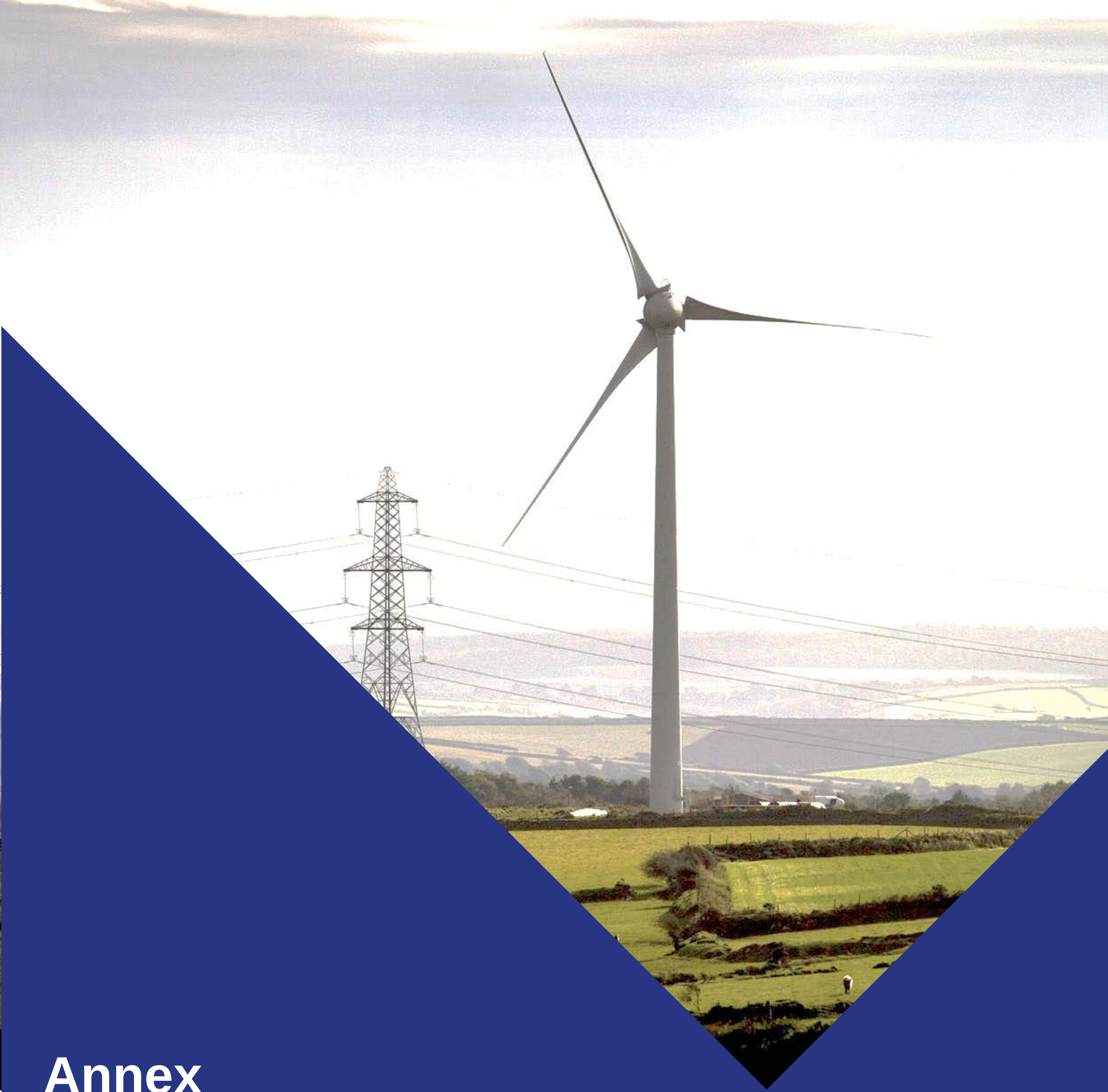


Annex

NGET ET.06 Output Delivery Incentives (ODIs)

December 2019

As a part of the NGET Business Plan Submission

nationalgrid

RIIO-T2

nationalgrid
Electricity Transmission

NGET ET.06 Output Delivery Incentives (ODIs)

Cross Cutting
(December 2019)

Submission annex 2019

This is National Grid Electricity Transmission (NGET)'s 9 December 2019 annex on the output delivery incentives (ODIs) in our RIIO-ET2 business plan. This annex accompanies the 9 December 2019 business plan that we are submitting to Ofgem.

In this annex we introduce and define outputs, ODIs, common ODIs and bespoke ODIs. We describe our approach to Ofgem's common ODIs. We also explain the bespoke ODIs we are proposing in our plan, the stakeholder support for them, how they benefit consumers and how they meet Ofgem's criteria.

Contents

1. Introduction and definitions

What are outputs?
Outputs are the services that end-consumers and our customers value such as customer satisfaction, energy supplied and reducing carbon emissions. Outputs are the observable and measurable achievements that a company needs to deliver. They represent what customers and society really value.

