



UK Power Networks

ICE (Incentive on Connections Engagement) Review of A&D Charges

October 2018



Introduction and ICE Commitment

Following the reintroduction of Assessment and Design (A&D) Charges in April 2018 as part of a pilot process within the DGHV and DGEHV Relevant Market Segments (RMS), a detailed review has been undertaken as noted below:

“ICE Commitment

4.18 Review the implementation of Connections Offer Expenses (upfront A&D) with customers and publish findings. Review complete and findings published by target date October 2018”

The following materials document UK Power Networks current approach to recover A&D Charges and identifies some opportunities to build upon this approach to enhance our service

Background

- 28 February 2018 - Connection Offer Expenses regulations were approved by Parliament
- 29 March 2018 – we communicated our plans to stakeholders
- 23 April 2018 - We implemented new arrangements for collection of Assessment and Design (A&D) charges
- April /May 2018 - Following implementation, customer feedback identified the need for a further review of the process
- 21 May 2018 – DG (Distributed Generation) Scrutiny Panel meeting to consider our proposals
- 29 May 2018 – We implemented a revised split payment policy
- The DNO community has received further feedback from customer trade associations
- 18 September DER (Distributed Energy Resources) Steering Group meeting discussed DNOs' current approaches and customer preferences
- September/October further customer engagement and feedback
- 31 October publication of our review

Objectives

Our objective is to ensure our resources are focused on delivering an effective service for those schemes that have a viable chance of proceeding to the delivery phase

We will do this, in part, by discouraging speculative enquiries submitted by a small minority of our customers

Our overall aim is to promote responsible development, ultimately reducing costs and improving service levels for all customers

Approach

We have:

- Spoken with customers to receive their feedback on our initial approach
- Reviewed our process with the DG Scrutiny Panel (21st May 2018)
- Introduced a revised approach on 29th May in response to customer feedback
- Considered how we could make further service improvements to the A&D service we provide to our customers
- Compared our process to those implemented by other UK DNOs
- Consulted with other industry stakeholders
- Considered whether to extend upfront charges into other market segments

Process

In response to customer feedback received, a revised process was introduced for applications received on or after 29 May 2018.

The total value of A&D Charges remain unchanged, but we have modified our process as follows:

1. We shall request a proportion of the A&D Charges upfront for each request for a Connection Offer
2. We shall include the balance of the A&D Charges in the quotation, payable on acceptance

The amounts payable upfront are the same regardless of whether the application is for a S16 or SLC15 Connection Offer

