternative approach.

Question 3: Do you agree with our "minded to" approach to calculate the target and the maximum reward/penalty score? If not, please give reasons for taking an alternative approach.

Question 4: Do you agree with our proposed approach to calculate the incentive rate?

Question 5: Do you agree with the approach used to incorporate unsuccessful calls into the CSS? Do you agree with our "minded to" position of not introducing a deadband or a cap on penalty exposure?

Background to the CSS

The CSS is designed to improve the customer service provided by DNOs. DNOs are rewarded or penalised based on the quality of customer service received by three categories of customers outlined in Table A1.1.

Table A1.1: RIIO-ED1 CSS categories of customer

Supply interruptions	Customers that seek information about a supply interruption.
Connection	Customers that receive a connection quotation or a completed connection (minor connection customers only).[3]
General enquiries	Customers with a wider general enquiry that requires a DNO to carry out work (eg tree-cutting).

The CSS asks a random sample of customers about their experience with a DNO. All DNOs must use the same survey methodology and the same market research company.

The survey asks several questions about the service provided and a customer is asked to evaluate performance on a scale of 1 to 10. Only the answer to the final question ('overall, how satisfied were you with the service provided?') is used to measure performance for the purpose of this incentive. Those DNOs that score above the target level earn a financial reward and those DNOs that score below the target level incur a financial penalty. DNOs' 2012-13 CSS scores are outlined in the table below.

[3] Any connection smaller than four domestic properties.

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Table A1.2: 2012-13 CSS results

	Interruptions	Connections	General Enquiries
Western Power Distribution West Midlands (WMID)	8.39	8.21	8.34
Western Power Distribution East Midlands (EMID)	8.48	8.42	8.53
Electricity North West (ENWL)	7.77	7.62	7.14
Northern Powergrid Northeast (NPgN)	8.06	7.36	8.07
Northern Powergrid Yorkshire (NPgY)	8.04	7.48	8.01
Western Power Distribution South Wales (SWALES)	8.78	8.33	8.71
Western Power Distribution South West (SWEST)	8.58	8.57	8.65
UK Power Networks plc (LPN)	7.56	7.23	6.87
UK Power Networks plc (SPN)	7.92	7.47	8.11
UK Power Networks plc (EPN)	8.11	7.34	8.23
SP Distribution (SPD)	8.13	7.41	7.79
SP Manweb (SPMW)	8.29	7.33	8.33
SSE Hydro (SSEH)	8.73	8.14	7.99
SSE Southern (SSES)	7.97	7.78	7.97
Average	8.2	7.8	8.1

The amount of reward/penalty that each DNO receives varies depending on how far from the target level it performs. The score at which the DNO incurs 100 per cent of its reward/penalty exposure is known as the maximum reward/penalty score. The maximum amount of reward/penalty exposure for each element of the CSS during RIIO-ED1 is outlined in Table A1.3 below.

Table A1.3: Maximum reward/penalty for each CSS element during RIIO-ED1

CSS element	Maximum reward/penalty (per cent of base demand revenue)
Connections	+/-0.5
Interruptions	+/-0.3
General enquiries	+/-0.2

Question 1: Should we set common targets for all DNOs?

Table A1.2 illustrates that currently there are differences in performance between DNOs. Certain DNOs have argued that some of these differences may be linked to regional network characteristics. For example, in some areas, a large proportion of the low voltage (LV) network is underground. If there is a problem with the underground LV network then it can often take longer to restore supply. One DNO considers that the length of interruption is a key factor in determining a customer's satisfaction. They argue that the CSS should take into account (eg by setting a lower target value) the proportion of underground network, so that DNOs are not unduly penalised for factors outside their control.

We consider that it is a DNO's responsibility to respond to the specific needs of its customers. We note that unplanned interruptions to the low voltage network form only part of the survey sample along with planned interruptions. We also consider that it remains within the DNO's control to improve customer service regardless of the nature of the interruption (eg proactively updating customers on supply restoration progress or reducing

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the time taken to speak to a customer advisor) to counter the impact of other factors. We are therefore minded to set common targets for all DNOs.