Outputs are one of the cornerstones of the RIIO framework: **RIIO** = "setting **R**evenue using **I**ncentives to deliver **I**nnovation and **O**utputs", page 4, Ofgem RIIO-2 framework decision, July 2018.

An output focus is better for consumers and the environment than an input focus, because it focuses network companies on what matters for consumers and the environment and allows them to innovate to deliver it.

Ofgem has grouped all network companies' outputs into **three categories for RIIO-2:**

1. Meet the needs of consumers and network users.
2. Maintain a safe and resilient network.
3. Deliver an environmentally-sustainable network.

What are output delivery incentives (ODIs)?
Ofgem has established a framework for RIIO-2 with three ways in which companies are held to account for delivering outputs:

Table 1.1 – Ofgem's three types of outputs

Type of output	Definition
Licence obligation	"We will use Licence Obligations to set minimum standards which network companies must achieve through their baseline funding, with clear consequences where these are not met through the use of penalties and/or enforcement action". (paragraph 4.21, sector-specific methodology decision)
Price control deliverable (PCD)	"we will use PCDs to capture those outputs that are directly funded through the price control and where the funding provided is not transferrable to a different output or project. The purpose of a PCD will be to ensure the conditions attached to the funding are clear up-front." (paragraph 4.23, sector-specific methodology decision)
Output delivery incentive (ODI)	"We will apply ODIs to reflect the fact that the baseline level of allowances we provide is associated with a baseline level of service delivery when measured across all a network's customers." (paragraph 4.33, sector-specific methodology decision)

There is overlap between the three categories. An output could have a licence obligation, a PCD and/or an ODI attached to it.

What are common ODIs?
In its RIIO-2 sector-specific methodology decision Ofgem confirmed the “common” ODIs that apply to all three transmission owners (National Grid Electricity Transmission, Scottish Power Transmission and Scottish Hydro Electric Transmission).

The common ODIs are:
- The quality of connections survey (financial);
- Energy not supplied (financial);
- SF_6 and other insulation and interruption gases (IIG) leakage (financial);
- Quality of engagement on new transmission infrastructure projects survey (non-financial).

There is a common licence obligation called “Timely connection offers”, which is effectively a common, penalty-only ODI.

What are bespoke ODIs?
In its RIIO-2 Sector Specific Methodology decision – core document (24 May 2019) Ofgem said: “In line with the introduction of a framework designed to give consumers a stronger voice, we highlighted in December that there would be opportunities for network operators to propose bespoke ODIs (in addition to PCDs), reflecting feedback from their stakeholders and Customer Engagement Groups/User Groups.” (page 24)

The Ofgem framework allows for companies to develop their own “bespoke” ODIs that are specific to them. The benefit of bespoke ODIs is they allow network companies to reflect the specific preferences of their stakeholders, customers and consumers. Network companies have to collaborate with their stakeholders and their stakeholder groups to develop their bespoke ODIs. This process ensures that our bespoke ODIs, their targets and incentives reflect what consumers want and give us an appropriate incentive to deliver the targets and outperform them when this benefits consumers.

How do ODIs benefit consumers?
The benefits of ODIs are:
- ODIs promote innovative approaches as network companies strive to outperform their targets.
- ODIs focus management attention on delivering a target, and outperforming it if possible improving service levels for consumers.
- ODIs promote long-term service level improvements for customers, stakeholders and consumers

2. Our ODI package and its financial range

In this section we set out our estimate of the financial range of the common ODIs that will apply to us in the T2 period and for our bespoke ODIs. We have only included financial ODIs in this analysis.

Table 2.1 shows that our T2 financial ODI package has an estimated range from -5.1% of revenue to +2.7% of our revenue based on our performance. This means the potential penalties for poor performance is around twice as large as the potential rewards for outperforming our targets. This is a tougher ODI package than in the T1 period because the maximum penalties are higher in the T2 period and because the targets for the ODIs are tougher in the T2 period, making it more likely we will incur penalties.

Table 2.1 – The ODIs in our business plan with their financial range

Output delivery incentive (ODI) and purpose	Common or bespoke	Maximum penalty	Maximum reward
		% of base revenue	
Quality of connections survey – incentivises us to improve our service to connection customers at the key moments that matter to them.	Common	-0.6	+0.6
Energy not supplied – incentivises us to take additional actions to reduce instances of not supply energy beyond the regulatory requirements.	Common	-3	+0.14
SF_6 and other gases leakage – incentivises us to reduce the leakage of insulation and interruption gases that contribute to climate change.	Common	-0.34	+0.34
Timely connection offers – penalises us if we do not provide connections offers within the required time period.	Common (licence obligation)	-0.5	0
New infrastructure projects – encourages us to carry out good-quality engagement for new infrastructure projects.	Common	Non-financial	
Environmental scorecard – incentivises us to outperform the stretching targets in our environmental action plan.	Bespoke	-0.25	+0.25
Outage management – incentivises us to manage outages better with the customers affected.	Bespoke	-0.4	+0.4
Accelerating low-carbon connections (additional contribution to low carbon transition) – incentivises us to deliver connections with shorter lead times where customers want them and where it reduces carbon emissions.	Bespoke	0	+1.0
Stakeholder engagment - encourages us to continually improve the way we engage with our stakeholders.	Bespoke	Non-financial	
T2 total		-5.1	+2.7
T1 total (for comparison)		-4.3	+2.3

We have had to make some assumptions related to the common ODIs in table 3.1 to calculate a maximum penalty and reward. Here is an explanation of the assumptions we have made for each ODI's financial range.