Process

Payment Mechanisms

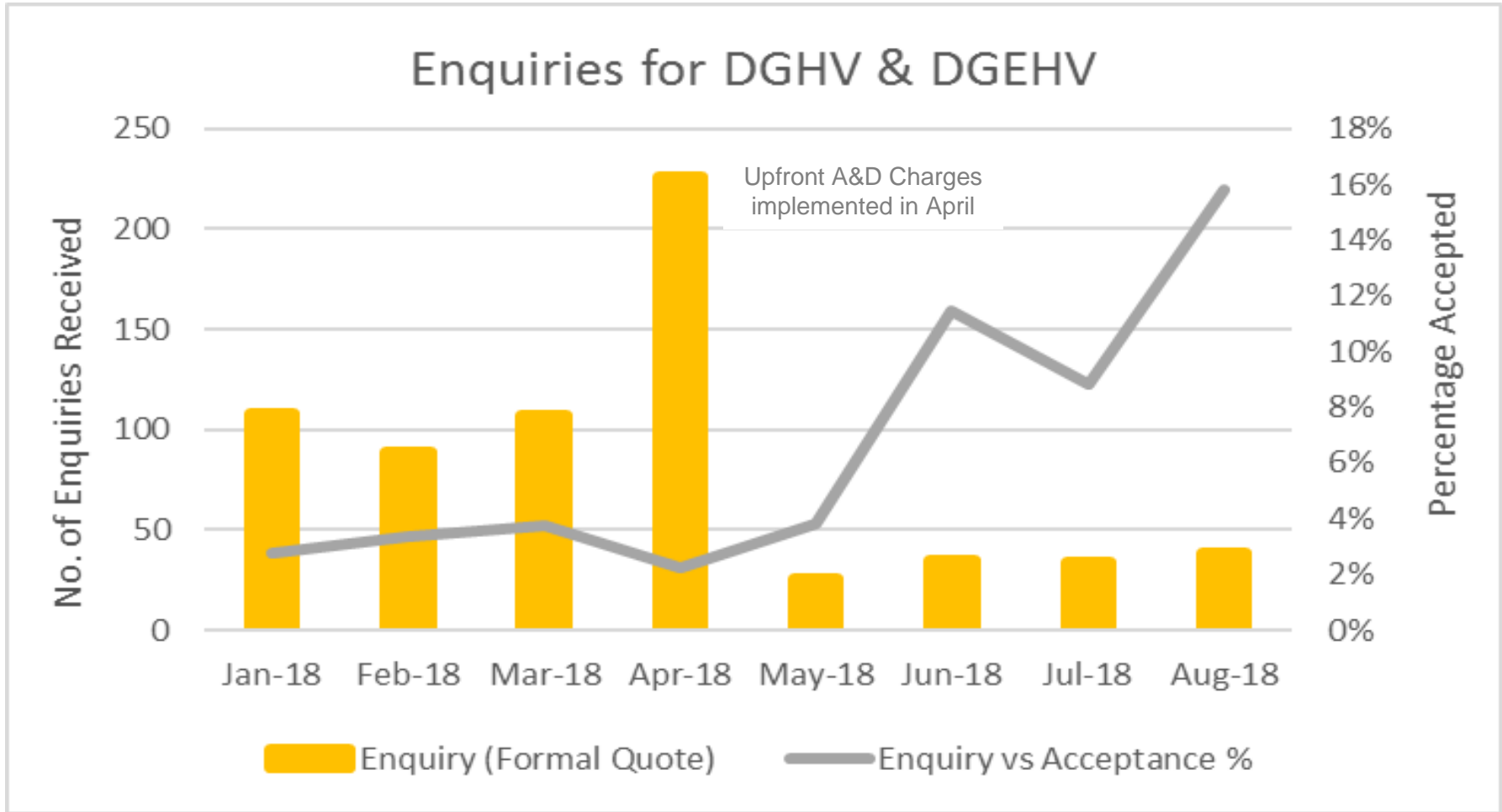
- **1st (Upfront) A&D Charge payment request** - issued after cooling off period with a 60 day invoice
- **2nd A&D Charge payment request** - balance of the A&D Charge included within the quote and paid upon acceptance

NB: As is currently the case, additional chargeable time may be added to the overall A&D Charge payable in full one-hour denominations and included within the quotation for complex projects