Question 2: Should we set common targets for all customer categories?

Table A1.2 highlights that there are currently differences in performance between the three customer categories. We recognise that for certain customer groups, for example customers seeking a connection who are required to pay for this service, there may be additional challenges in delivering satisfactory service. However, we consider that customers should expect a similar level of service from a DNO, regardless of the activity undertaken. The fact that a customer may pay for a service should not make it impossible for them to consider that they have been treated well. We therefore support common targets across the connection, interruption and general enquiry components of the CSS.

"Minded to" position: Common targets for all customer categories.

Question 3: How should we calculate the target and the maximum reward/penalty score?

For RIIO-ED1, we have decided to fix the target[4] and the maximum penalty/reward score values for the period, to encourage DNOs to share best practice and make it easier for them to justify investment in order to make service improvements.

We consider that the target score should be reflective of good customer service, regardless of the activity or industry involved. We have therefore used data from the UK Customer Service Index[5] to inform our approach. We are inclined to set the target for RIIO-ED1 at a level that equates to the upper quartile performance level of this data set.[6] We consider that rewarding a DNO that scores above the upper quartile will ensure that only those that provide a level of service that would be considered good in comparison with any other industry will be rewarded.

We are minded to set the maximum reward/penalty score based on 1.75 standard deviations (sd) from the average (mean) of this data set. We consider that setting the maximum reward/penalty scores at this level will ensure that only a DNO that performs considerably better or worse than average will incur its maximum reward or penalty exposure.

Although we have based our approach on UK CSI data, we have also taken into consideration existing levels of performance. We consider that our minded to approach will set DNOs a sufficiently challenging, but achievable target.

"Minded to" position: Targets and the maximum reward/penalty score based on customer satisfaction data from a range of other industries.

Table A1.2 outlines the target and the maximum reward/penalty scores values for "minded to" position.

[4] If a DNO scores above the target, it will incur a reward; if a DNO scores below the target, it will incur a penalty.
[5] The UK CSI is a national measure of customer service. It measures customer satisfaction against 20 customer priorities, across a range of industries. For more information on the methodology used to calculate the UK CSI data, please see: http://www.instituteofcustomerservice.com/8044/About-theUKCustomerSatisfactionIndex.html
[6] For comparison purposes, the utilities industry scored 72.4 on the January 2013 UK CSI review and the retail sector (non-food) scored 85.2.

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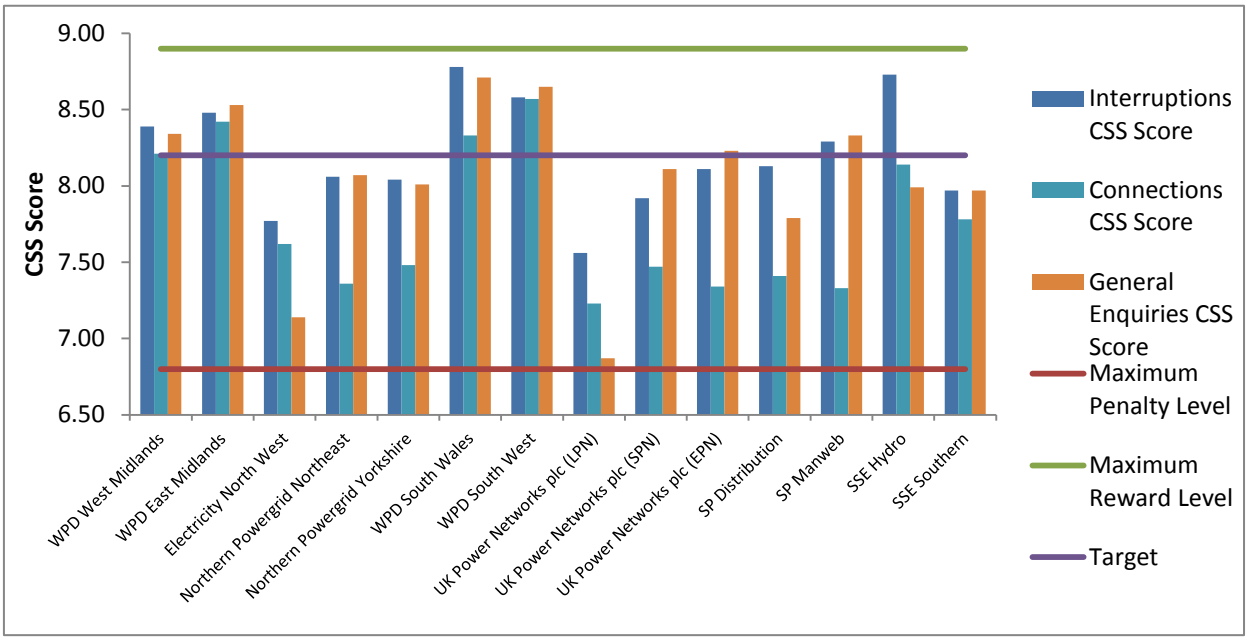
Table A1.2: RIIO-ED1 "Minded to" CSS target, maximum reward/penalty options