Table 2.2 – Assumptions behind the estimated financial range for the ODI package in the T2 period

ODI	Assumptions behind range
The quality of connections survey	Ofgem has said the incentive "due to our decision to set apart the connections stakeholders in the survey sample for RIIO-ET, it may be appropriate to reduce the incentive strength [from ±1% of base revenue] for RIIO-ET2" (page 22, SSMD ET annex) On this basis we have assumed a maximum reward and penalty of ±0.6% of base revenue if outages are excluded. If Ofgem includes outages we would expect the incentive strength to be ±1% of base revenue.
Energy not supplied	Ofgem has said the collar (maximum penalty) will remain at 3% of base revenue (see page 32, SSMD ET annex). We have proposed a revision to the methodology for setting our ENS target in the T2 period, which will lead to a 45% tougher target based on current data (see annex A9.10). We have used this tougher target to calculate the maximum reward.
SF_6 and other insulation and interruption gases (IIG) leakage	The T1 version of this incentive has no cap or collar. We understand from Ofgem that it expects not to have a cap or collar for this T2 common ODI either. We have estimated the maximum reward and penalty by multiplying our highest annual incentive payment in the T1 period (a reward in 2017/18) by two. This gives a maximum reward and penalty of 0.34% of base revenue. We thought this gave a more plausible overall ODI range than using an unlimited reward or penalty.
Timely connection offers	Ofgem has confirmed this incentive has a maximum penalty of 0.5% of base revenue (see page 27, SSMD ET annex). There is no reward.
Environmental scorecard	We are proposing the same maximum reward of £4m as for the T1 environmental discretionary reward (EDR) incentive. This is around 0.25% of our base revenue. We are proposing this is a symmetric ODI with a maximum penalty of 0.25% of base revenue.
Satisfaction of customers with outage management	We are proposing a maximum reward and penalty of ±0.4% of base revenue reflecting that 40% of our survey responses for the T1 incentive relate to outages. If Ofgem includes outages in its common ODI (the quality of connections survey) we expect to drop this ODI and are assuming the incentive strength of the common ODI to be ±1% of base revenue.
Accelerating low-carbon connections	This ODI is focussed on delivering an improved service and is therefore reward only. The ODI balances the penalties we face for poor connection service under other parts of the RIIO-2 package: late connection offers, quality of connections survey and late delivery of large projects. We only expect this incentive to apply to a small proportion of generation – those customers who can and want to connect earlier to the network and those customers where it is possible for us to deliver earlier connections at a cost lower than the incentive rate. To protect consumers, we are proposing an annual cap of 1.0% of our base revenue.

3. Our approach to the common ODIs

This section describes our approach to the four common ODIs. On 31 October 2019 Ofgem updated its business plan guidance and made the three financial common ODIs "assessment areas" of our business plan.

3.1 - The quality of connections survey

In its May 2019 sector-specific methodology decision – electricity transmission annex (SSMD-ET) Ofgem decided that it would retain a satisfaction survey with a financial reward and penalty on the quality of connections (paragraph 2.94).

Ofgem set out in the SSMD-ET four outstanding items that needed further development that it would reach a decision on in its draft and final determinations in 2020. We have been working with Ofgem and other stakeholders to make progress on these four items.

For example:

- We have contributed ideas, views and proposals at the working group on 17 June 2019, the Ofgem telecons with stakeholders on 8 August 2019, 19 September 2019 and 19 November 2019 and at bilaterals with Ofgem on 11 June 2019 and 3 October 2019.
- We have held joint telecons with the Scottish TOs to make progress on the pilot study, for example on 16 October 2019 and 4 November 2019.
- We have submitted information and papers to Ofgem on 9 May 2019, 22 July 2019 and 11 November 2019.

Item 1 – Survey content

This item covers which "pinch points" of the connections process to capture, the level of flexibility for the TOs to select their own survey questions and the question(s) on overall satisfaction.

We have provided our evidence on the "moments that matter" for our customers and the resulting "touch points" for the survey in the papers we sent to Ofgem on 22 July 2019 and 11 November 2019. We are continuing to work with Ofgem and the Scottish TOs to develop common touch points for the survey across the TOs, to the extent this is possible.

We are proposing that we and the other TOs should retain flexibility over the survey questions to enable us to design the survey questions to best reflect our customers' specific needs and to maximise the learning we can obtain from the survey. This is except for the "killer" question, which should be common to all TOs.