Our initial review of the outcomes

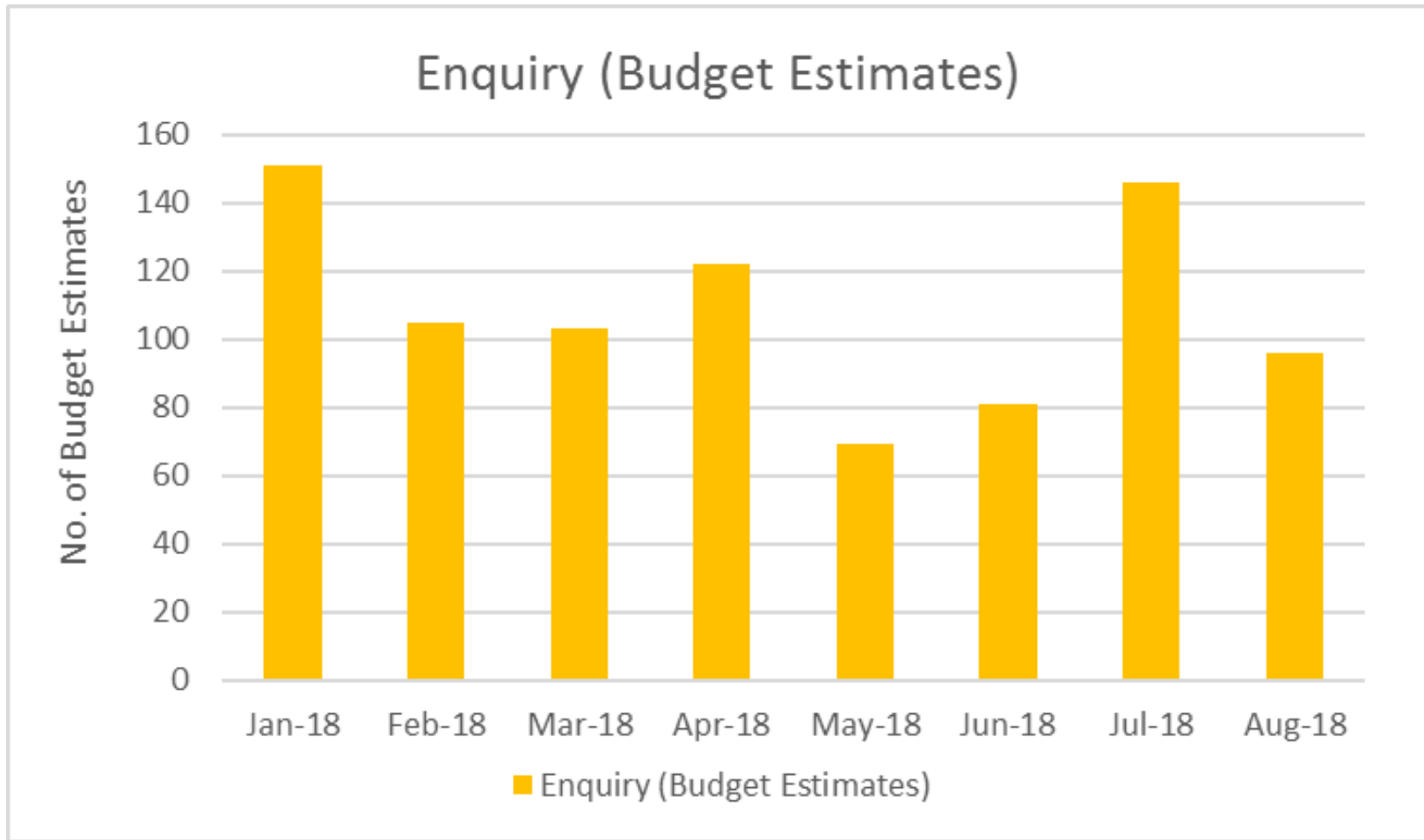
1. Impacts on Quotation enquiry volumes
2. Budget Estimate volumes
3. ENA review of industry-wide feedback
4. Other UKPN observations
 - a) Interactivity queue

The volume of enquiries has fallen considerably while quote acceptance rates have increased