	Target	Max Reward	Max Penalty
Customer satisfaction data from a range of industries	8.2	8.9	6.8

Graph A1.1 outlines our proposed target and the maximum reward/penalty scores in relation to 2012/13 data.

Graph A1.1: 2012-13 CSS data alongside our "minded to" target and maximum reward/penalty score values



Question 4: How should we calculate the incentive rate?

We propose to determine the incentive rate by dividing the annual revenue exposure for each element of the incentive by the difference between the maximum penalty score or the maximum reward score (whichever is relevant), and the industry target.

"Minded to" position: The maximum reward/penalty exposure divided by the difference between the target and the maximum reward/penalty score.

Question 5: What level of influence should we place on calls that are unable to reach a DNO?

DNOs have a licence condition to maintain an emergency telephone number to provide advice and information to customers who experience a supply interruption. Customers who call the emergency telephone number may be contacted as part of the CSS. If a customer is unable to contact a DNO via this telephone line then they are not included in the CSS, since they did not receive a service.

To drive DNOs to reduce the number of customers that are unable to contact them, we will incorporate the percentage of total calls that are unsuccessful[7] into the interruptions element of the CSS.[8]

[7] Unsuccessful calls are currently defined as the total calls not reaching specified lines, the total calls terminated by DNOs, the total calls not allowed into/flushed from the queue and the total calls abandoned by the customers.
[8] During 2012-13, the percentage of total calls to DNOs that are unsuccessful ranged from 0.74 per cent to 15.91 per cent, with an average of 3.03 per cent.

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A similar incentive, called the telephony incentive, operated previously.[9] Under this incentive, the percentage of unsuccessful calls resulted in a reduction in a DNO's performance score. However, the reduction in score was relative to the level of performance (this resulted in a smaller reduction in score for DNOs with poor customer service, than those that delivered better customer service). We consider that the impact of an unsuccessful call should be common for all DNOs (regardless of performance) and we are therefore minded to adopt a different approach.

We have modelled our "minded to" position for RIIO-ED1 on how the previous mechanism would have impacted a DNO achieving an 'average' level of performance in 2012-13. This results in a penalty of 0.02 per cent of base revenue for each per cent of total calls that are unsuccessful.[10]

One DNO stated that it is impossible to have zero unsuccessful calls. This DNO suggested introducing a deadband so that DNOs would only be penalised for unsuccessful calls above a threshold level. However, we intend to make changes for RIIO-ED1 to exclude some types of "unsuccessful calls" (eg where the telephone network operator is responsible for the call not reaching a DNO). We are therefore minded not to introduce a deadband.

Another DNO noted that during widespread supply interruptions (eg storm events) the number of calls received can sometimes overwhelm call handling systems. This DNO suggested capping unsuccessful call penalty exposure to ensure that one storm event did not diminish the incentive to provide good customer service for the rest of the year. We believe that DNOs should make the necessary investment in telephone systems to meet demand. We do not consider it appropriate that a DNO could incur a reward for providing good service to some customers, if a large proportion of customers are unable to contact the DNO. We are therefore minded not to cap exposure (beyond the cap for interruptions element of the CSS which is -0.3 per cent of base demand revenue).