We strongly support the "killer" question being a satisfaction one. Satisfaction provides the best overall view of our performance. Satisfaction is also a widely used measure, enabling us to learn from the experience of other organisations that use satisfaction studies.

Ofgem has carried out further work on the scope of the quality of connections survey. In an email on 20 September 2019, Ofgem stated that:

- "the survey scope will include embedded generators. This includes customers which may not have directly engaged with the TO, but where the TO will have provided a connection service."
- "the survey scope will also include generators post-energisation."

- "With regards to our action above on providing further clarity on whether the DNOs should be surveyed, our position is that these customers should not be included within the Quality of Connections Survey."

We consider that the survey should focus on our customers, who are the people we directly interact with and for whom we can improve the quality of our service. Therefore, we prefer the survey to include our DNO customers, but to exclude embedded generators that are not our customers. We are continuing to engage with Ofgem on this issue.

We strongly support the survey including customers post-energisation. We have received consistent feedback from our customers that they care about the quality of our service when they are connected to the network. Ofgem is proposing the scope will be only generators post-energisation, but we consider it would be better to include all customers post-energisation in the survey. We are continuing to engage with Ofgem on this issue.

We are proposing a bespoke ODI on "Satisfaction of customers with outage management" including all our post-energisation customers (see section 7 below). If Ofgem includes all customers affected by outages in its common ODI, we expect not to take forward this bespoke ODI.

Item 2 – Using one survey company
In an email on 20 September 2019, Ofgem confirmed that the quality of connections survey will be an absolute incentive, meaning that each TO will be assessed on their own performance, rather than relative to the performance of other TOs. This allows for the TOs to use different survey companies.

We support the TOs having separate survey companies. Practically this means that the TOs can run the pilot survey by including the RIIO-2 killer question into their T1 surveys, without the need for a second survey and keeping the burden on our customers to a minimum. It also allows TOs to find the best survey company for their and their customers' needs.

Item 3 – Determining the baseline for the satisfaction survey
We, and the other TOs, have been working with Ofgem to develop a pilot survey to run in 2020 to provide information to set the baseline for each company. We have made suggestions for how the T2 question can be incorporated into our T1 survey for the pilot to reduce the burden on our customers, for example in the paper we sent to Ofgem on 11 November 2019.

On the telecon on 19 November 2019 Ofgem suggested using the first year of the T2 period to set the baseline for the incentive and asked for views by 18 December 2019. We prefer to run a pilot survey in 2020 to allow for the incentive to apply to our performance from the first year of the T2 period.

In its open letter dated 29 July 2019 Ofgem said it expects to set out its thinking on baselines in its draft determinations in Q2 2020.

Item 4 – The incentive strength for the satisfaction survey
In its open letter dated 29 July 2019 Ofgem said it expects to set out its thinking on incentive strength in its draft determinations in Q2 2020.

In its SSMD-ET Ofgem stated: "We have considered the responses that suggest we should retain the strong symmetrical incentive arrangement from RIIO-ET1, which is +/-1% of the Base Revenue. However, due to our decision to set apart the connections stakeholders in the survey sample for RIIO-ET, it may be appropriate to reduce the incentive strength for RIIO-ET2." (paragraph 2.105).

Our view is that Ofgem has decided to include post-energisation generators in the survey since it published the SSMD. As a result, there is a much weaker rationale for reducing the incentive strength for the T2 period. We consider that a strong financial incentive is in our customers', and end-consumers', interests to encourage us to innovate to find new ways to improve our connection and post-energisation services.

3.2 – Energy not supplied (ENS)

In its SSMD-ET Ofgem said it would retain the ENS incentive as a symmetrical financial ODI for RIIO-ET2 (paragraph 2.171).

The purpose of the ENS incentive is to encourage TOs to efficiently improve network reliability by managing short-term operational risk and through mitigation actions.

Ofgem set out in the SSMD-ET four outstanding items that it would be reaching a decision on in its draft and final determinations in 2020:

- Determining a methodology for setting baseline targets and any necessary assumptions;
- Determining an appropriate Value of Lost Load (VoLL) value;
- Confirming its working assumption around a 3% financial collar on penalties
- Determining whether there is a proportionate methodology for accounting for embedded generation and any necessary assumptions.

We have been working with Ofgem and other stakeholders to support Ofgem making progress on these four items. In particular, we have suggested options for setting our ENS target in the T2 period, which, on current data, lead to significantly tougher ENS targets compared with our current target.

We provide information on ENS in a separate annex: A9.10 ENS incentive.

3.3 – SF_6 and other insulation and interruption gases (IIGs) leakage

The purpose of this common ODI is to incentivise a reduction in harmful greenhouse gas (GHG) emissions from leakage of SF_6 and other IIGs and to support the transition to low-GHG alternative IIGs.

In its SSMD-ET (paragraph 3.129) Ofgem said it had decided to:

- Retain a financial incentive for leakage from SF_6;
- Include leakage from other IIGs in the incentive;
- Calculate the baseline each year based on well-justified additions and disposals (the calculation of the baseline will take place in the annual reporting templates); and
- Update the definition of an exceptional event for leakage.