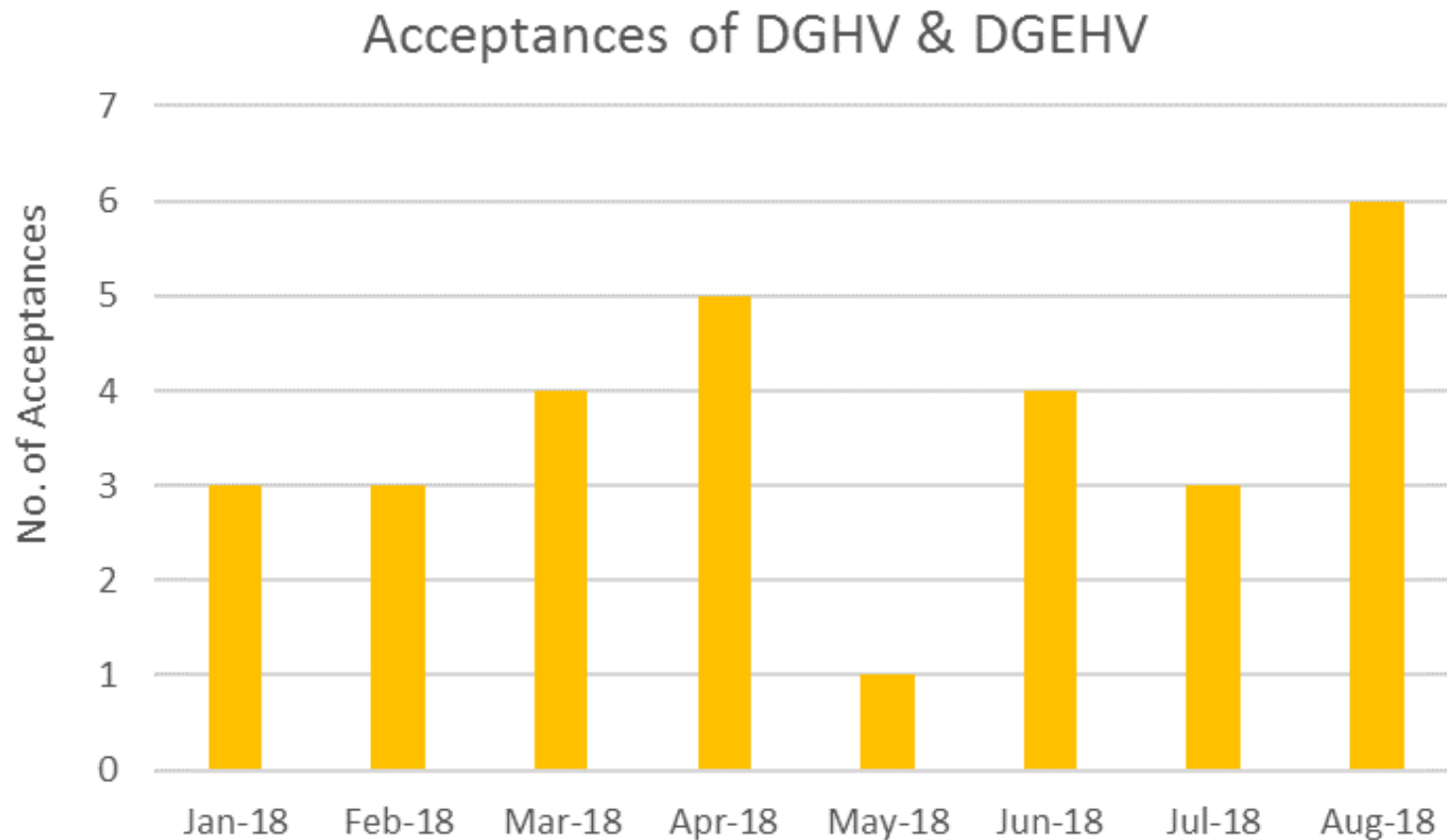
The graph above shows that there has been a reduction in purely speculative enquiries

Volume of Budget Estimate Enquiries



This graph shows that customer demand for Budget Estimates has been increasing from the low point in May.

Volume of Acceptances



This graph shows that the overall number of accepted schemes has not diminished as a result of the introduction of A&D Charges

ENA review of industry-wide stakeholder feedback

Key areas of focus

- surgeries need to be held more frequently and at shorter notice at customer request
- greater access is required to design/infrastructure planning engineers for technical advice on projects at an earlier stage
- customers want a more consistent approach from all DNOs and do not want to pay very much upfront for a formal quote
- Stakeholders believe that:
 - there is a need for the provision of better heat maps by all DNOs
 - With more up to date data customers could avoid a lot of wasted effort developing non-viable schemes

Note: UKPN's view is that customers are likely to benefit most from investments in pre-application advice

Review of DNOs approaches regarding how/when A&D Charges are recovered

All in advance	Part in advance /Part acceptance	All acceptance
NPg	ENWL	None
WPD	SSEN	
SPEN	UKPN	

There are a mix of approaches as to what is recovered at what stage

Review of DNOs approaches regarding the recovery of costs associated with quotes that don't progress

Recovered from advanced quote charge	Recovered via an oncost rate from customers that accept	Recovered from customers that accept as A&D charge
NPg	SSEN	ENWL
SPEN	UKPN	
	WPD	

