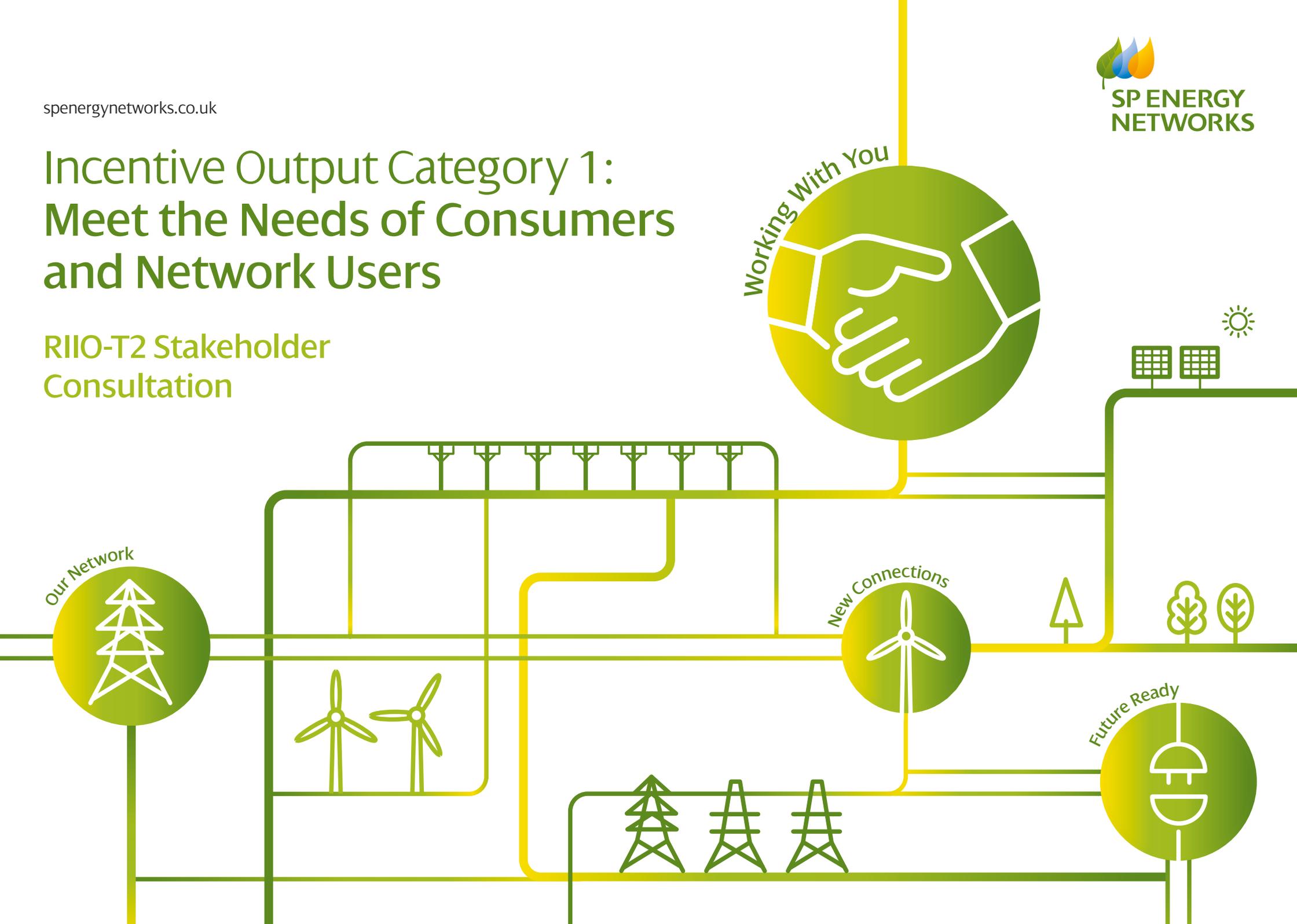


# Incentive Output Category 1: Meet the Needs of Consumers and Network Users

RIIO-T2 Stakeholder  
Consultation



# Welcome

We are currently developing our 2021-2026 Business Plan for the transmission network as part of the RIIO-T2 process.

Our RIIO-T2 Business Plan will incorporate all the activities we need to fulfil our licence obligations and achieve the priorities our stakeholders want us to focus on.