Ofgem said it would be reaching a decision on the method it would be use for setting the starting point for IIG leakage in the baseline in its draft and final determinations. In the SSMD-ET Ofgem proposed three possible methods for setting the T2 baseline:

1. Multiplying each TO's IIG inventory at the end of RIIO-ET1 by the lowest leakage rate (e.g. 1%) observed on each TO's network over RIIO-ET;
2. The average of leaked IIG emissions from the final three years of RIIO-ET1; or

3. Leaked IIG emissions in the final year of RIIO-ET1.

We suggest option 2 would be the best method for setting the baseline for the T2 period because it uses recent, reliable data that is reflective of actual performance.

The difficulty of using option 1 is that it is not representative of actual performance. It could cause TOs to incur penalties in the T2 period even if they have improved their performance compared with the last few years of the T1 period and they are investing to remove SF_6 from the network.

The difficulty of using option 3 is that if the final year of RIIO-ET1 is unrepresentative it could lead to the target being too high or too low. Using three years of recent data smooths out any such variations.

Ofgem requirements on the SF_6 and other IIGs leakage ODI

In paragraph 3.173 of the SSMD-ET Ofgem says it expect companies to “set out in their business plans an emissions profile from IIG assets installed on their networks over RIIO-ET2”. We set out our emission profile for IIGs in chapter 11 of our 200-page business plan.

In paragraph 3.181 of the SMMD-ET Ofgem says: “TOs will be required to provide details in their business plans of the GWPs for each alternative IIG on their network”. We have one alternative IIG on our network at present called green gas for grid (g^3). g^3 has a GWP of 346 times that of CO_2, compared with SF_6, which has a GWP of approximately 23,500 times that of CO_2. We provide this information in business plan data template (BPDT) A6.5.

In paragraph 3.181 of the SMMD-ET Ofgem says: “TOs will be required to provide details in their business plans [of] consistent methodologies for how leakage of all IIGs, including SF_6, will be measured [and] their proposed reporting approach.” Below we reproduce a note we sent to Ofgem in March 2019 setting out our methodology for recording SF_6 leakage in electricity transmission. We will use this methodology for reporting non-SF_6 IIGs as well.

National Grid’s methodology for recording SF_6 leakage in Electricity Transmission

March 2019

Sulphur Hexafluoride (SF_6) is a commercially-available man-made gas with electrical insulation properties that mean it is currently an indispensable part of modern-high voltage transmission systems. It is however a greenhouse gas with a global warming potential of approximately 22,800 times that of carbon dioxide. National Grid has long recognised the operational, economic and environmental importance of reducing leakage of SF_6 gas to the atmosphere to the lowest practical level.

I. **Reporting SF_6 Losses**

It is not possible to directly measure the amount of SF_6 gas lost from electricity transmission equipment. Instead, National Grid measures the amount of gas used to replace lost SF_6 gas. This quantity, referred to as ‘usage’, is used to determine the amount of SF_6 gas lost to the atmosphere.

National Grid uses gas flow meters to measure SF_6 gas usage. The mass is recorded and entered into a database, linked to the specific transmission equipment. Gas usage is described as either ‘reportable’ or ‘recordable’. Reportable losses are the result of asset failure, whilst recordable losses are associated with gas handling and maintenance releases.

A description of both are given below:

Reportable Losses:

- **Equipment/ Zone leaks to the atmosphere**: reportable losses are losses from a transmission asset that is losing gas. SF_6 is released into the atmosphere by accidental leakage due to faults and/ or equipment degradation, which causes loss of gas from seals or sudden decompression.

Recordable Losses:

- **Defective gas handling plant/equipment**: This is when a gas is lost because the gas canister (the bottles containing SF_6) leaks, so further gas needs to be added to the equipment. This is a very rare occurrence and it results from operator error as opposed to asset failure. This is reported as an environmental incident, but it is not reported to Ofgem. This is because the SF_6 Special Condition 3E, relates to emissions of sulphur hexafluoride from assets comprising part of the licensee’s transmission system.
- **Re-filling after maintenance**: This is when gas is removed and put back into equipment due to maintenance issues. We record this data because we want to know where our gas is being used even it was not lost. In some circumstances during the maintenance process, additional gas has to be added to the equipment because not all the gas taken out, can be put back.

II. **Recording Units**

Usage is measured directly as the gas is added to the equipment and recorded in the National Grid asset register. Usage is recorded in kg (to 2 decimal places, where equipment allows) and is associated with a particular type of equipment.

III. **Usage Data Verification**

To provide assurance that SF_6 usage is being recorded accurately, we carry out internal SF_6 usage audits for at least 8% of National Grid sites where SF_6 is used each year. These audits verify the accuracy of the data we record in the asset register.

In paragraph 3.181 of the SMMD-ET Ofgem says: “TOs will be required to provide details in their business plans [of] their indicative baseline”. We provide this information in BPDT A4.3 Business Carbon Footprint (BCF).