Again there is a mix of approaches and links to how much recovered for quotation

Review of DNOs approaches regarding the recovery of costs associated with Budget Estimates

Recovered from transactional charge	Recovered via an oncost rate from customers that accept	Recovered from customers that accept as A&D charge
NPg	SSEN	ENWL
	UKPN	
	WPD	
	SPEN	

Again there is a mix of approaches

Comparison of DNOs approach to recover upfront charges

	ENWL	NPg	SPEN	SSEN	UKPN	WPD
Demand LV Work						
Demand HV Work						
Demand EHV Work						
Demand 132kV Work						
DG LV Work						
DG HV Work						
DG EHV Work						

	Implemented
	Likely sometime between Q4 2018 - Q1 2019
	No current plans to implement

Currently, UK Power Networks have no plans to consider implementing A&D charges in advance of issuing quotes in other A&D charge categories

Review of UK Power Networks segments attracting up-front A&D charges

- Options considered:
 - None (cease charging)
 - Continue with current arrangements
 - Extend approach into additional segments
- Conclusions
 - No immediate changes are envisaged
 - On current evidence the level of accepted connection offers has not changed
 - The constraints associated with interactive quotes have diminished as a consequence of the reduction in DG quotes
 - We believe this has started to deliver the desired benefits for customers i.e. less resource and time is being wasted on speculative quotes, thereby releasing more time to assist customers with surgeries and pre-application advice
 - Other segments do not experience issues with speculative enquiries to the same extent as the DG market

Considerations

External Considerations

- There is a desire amongst various customer groups for more consistency across the industry; the ENA is leading a review of A&D Charges currently offered by the DNO community
- The introduction of G99 in 2019 will bring further obligations to all those involved in DG connections

Enhancements to Service Provision

- A review of features and anecdotal feedback from some customers has led us to conclude that we will:
 - increase the number of DG surgeries available for customers and to facilitate them at shorter notice upon request
 - introduce a dedicated “Ask the Expert” service for DG-specific issues.
 - evaluate the feasibility of introducing additional products such as “Gen Plus” and “Quote Plus”, and for reviewing our approach to interactivity
 - seek to improve the completeness of data included within our heat maps and put measures in place that will ensure they are updated more frequently. This could enable customers to better assess what might reasonably be able to be connected. However this should be viewed as being complementary to, not a substitute for, the development of other pre-application services
 - consult on the conclusions of a review that is currently in progress to re-assess the values of our A&D charges i.e. to ensure that they reflect current processes and resources

Conclusions

- The introduction of upfront A&D charges within UKPN has achieved the principal objective of reducing the level of purely speculative enquiries, allowing more focus to be applied on viable schemes.
- Whilst we recognise that the introduction of upfront A&D charges has not been well received by some external stakeholders, it has curtailed the speculative behaviour of some customers in submitting large numbers of speculative applications, almost none of which have progressed to connection
- We are keen to work with Ofgem, ENA and colleague DNOs to understand how the upfront A&D Charges framework may be consistently developed to better meet the needs of our customers and stakeholders.
- We have a track record (on A&D charges specifically) of responding quickly to stakeholder feedback and testing with stakeholders through our established processes and structures. This has been recognised by the STA.
- Whilst we are open to evolving our approach to upfront A&D Charges, we are keen to assess the impacts of any proposals on a wide range of UKPN's stakeholders.
- We will implement a number of improvements, especially in the pre-application stage of the process
- We do not believe it is necessary to extend the application of upfront A&D charges into any additional market segments

Next Steps

- We have already committed to deliver some enhancements to the DG Mapping tool by Feb 2019. This process of review and enhancement will continue through 2019
- We will continue to work with other DNOs as part of the ENA-led review of A&D Charges and re-examine our position where appropriate
- We shall assess the impacts of G99 on the application process and communicate any necessary changes to stakeholders by 31 December
- We shall commence work to develop and implement the improvements that we have identified by 31 March, 2019
- We will consult on the conclusions of our review of new products, interactivity and overall values of A&D charges by 31 December
- As part of our 2019 Service Development Plan we will revisit our approach to upfront A&D charges in 2019



Thank you