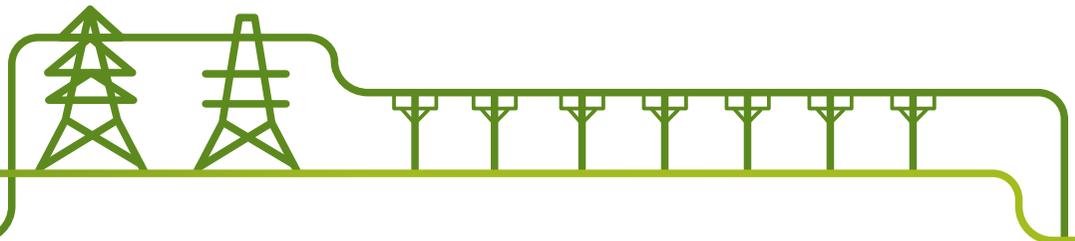
This document provides an overview of the output incentives in one of the three output categories Ofgem have proposed in their recent consultation for RIIO-T2 specifically:

**Category 1: Meet the Needs of Consumers and Network Users**

We also have separate consultations available to provide your views on:

**Category 2:** Maintain a Safe and Resilient Network; efficient and responsive to change

**Category 3:** Deliver an Environmentally Sustainable Network



# RIIO-T2 Output Incentive Mechanisms

## Ofgem's three new output categories:

### Category 1:

#### Meet the needs of consumers and network users

Network companies must deliver a high quality and reliable service to all network users and consumers, including those who are in vulnerable situations.

### Category 2:

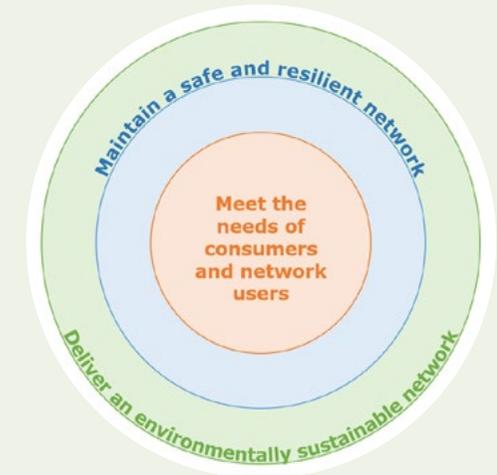
#### Maintain a safe and resilient network

Network companies must deliver a safe, sustainable and resilient network that is more responsive to change.

### Category 3:

#### Deliver an environmentally sustainable network

Network companies must enable the transition towards a smart, flexible, low cost and low carbon energy system for all consumers and network users.



Source: [https://www.ofgem.gov.uk/system/files/docs/2019/01/riio-2\\_sector\\_methodology\\_0.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/01/riio-2_sector_methodology_0.pdf)

## Ofgem's three new types of output:

### 1. Licence Obligations

To set and clarify minimum standards of performance. These will relate to Price Control Deliverables (PCD's) opposite where appropriate.

### 2. Price Control Deliverables (PCD's)

Funded by baseline & uncertainty mechanisms. The impact of delay, non-delivery or sub-standard delivery on consumer detriment and potential consequences should be addressed by Network companies in our submissions (para 4.18). Late delivery and timing of allowances should become automatically linked (4.19).

### 3. Output Delivery Incentives (ODI's)

These could be cross sector or sector specific and will have a range of financial and reputation incentives. Outputs could therefore come with a licence obligation and penalty to meet a minimum standard, a PCD to meet a minimum standard and an ODI reward if performance above a certain target or standard is achieved (4.25).

# Category 1: Meet the Needs of Consumers and Network Users

This category includes four output incentives that are part of RIIO-T1. Ofgem recognises the value these have delivered and hopes to build on these.

1. Stakeholder Satisfaction
2. Stakeholder Engagement
3. Timely Connections
4. Energy Not Supplied

For information on the existing incentive we have in RIIO-T1 please see our **“Making Incentives Work for the Consumer”** online information leaflet.

We believe these have incentivised us effectively to significantly improve our performance in these areas. We present some initial views on how we might improve on these to bring more benefit for customers in RIIO-T2.



# Output 1: Stakeholder Satisfaction Incentive

For RIIO-T2 we think the existing annual survey approach should be sharpened to drive us to find ways to focus on customers and obtain more participants in these areas. However, a balance must be struck with the burden of multiple surveys and mitigate the risk of survey fatigue.

For example, we would establish a direct interaction with the Timely Connections incentive (see page 7) by including a survey of connection customers at discrete milestones in the connection offer process. One survey point would be at the completion of an enhanced “pre-application meeting”. The purpose of the meeting is to explain the connection process and requirements for submitting a transmission connection application to the customer.

We have heard from our connection customers that they would value an enhanced pre-application services with more robust technical date; more design involvement; real solution optioneering with design and delivery; circuit loadings and transformer flows.

This could be supplemented with developments such as publishing load flow system model annually. More online tools such as heat maps and generic programmes could make preparation for face to face meetings more valuable. Achieving these services would potentially improve connecting customer satisfaction and lead to more efficient and co-ordinated connections for consumers.