3.4 – Quality of engagement on new transmission infrastructure projects survey

In its SSMD-ET (paragraph 2.46) Ofgem said it had decided to introduce a survey targeted at the quality of the engagement process with stakeholders for new transmission infrastructure projects. Ofgem decided this survey would be a non-financial incentive.

The aim of this non-financial output delivery incentive (ODI) is to encourage TOs to learn from their stakeholders about how they can improve their engagement processes (paragraph 2.124).

We understand from Ofgem’s RIIO-2 Licence Drafting Working Group for ET issues on 4 September 2019 that Ofgem is planning to make this non-financial ODI survey a licence requirement, but does not plan to prescribe how we carry out the survey.

Ofgem sets out the following requirements for our T2 survey (in paragraph 2.123 of its SSMD-ET): “we will require the companies to survey stakeholders and report publicly on the results, including their response, and any commitments they intend to take forward.”

We have been carrying out surveys to gauge stakeholder satisfaction on major projects since 2010. We estimate about 5 to 10 projects will meet our definition of major projects during the RIIO T2 period.

Our approach to surveying stakeholders

We propose to continue our current approach to surveying stakeholders at major projects in the T2 period, evolving our approach as we learn from experience.

Stakeholders surveyed: We take account of planning legislation and guidance that identifies stakeholders who have an interest in the development and delivery of a major project when developing our bespoke list of stakeholders for each project. We carry out our survey with representative bodies such as campaign/interest groups and landowner bodies such as the National Farmers Union, Farmers Union for Wales and the Country Land and Business Association. To meet the criteria to be included for the survey, the stakeholder must also have engaged in two-way interaction with National Grid in relation to the project on at least two occasions over the previous 12 months.

Survey design: We carry out our surveys throughout the project lifetime. Our independent research provider carries out the surveys as telephone interviews where telephone numbers are provided, and online surveys where only an email address is available. The surveys are triggered on a project by project basis at defined project milestones. Our surveys and are designed to obtain both qualitative and quantitative feedback from the stakeholders who have engaged with us on the project.

Stakeholders are asked to rate their overall satisfaction with us on a scale of 1 to10, where 1 is very dissatisfied and 10 is very satisfied. If stakeholders respond with more detailed information or views we also review and consider these.

The outputs of the survey provide valuable insight and help us determine areas we can improve our approach. When we receive the survey outputs our project teams:

- review the findings within one month. We plan whether and how any or all of the stakeholders surveyed should be contacted to acknowledge receipt of and/or to follow-up on their feedback and/or to inform our stakeholders of the action we plan to take to address some or all of the points they raised;
- within two months of receiving of the survey findings, we prepare an action plan to respond, where appropriate, with particular focus on the lowest score areas.
- refine the project’s communications plans based on the action plan within two weeks of receiving it; and
- keep the action plan under regular review at quarterly intervals, monitoring and recording progress in completing the actions in updates to the action plan until it is complete.

In this way, our current approach helps, and the T2 non-financial ODI will help, us to learn from our stakeholders about how we can improve our engagement processes.

4. Our current proposals for bespoke ODIs

We are proposing four bespoke ODIs for our final business plan on 9 December 2019. This is a change from our proposals in our 1 October 2019 annex and we explain the differences in table 4.2 below.

Table 4.1 – Our current proposals for bespoke ODIs

No.	Name	Consumer / future consumer benefit
1	Environmental scorecard	This ODI incentivises us to further reduce our carbon emissions, improve the natural environment and reduce our resource use.
2	Quality of outage Management	This ODI incentivises us to improve customers' experience of outages saving them time and cost. This would allow our customers to lower costs and provide better services for end consumers. Note: If Ofgem covers all our customers affected by outages in its common ODI we would expect to withdraw this proposal.
3	Accelerating low-carbon connections	This ODI incentivises us to reduce the lead times for low-carbon generators to support the UK's net zero by 2050 target and benefit current and future consumers. We propose this bespoke ODI could qualify as an "**additional contribution to low carbon transition**" ODI as set out in Ofgem's sector-specific methodology decision ET annex, pages 62-65.
4	Quality of stakeholder engagement **(non-financial ODI)**	This ODI, once we have developed it with the independent stakeholder group, will encourage us to improve the quality of our engagement with stakeholders. This should lead to our business being more focussed on our stakeholders' needs. Our stakeholders include consumer representatives and businesses who serve end consumers.

The table below shows the bespoke ODIs we proposed in our 1 October draft business plan and the changes we have made for our 9 December final business plan.

Table 2.2 – changes from our 1 October 2019 proposed bespoke ODIs

No.	Name	Change since 1 October draft business plan
1	Environment	We are still proposing an environmental scorecard ODI. Our stakeholders preferred this to individual ODIs on the environment. We are no longer proposing individual environmental ODIs on carbon emissions and the natural environment, but we provide details on how they could work in case Ofgem rejects the scorecard ODI approach.
2	Whole system (SO:TO optimisation)	We are not proposing ODIs on SO:TO optimisation because we are focussing on our preferred approach of a market-based system to achieve the whole system cost savings for consumers. Under the market-based system the SO can make payments to us when it wants to use our enhanced or more flexible service options to reduce total costs to consumers. See Annex A7-8.03 Whole Systems for more detail.