"Minded to" position: Penalise a DNO by 0.02 per cent of annual base revenue for each one per cent of unsuccessful calls. We are not minded to introduce a deadband level of performance or a cap on penalty exposure.

[9] For more information on the DPCR5 telephony incentive please see Chapter 14 of our DPCR5 Final Proposals – Incentives and Obligations document http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=348&refer=Networks/ElecDist/PriceCntrls/DPCR5

[10] The telephony incentive placed a 75 per cent weighting on unsuccessful calls. Based on this approach, each one per cent of total calls received that are unsuccessful calls would reduce the CSS score for a DNO that scored 8 (average performance during 2012-13) by 0.06. A reduction in CSS score of 0.06 equates approximately to 0.02 per cent of annual base revenue (based on our "minded to" target and maximum reward/penalty scores for the supply interruptions element of the CSS).

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Appendix 2: Complaints metric

"Minded to" position:	
Target	8.33
Maximum penalty Score	14.84
Incentive rate	The maximum penalty exposure divided by the difference between the target and the maximum penalty score.

Questions

Question 6: Do you agree with our proposed approach to calculate the target and the maximum penalty score? If not, please specify your preferred alternative and the reasons why.

Question 7: Do you agree with our proposed approach to calculate the incentive rate?

Background

The complaints metric is designed to mimic the effects of competition and encourage DNOs to resolve complaints quickly and effectively. The metric consists of four key indicators (set out in Table A2.1 below) to create an overall performance score:

Table A2.1: RIIO-ED1 complaints metric weightings

Indicator	**Weighting**
Percentage of total complaints outstanding after one day	10%
Percentage of total complaints outstanding after 31 days	30%
Percentage of total complaints that are repeat complaints	50%
Percentage of total complaints where the Energy Ombudsman (EO) makes a decision against a DNO	10%

In a competitive environment, organisations may lose customers as a result of poor levels of service, but they are unlikely to gain customers for good complaints handling. The incentive is therefore penalty only (the maximum penalty exposure is -0.5 per cent of base revenue). Those DNOs that perform below the target (ie those DNOs that handle complaints poorly) will incur a financial penalty. Conversely, those DNOs that perform better than the target will avoid a financial penalty. The complaints metric 2012-13 data is outlined in Table A2.3 which indicates how performance under each of the above indicators is combined to produce an overall score.

Question 6: How should we calculate the target and the maximum penalty score?

For RIIO-ED1, we have decided to fix the target[11] and the maximum penalty score[12] values for the period, to encourage DNOs to share best practice and make it easier to justify investment in order to improve their complaint handling processes.

There are several options for calculating the target/maximum penalty score. We consider that current top levels of performance are relatively good when compared with other industries. For example, on average during 2012-13, 81 per cent of complaints to Gas Distribution Networks (GDNs) were unresolved after one day. In comparison, on average 53 per cent of complaints to DNOs were unresolved after one day. We are therefore minded to support a target based on the current average (mean) level of performance. We are minded to set the point at which a DNO is exposed to their maximum penalty at the current level of the worst performing DNO. This is a significant shift from DPCR5 and potentially

[11] If the DNO scores lower than the target (ie delivers a better level of performance), then it will incur no penalty. If the DNO scores above the target, it will incur a penalty.
[12] The score at which the DNO incurs 100 per cent of their penalty exposure is known as the maximum penalty score.

exposes poor performing DNOs to a much greater level of penalty.[13] Our "minded to" approach recognises that current average levels of performance are acceptable but ensures that the worst performers have a strong incentive to improve.