This will act as an incentive to improve the quality of connection offers as this improved early engagement and communication will support the “right” solution being offered, with no surprises at the post offer stage. A survey at this stage would provide the opportunity for our performance through the offer stage to be assessed by customers in terms of overall satisfaction. Fewer post offer queries should arise and this could be included as a KPI.

Some stakeholders have identified that meeting the current statutory timescales can lead to less than optimum solutions and that “stopping the clock option” might be beneficial in certain circumstances. We think this is a proposal worth pursuing but may have unintended consequences for securing a customer’s position in the connection queue. This is also an area where there is an industry focus, so we will keep this proposal on our radar.

We propose to refresh our KPI’s in this area as these have driven internal performance such as average time to issue an offer. We think that the KPI’s; the survey question set; and the determination of the survey categories (focusing on connected and connecting customers) should be consistent between Transmission Operators across GB.



## Output 2: Stakeholder Engagement Discretionary Reward

We propose that this incentive should now be focused on our broad interest stakeholders and differentiate this from connecting or connected customers.

As we do not provide a specific service which can be readily considered in terms of quality of delivery, our experience is that surveying broad interest stakeholders is not as valuable in terms of generating useful feedback or reflecting our performance in these areas. Similarly KPI's are not as effective where no explicit process and output is being delivered.

Instead we recommend building on the existing discretionary reward incentive from RIIO-T1 to assess performance in this area.

We also support the continuing use of the external assurance approach which we have found as being very valuable in terms of providing an objective measure of performance. In both the customer satisfaction incentive and the stakeholder engagement incentive for RIIO-T2 we propose a role for the newly established User groups in the review and assessment of performance in these incentive areas.



## Output 3: Timely Connections

**Our RIIO-T1 incentive for Timely Connections drives compliance in relation to delivering timely offers for connection to our transmission network.**

All new or modified offers should be provided to customers within 90 days. A penalty is incurred for late delivery and is up to 0.5% of allowed revenue.

The incentive has achieved its goal of driving improvement in the offer process with a very small number of late offers.

For RIIO-T2 we believe the incentive should be retained and kept as 'penalty only' to continue to provide a clear focus in order to maintain offer timescales. We have received feedback from customers that the time to provide them with an offer is still important to them, but also that the quality of the offer is also becoming increasingly important.

For example, we have heard from connection customers that they would value:

- more granular cost information in offers
- increased use of bespoke delivery timescales rather than standard timescales
- more opportunity for optioneering alternative solutions.

We feel that a new quantitative measure of performance could be based around 'the number of post offer variations' to measure whether these variations are reducing, indicating a better quality of offer is being prepared.

We are also proposing to develop our customer satisfaction incentive to support the connection offer process directly by incorporating surveys at key milestones, before and after the offer period. This would involve introducing an enhanced pre-application engagement and incorporate customer surveys at the beginning and end of the process to measure performance.



## Output 4: Energy Not Supplied

**Energy Not Supplied (ENS) occurs when an event takes place on the transmission network that causes the normal supply of electricity to consumers to be interrupted.**

The ENS reliability incentive incorporates a baseline target for our annual ENS at 225MWh. Performance above or below this level incurs a reward or penalty based on an incentive rate of £16,000 per MWh. There is a collar which limits the maximum penalty to 3% of annual allowed revenue. This could be as much as £10 million per year. However, over the course of RIIO-T1 we have exceeded our baseline target levels and have achieved a reward of just over £10 million (2009/10 prices pre-tax).

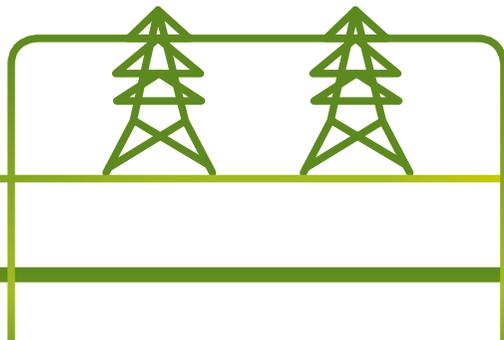
The reliability  
incentive in action

**Our annual ENS limit:  
Maximum of 225MWh**

Any loss of power  
above this limit  
incurs a penalty,  
up to £10 million.

If the total power  
loss is less than  
this amount we  
receive a reward:  
£16,000 per MWh.

**Our actual ENS level for  
the first 5 years of RIIO-T1:  
72.2MWh in total**



## Output 4: Energy Not Supplied continued

### What does the incentive for ENS do?

We have a fundamental licence obligation to design and maintain our network to ensure security of supply is delivered for all our customers. We achieve reliability levels of 99% and above on our transmission system. The ENS incentive supports this by providing an additional incentive to fund us to reduce the risk of a loss of supply particularly when we are carrying out essential work on our assets.