		We are proposing a consumer value proposition (CVP) item related to SO:TO optimisation, which will provide us with an incentive to deliver the benefits for consumers we consider our proposal can provide.
3	Satisfaction of customers - outages	We are still proposing this ODI. We have renamed it "Quality of outage management". However, if Ofgem covers all our customers affected by outages in its common ODI we would expect to withdraw this proposal.
4	Connection costs	We are no longer proposing a bespoke ODI on connection costs because, following feedback from our stakeholders, we consider we can achieve the benefits of lower connection costs for our customers through developing an alternative approach. Please see chapter 8 of our business plan for more details.
5	Quality of stakeholder experience **(non-financial ODI)**	Following discussion with the independent stakeholder group we are now proposing to work with the group to develop this ODI (see section 9 below for more details).
6	Connection dates **(non-financial ODI)**	We have carried out more analysis on this ODI. We are now proposing a financial ODI for accelerating low-carbon connections by reducing lead times. For this reason, we have renamed the ODI as "accelerating low-carbon connections"

5. Our approach to identifying bespoke ODIs

We have carried out a detailed exercise over the last 18 months to identify our bespoke ODIs. The main steps in the process were:

Table 5.1 – our approach to identifying bespoke ODIs

Step	Description	Number of possible bespoke ODIs remaining
1	We used a wide range of internal and external sources to identify potential areas where we could benefit our stakeholders, customers or consumers from providing a higher level of service.	176 (electricity and gas)
2	Our expert consultants assessed the 176 possible bespoke ODIs against Ofgem's criteria of: • The service is part of a network company's job. • The service is not already provided or funded. • A network company is best placed to provide the service. We also applied a filter of whether the potential ODI passes the "you should do it anyway" challenge.	67 (electricity and gas)
3	Through an internal workshop, run by our consultants, we reviewed the 67 potential ODIs in more depth against Ofgem's criteria. We put the potential ODIs into five categories: financial ODIs, PCDs, reputational ODIs, commitments and principles.	28 (electricity and gas)
4	Our consultants discussed the potential ODIs with internal experts to identify which were strong candidates for ODIs based on Ofgem's criteria.	4 (electricity)
5	Following Ofgem's publication of its RIIO-2 methodology decision on 24 May 2019, which confirmed it approach to the common ODIs, we reviewed the services we could provide for our stakeholders, customers and consumers and identified some additional ODIs we could propose to benefit them.	10 (electricity)
6	Following engagement with our stakeholders and stakeholder group, including feedback on our 1 July and 1 October draft plans we have reduced the number of ODIs we are proposing to 4.	4 (electricity)

Ofgem's criteria for bespoke outputs

In its 31 October 2019 RIIO-2 Business Plan Guidance (page 14) Ofgem set out the criteria companies should address to justify any proposals for bespoke outputs.

Ofgem says the following:

> "2.17. The Company should address the following to justify any proposals for bespoke outputs:
>
> - whether the activity in question is best dealt with through the price control, rather than through a government body responsible for the public interest in that area (eg Highways Authorities for matters relating to the occupation of the highway)

- whether proposals are backed by robust evidence and justification (such as cost-benefit analyses) and demonstrate value for money for existing and future consumers

- the value that consumers will receive from a proposed new service level and, by extension, the potential associated reward and/or penalty, and the extent to which these are symmetrical, in terms of value and likelihood of outcome

- the extent to which an independent measure of the existing level of service that consumers receive is available and the degree to which the target level being proposed represents an improvement on this

- the level of service provided by other companies/comparators (where available)

- the activities (and indicative cost) associated with achieving the targeted level of service

- proposals for licence conditions and/or penalties if performance falls below existing service levels"

The Ofgem criteria in its 31 October 2019 business plan guidance differ from those in its 24 May 2019 sector-specific methodology decision (on pages 150-151). We are using Ofgem's latest criteria in this annex.

6. NGET bespoke ODI proposal 1 – environment scorecard

Purpose

The purpose of the environmental scorecard ODI is to incentivise us to outperform the targets in our environmental action plan (EAP). This will encourage us to further reduce our carbon emissions, improve the natural environment and reduce our resource use for the benefit of current and future consumers. Our EAP is included in annex "A11.05
Environmental Action Plan and methodology".

Stakeholder engagement

We have engaged extensively with our stakeholders over what our approach to the environment should be in the T2 period through channels such as workshops, webinars, bilateral meetings, surveys and consultations. We provide a detailed explanation of our approach to our engagement on the environment in annex "A11.08 – engagement log on the environment and communities".