Our "minded to" target and the maximum penalty values are outlined in Table A2.2 below.[14]

Table A2.2: Complaints metric target and maximum penalty "minded to" position

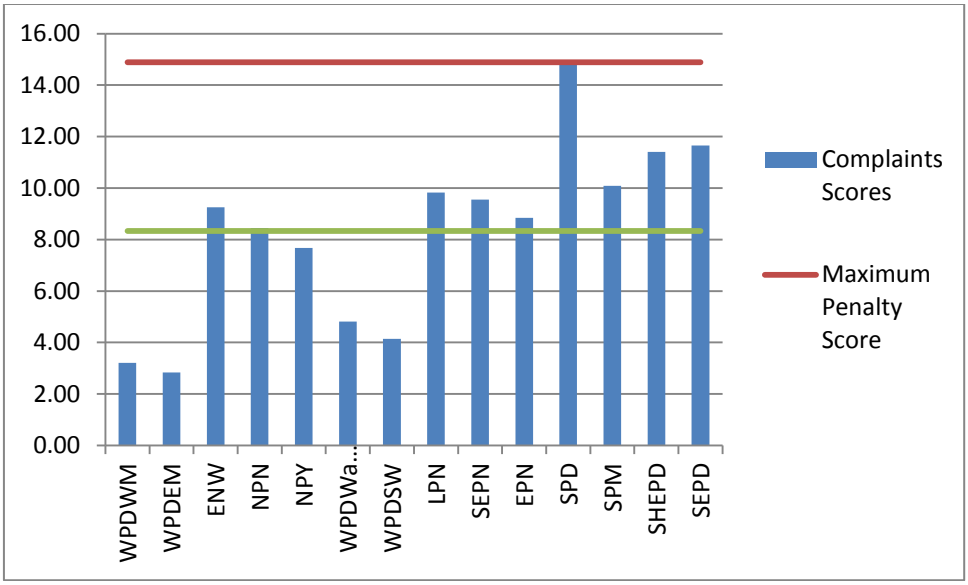
	Approach	**Value**
Target	Industry average	8.33
Maximum penalty Score	Current worst performing DNO	14.84

Question 7: How should we calculate the penalty incentive rate?

We propose to determine the penalty incentive rate by dividing the total revenue exposure by the difference between the maximum penalty score and the industry target score. This is the same approach implemented for the RIIO-GD1 complaints metric.

"Minded to" position: Divide the total revenue exposure by the difference between the maximum penalty score and the industry target score

Graph A2.1: 2012-13 Complaints metric data alongside our "minded to" target and maximum penalty score value



[13] For DPCR5, the target is based on upper quartile performance in each regulatory year and the maximum penalty score is set at a fixed value of 70.

[14] Based on our proposals, there are numerous ways in which a complaints metric score could be achieved. A score of 8.33 is equivalent to 60 per cent of total complaints unresolved at Day+1, 6 per cent of complaints unresolved at day+31, 1 per cent repeat complaints and zero Ombudsman decisions against the Company. A score of 14.84 is equivalent to 75 per cent of total Complaints Unresolved at Day+1, 10 per cent of Complaints Unresolved at day+31, 8 per cent of Repeat Complaints and 3 per cent of Ombudsman Decisions against the Company as a percentage of Total Complaints.

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Table A2.3: Electricity distribution complaints metric 2012-13 data

	Percentage of total complaints outstanding after one day	Percentage of total complaints outstanding after 31 days	Percentage of total complaints that are repeat complaints	Percentage of total complaints where the Energy Ombudsman (EO) makes a decision against a DNO	Complaint Metric Score
WMID	24%	3%	0%	0%	3.21
EMID	22%	2%	0%	0%	2.84
ENWL	65%	9%	0%	0%	9.25
NPgN	61%	8%	0%	0%	8.44
NPgY	59%	6%	0%	0%	7.68
SWALES	36%	4%	0%	0%	4.82
SWEST	33%	3%	0%	0%	4.14
LPN	60%	13%	0%	0%	9.83
SPN	58%	12%	0%	0%	9.55
EPN	59%	10%	0%	0%	8.84
SPD	79%	23%	0%	0%	14.84
SPMW	71%	10%	0%	0%	10.09
SSEH	58%	19%	0%	0%	11.41
SSES	62%	18%	0%	0%	11.66

Appendix 3: Time to connect incentive

"Minded to" position	
Common targets/maximum reward score	Common target and maximum reward scores for all DNOs Different target and maximum reward scores for different types of connection.
Reward exposure split	Reward exposure split equally across all four elements of the incentive
Target	See Table A3.2
Maximum reward score	See Table A3.2
Increasing the target/maximum reward score over RIIO-ED1	Introduce a revised target and the maximum reward score for the final four years of RIIO-ED1
Incentive rate	The maximum reward exposure divided by the difference between the target and the maximum reward score.