To carry out work on our transmission assets a system outage is required so that our engineers can conduct their work safely. This type of work might include: extending our network to connect new customers; general maintenance to ensure the safe functioning of our existing assets or repairing faults. Despite planning for these types of activities carefully, there are some which are less predictable. It is also impossible to know exactly how many outages may be needed within the price control period or where, when or how long they might last.

An outage of a transmission asset can disrupt that flow of electricity and reduce the security of supply for consumers beyond that which exists in normal operating conditions and what our basic licence obligations require us to achieve. For all outages on the transmission system, we will review the increased risk of supply to customers being lost above and beyond what is required by the industry standard, known as the National Electricity Transmission Security and Quality of Supply Standard, or “NETS SQSS”.

The ENS reward works well to incentive us to assess every outage for the risk of a loss of supply above the SQSS minimum requirements and take appropriate action to reduce the risk itself (or the scale and duration of the loss of supply should it materialise).

**We believe an ENS  
incentive should be  
retained for RIIO-T2**

### Should the incentive change for RIIO-T2?

The calculation of ENS is quite complex and the methodology does not include the impact of distribution connected (embedded) generation in the calculation of ENS. This can lead to an inaccurate measure of in the level of demand and therefore reduce the cost of any penalty calculation.

However, the amount of embedded generation on the network is increasing rapidly at all voltages, so becomes very difficult to calculate an accurate value of embedded generation. We take significant measures to avoid ENS and don't believe including embedded generation will make the incentive stronger. We therefore would not support this on the grounds of complexity.

The actions we take to mitigate the risk of ENS for our outages involves time and effort by dedicated, specialised staff. The ENS incentive works to reinforce this priority and commitment above our minimum license obligations. The mitigation of ENS following assessment of each planned outage can range from changing the design approach to an outage, or to incorporating alternative measures involving capital costs.

An alternative to including the embedded generation factor supports a change in metric is to use the Customer Interruption/Customer Minutes Lost (CI/CML) Incentive that exists for distribution network companies in place of ENS. Currently CI/CML risk is a major contributing factor in the assessment of our transmission outages. With the calculation of ENS being undermined by embedded generation, the number of customers affected by a transmission fault could be a more sensitive measure of customer impact than the volume of energy lost. This would also reflect a “Whole System” approach.

We support the retention of ENS and suggest a rolling target could be set for RIIO-T2. This would simply allow the annual target to vary depending on the actual ENS loss in the preceding year. This would share the risk with consumers of higher or lower levels of ENS occurring over the price control period. Currently, the RIIO-T1 target is fixed for the full 8 year period based on the performance over the 10 years leading up to the start of the RIIO-T1 period. More sophisticated proposals for changing the calculation or target for ENS does not reflect the ability we have to avoid large ENS loss. This can occur when unusual and unforeseeable combination of events occurs irrespective of the amount of mitigation that is undertaken. Changing the calculation and target for ENS will not materially change the ability we have to avoid such events.

# Survey Questions: Customer Satisfaction and Stakeholder Engagement and Timely Connections



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1a. Do you have an interest SP Energy Networks' transmission related activities?

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2. Are there any priorities you would like us to focus on in RIIO-T2 period?

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3a. As a potential transmission connection customer, what are your views on how the quality of the transmission offer process can be improved?

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4a. If you are an existing transmission connected customer, do you value the changes we have made to introduce bilateral meetings with our outage planning teams where we go through our year ahead outage plan?

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1b. Are there any of our transmission related issues that you would especially like to hear about?

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3b. Do you value additional pre-application engagement?

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1c. What, if anything, can we do to improve our engagement and communication with you?

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3c. If so, what would you like this engagement to achieve for you?

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4b. Is there anything more we can do to improve our communication and engagement with you in outage planning?

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3d. What, if anything, can we do to improve our engagement with you through the connection delivery period up to, and including commissioning?

Please [click here](#) to respond to these questions using our online form.

We also welcome your responses to any of these questions via our dedicated RIIO-T2 mailbox: [riio\\_t2@spenergynetworks.co.uk](mailto:riio_t2@spenergynetworks.co.uk)

# Survey Questions: Energy Not Supplied

1. Do you feel satisfied with the current reliability levels you are experiencing?
2. Do you think that Energy Not Supplied should be retained as a measure of reliability?
3. What are your views on whether Energy Not Supplied should be replaced by CML/CI as the measure for the impact of transmission loss of supply events?
4. Would you support a rolling target for Energy Not Supplied that changes annually according to our performance in the preceding year?
5. Please provide any further comments or queries you would like to be addressed in relation to the use of Energy Not Supplied as an incentive.

Please [click here](#) to respond to these questions using our online form.

We also welcome your responses to any of these questions via our dedicated RIIO-T2 mailbox: [riio\\_t2@spenergynetworks.co.uk](mailto:riio_t2@spenergynetworks.co.uk)