Questions

Question 8: Do you agree with our "minded to" position to set common targets for all DNOs? Please explain why you agree or disagree.

Question 9: Do you agree with our "minded to" position to set different targets for different types of connection? If not, please explain why and outline your preferred alternative.

Question 10: Do you agree with our "minded to" position to place an equal weighting on all four elements of the time to connect incentive? If not, please explain why and outline your preferred alternative.

Question 11: Do you agree with our "minded to" approach to calculate the target and the maximum reward score? If not, please explain why and outline your preferred alternative approach.

Question 12: Do you agree with our proposed approach to set the target/maximum reward score now for the first four years of RIIO-ED1 and then calculate the target/maximum reward score for the final four years based on RIIO-ED1 data?

Question13: Do you agree with our proposed approach to calculate the incentive rate?

Background

The time to connect incentive is intended to encourage DNOs to reduce the overall time to connect smaller low voltage (LV) connections to the electricity distribution network.[15] This new incentive will measure the time taken from receipt of initial connection application to issuing a quotation, and the time taken from quotation acceptance to connection completion. The incentive operates on a reward only basis (the maximum reward exposure is 0.4 per cent of base revenue).

Since publishing our RIIO-ED1 Strategy Decision, DNOs have submitted data on how long it currently takes on average to issue quotes and complete connections.[16] An overview of this data can be found in Table A3.3. We intend to use this data to inform the RIIO-ED1 target and the maximum reward scores.

[15] Any connection smaller than four domestic properties.
[16] Time to quote data covers an 18 month period, from 1 April 2011 to 30 Sept 2012, except for Scottish Power Energy Networks, which is for 14 months, ending 30 Sept 2012. Time to connection completion data covers a 6 month period, from 1 April 2012 to 30 Sept 2012, except for Scottish Power Energy Networks which covers a five month period ending 30 Sept 2012. Proxy timescales based on existing data was calculated for three DNOs' Time to quote performance scores due to lack of available data.

Question 8: Should we set common targets for all DNOs?

As indicated in Table A3.3, the time taken to issue quotations and complete connections varies across DNOs. Some DNOs have argued that this may be due to factors outside a DNO's control and that the incentive should take this into account. For example, if a large proportion of connection work requires a roadwork permit, then this may increase the overall time taken to complete a connection. However other DNOs consider that they should adapt processes to take this into account, rather than seek changes to the incentive. We consider that customers should expect the same level of service across GB.

*"Minded to" position***:** Support common targets for all DNOs.

Question 9: Should we set separate targets for different types of connection?

The data in Table A3.3 demonstrates that connection timescales vary based on the size of the project (ie whether it is defined as LVSSA[17] or LVSSB[18]). We do not want a DNO to gain or lose out under this incentive as a result of the type of connection work that they are required to undertake. We are therefore minded to set separate targets for different types of LV connection.

*"Minded to" position***:** Separate different targets for different types of LV connection.

Question 10: How should we split the reward across the four elements of the incentive?

Based on our current minded to position, there are four elements of the time to connect incentive (outlined in Table A3.1). The total reward exposure for this incentive is 0.4 per cent of base revenue per annum. We consider that the reward should be split equally across all elements of the incentive.

The working group raised several factors for us to consider -

- DNOs complete more LVSSA connections than LVSSB connections,
- The average value of a LVSSB connection is higher than a LVSSA connection,
- DNOs complete more quotations than completed connections, and
- Connection customers are not directly charged for a quotation.

Each of these factors would suggest a reason for placing a stronger weighting on one element of the incentive over another. Often these conflict with each other. Overall we could not identify a sufficiently compelling rationale to place a stronger financial incentive on one size of connection or one part of the connection process. We are therefore minded to split the total incentive reward equally.

"Minded to" position: Split the total reward exposure equally across all elements of the incentive.

Table A3.1: "Minded to" time to connect incentive reward exposure

Connection process	Connection size	Proposed reward exposure (as a per cent of base revenue)
Time to quote	LVSSA	0.1
	LVSSB	0.1
Time to connect	LVSSA	0.1
	LVSSB	0.1

[17] Single service LV connection
[18] Small project demand connection (LV)

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Question 11: How should we calculate the target and the maximum reward score?

If a DNO issues quotations or completes connections, on average, quicker than the target, it will incur a reward. The score at which a DNO incurs 100 per cent of its reward exposure is known as the maximum reward score.

We are minded to support a target based on current upper quartile performance and a maximum reward score based on performance that is 30 per cent better than the current industry average. We consider that this will only reward those DNOs that achieve a good level of performance and will drive even the top performing DNOs to improve performance. The subsequent target/maximum reward score values are outlined in Table A3.2.

"Minded to" position: Set the target based on the upper quartile and the maximum reward score based on 30 per cent below the industry average.

Table A3.2: RIIO-ED1 time to connect incentive "minded to" target and maximum reward scores

Connection process	Connection size	Target	Maximum reward score
Time to quote	LVSSA	8.21	6.4
	LVSSB	11.73	10.12
Time to connect	LVSSA	42.08	32.47
	LVSSB	52.70	39.91

Question 12: How should we increase the target/maximum reward score during the period?

In our RIIO-ED1 Strategy Decision we stated that the time to connect target will decrease across the period, so that connection timescales will need to be shorter at the end of the period than at the start (to be eligible for a reward).

This is a new incentive and we do not know the level of improvement that this incentive could deliver. We therefore propose to set the target and the maximum reward score for the first four years now and then revise the target and the maximum reward score for the final four years (based on performance during the initial years of RIIO-ED1).

"Minded to" position: Set the target and the maximum reward score for the first four years now. Introduce a revised target/ maximum reward score – based upon RIIO-ED1 data - for the final four years of RIIO-ED1.

Question 13: How should we calculate the incentive rate?

We propose to determine the reward incentive rate for each element by dividing the reward exposure by the difference between the maximum reward score and the industry target score. The value of the incentive rate may change for the final four years of the price control, if the value of the target and maximum reward score are altered.

"Minded to" position: Divide the reward exposure by the difference between the maximum reward score and the industry target score.

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Table A3.3: Time to quote and time to connect data[19]

	Time to Quote (working days)		Time to Connect (working days)	
	LVSSA	**LVSSB**	**LVSSA**	**LVSSB**
WMID	9.1	17.2	52.1	56.5
EMID	8.2	14.4	44.2	55.1
ENWL	7.5	11.5	74.2	82.7
NPgN	11.1	19.8	51.6	52.7
NPgY	11.1	19.3	47.6	59.6
SWales	7.1	9.9	42.1	56.1
SWEST	7.5	10.1	43.6	57.5
LPN	9.7	16.1	49.0	69.8
SPN	10.4	17.9	49.1	63.5
EPN	10.1	15.6	42.3	53.7
SPD	9.8	13.5	42.1	45.0
SPMW	9.3	11.0	36.8	46.0
SSEH	8.8	13.7	35.1	52.7
SSES	8.2	12.4	39.5	47.2

[19] Not all DNOs have a complete time to quote data set. Northern Powergrid, SSE and WPD only have historic data on the time taken to issue a quotation once an applicant has provided all the necessary information (minimum requirements). However, these DNOs have not collected historic data on the time taken to issue quote from the date of initial application. For these DNOs we have taken the average time from to satisfy minimum requirements once a DNO has received the initial application and added this to the time taken to issue a quotation (once they have received minimum requirements information), to create proxy time to quote data.

Appendix 4: Incentive on connections engagement (ICE)

"Minded to" position	
Penalty incentive split	Splitting the penalty equally across all the market segments.

Question Box:

Question 14: Do you agree with splitting the penalty equally across the market segments? If not, please explain why and give details of your preferred alternative.

Background

To ensure that DNOs focus on understanding and meeting the needs of major connection customers,[20] we have introduced a new Incentive on Connections Engagement (ICE). Under ICE, each DNO must engage with customers, establish relevant performance indicators, and develop and deliver a forward-looking work plan of actions. Those DNOs that fail to meet the minimum requirements will incur a penalty. The maximum penalty that can be incurred under this incentive is 0.9 per cent of annual base revenue.

We have split the major connections market into nine market segments, based on connection type and the maximum voltage level of the works involved (as outlined in Table 4.1). DNOs also have flexibility to segment the major connections market in the way that they deem most appropriate. If a DNO chooses to take this approach, we will require them to explain why this is appropriate.

Table A4.1: Major connection market segments

Demand	Low Voltage (LV)
	High Voltage (HV)
	High Voltage & Extra-High Voltage (EHV)
	EHV and above
Distributed Generation	LV metered generators
	HV and EHV metered generators
Unmetered Connections	New local authority connections
	New connections work for Private Finance Initiatives (PFIs)
	Other unmetered connections work (non-local authority or PFI)

The penalty will only apply to market segments that do not pass the Competition Test by December 2013.[21] The size of the overall penalty will reduce depending on the number of market segments that pass the Competition Test.

Consultation

We are consulting on the approach used to split the penalty across the market segments. We consider that the incentive amount for each market segment should be sufficient to result in DNOs actively seeking to understand and meet the needs of existing and future major connection customers.

We are minded to split the total penalty exposure equally across all the market segments (either the nine market segments outlined above or the alternative market segments proposed by the DNO). However, some stakeholders have raised concerns that this approach would not reflect market value and may therefore provide DNOs with a disproportionately large/small incentive to engage with connection customers in some market segments. We have therefore considered alternative options, alongside splitting the

[20] Generation, unmetered and demand connection customers that exceed four domestic properties.
[21] For more information on our Competition Test please see DPCR5 Final Proposals – Incentives and Obligations http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=348&refer=Networks/ElecDist/PriceCntrls/DPCR5

penalty equally across the market segments. The main other options we have considered are:[22]

1. Splitting the penalty based on current market value of each segment (ie penalty values fixed upfront);
2. Splitting the penalty based on market value of each segment on a yearly basis (ie penalty values change each year); and
3. A combination of approaches (eg 50 per cent equal split, 50 per cent split by market value).

Discussion of options

We consider that splitting the total penalty equally across all the market segments has the advantage of being simple, allows the incentive exposure for each market segment to be known upfront and places equal value on engagement with connection customers in each market segment.

We have concerns that splitting the penalty according to market value may not account for the need for engagement with specific market segments or the value of engagement with potential connection customers. There are also challenges associated with agreeing a common definition of a market value (as some parties may define market value based on connections completed in a given year, whilst others may define it based on value of quotations accepted). Additionally, if the value of the penalty is fixed upfront/or on a previous year's data then the incentive amount may not reflect the actual market value in the current year.

In the absence of a perfect solution, our "minded to" position is that the penalty should be split equally across all the market segments. We consider that placing equal incentive on all market segments will mean that each DNO will have a sufficient incentive to engage effectively with customers in each market segment.

"Minded to" position: Split the penalty equally across all the market segments.

[22] We want DNOs to always be incentivised to engage with all market segments, even if the value of work completed is zero. All options would therefore include a de minimis penalty of £100k.

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Appendix 5: Key terms

Term	Definition
Base revenue	The base revenue allowance that has been determined in relation to the distribution of electricity to the premises.
Maximum reward score	The score at which the company incurs 100 per cent of its reward exposure.
Maximum penalty score	The score at which the company incurs 100 per cent of its penalty exposure
Mean	The average of a series of numbers.
Standard deviation	Is a statistical test to show the spread of scores from the mean. A low standard deviation indicates that all the scores are very close to the mean. A high standard deviation indicates that the scores are spread out over a large range of values.
Upper quartile	A statistical term to describe the 75^{th} percentile in a series of values (ie 75 per cent of scores would be lower than this value and 25 per cent of score would be higher than this value).