As we explain in annex A11.05 we engaged with our stakeholders to identify the issues they wanted us to cover in our EAP. Our EAP reflects the importance our stakeholders place on us reducing our carbon emissions, providing environmental leadership, enhancing the natural environment, preserving precious resources and improving the visual impact of our assets. We shared early drafts of our EAP with our stakeholders for feedback and we consulted with leading experts in the relevant fields to review our ambition level and validate our approach. In annex "A11.03 – Environmental benchmarking" we explain how we benchmarked the targets in our EAP.

Our environmental scorecard ODI uses the targets from the EAP and reflects the stakeholder feedback on those targets. We engaged on the environmental scorecard ODI with stakeholders in October 2019. We discussed it with the Aldersgate Group (an alliance of leaders from business, politics and civil society that drives action for a sustainable economy), Natural England (the government's adviser for the natural environment in England) and with 25 external stakeholders through our ODI webinar on 9 October 2019. At the webinar our stakeholders preferred an environmental scorecard ODI to individual ODIs on the environment by 10 to 4 votes, with 6 people saying they had no strong preference. We checked with our environmental stakeholders, at an environment webinar on 6 November 2019, that they supported us having an environmental ODI. 8 out of 9 respondents agreed, with no-one disagreeing. We also engaged with the environmental "buddies" on the independent stakeholder group on our proposal.

We adapted our approach to our ODI in the following ways as a result of stakeholder feedback:

- We provided two options for environmental ODIs, a scorecard ODI and three separate environmental ODIs. We are progressing a scorecard ODI because that was the preference of 71% of those who expressed a view.
- We simplified the scorecard ODI and focussed on one option after feedback our original proposals might have been too complicated or confusing.
- We considered options for different weightings for the different metrics or additional rules on when under-performance on some metrics should block an overall reward. However, we considered these would go against the simplification that other of our stakeholders wanted.
- We considered the targets for the metrics in the scorecard ODI following comments from stakeholders and concluded it would be best to keep to the targets in the EAP, which we have engaged with stakeholders on.

How we chose the metrics for the ODI

The purpose of our environmental scorecard ODI is to encourage us to achieve the targets in our EAP and to outperform them.

To choose the metrics below we started with our EAP, which has 26 commitments in it. We removed those commitments that are not currently measurable and one on insultation gases covered by an Ofgem common ODI. This reduced the list to 11 commitments that we can currently measure. We removed three of the 11 commitments because our target is the maximum we can achieve in year 5 of the T2 period (2025-26) and we could not outperform them, so they are not suitable for an ODI. We removed one commitment because we measure it at group level rather than for NGET.

We considered whether we should include four more metrics related to environmental leadership:

1. Customer numbers or satisfaction level at our environmental education centres.
2. Percentage of employees engaged in environmental activities.
3. Percentage of managers with environmental objectives.
4. Extent of environmental research sharing with other organisations.

While important, these metrics felt like intermediate activities compared with the output metrics in our scorecard.

Annual targets and thresholds for the environment scorecard ODI

The tables below shows our proposed thresholds for levels of performance that would determine the penalty or reward for performance. We consider this incentive should apply each year. This is because an annual incentive will: (1) hold us to account for achieving interim targets throughout the 5-year period; and (2) encourage us to deliver environmental improvements earlier than our targets, if we can.

The definitions of the metrics are those in our EAP (see annex A11.05).

Table 6.1 – Our proposed reward and penalty thresholds for the environmental scorecard ODI for Year 1 (2021-22)

Number	Metric	Values for Year 1				
		Penalty threshold 2	Penalty threshold 1	Target	Reward threshold 1	Reward threshold 2
1	Percentage of our fleet that is alternative fuel vehicles	5%	6%	7%	8%	9%
2	Percentage reduction in carbon emissions from our business mileage	0%	1%	2%	3%	4%
3	Percentage of our operational and office waste that is recycled	40%	44%	48%	52%	56%
4	Percentage reduction in the waste we create at our offices	0%	1%	2%	3%	4%
5	Percentage reduction in water use for our main offices	0%	1%	2%	3%	4%
6	Percentage increase in the environmental value of our non-operational land	0%	1%	2%	3%	4%
7	Percentage net gain on all construction projects	0%	5%	10%	15%	20%

Table 6.2 – Our proposed reward and penalty thresholds for the environmental scorecard ODI for Year 2 (2022-23)

Number	Metric	Values for Year 2				
		Penalty threshold 2	Penalty threshold 1	Target	Reward threshold 1	Reward threshold 2
1	Percentage of our fleet that is alternative fuel vehicles	11%	13%	15%	17%	19%
2	Percentage reduction in carbon emissions from our business mileage	2%	3%	4%	5%	6%
3	Percentage of our operational and office waste that is recycled	42%	46%	50%	54%	58%
4	Percentage reduction in the waste we create at our offices	2%	3%	4%	5%	6%
5	Percentage reduction in water use for our main offices	2%	3%	4%	5%	6%
6	Percentage increase in the environmental value of our non-operational land	1%	3%	4%	5%	7%
7	Percentage net gain on all construction projects	0%	5%	10%	15%	20%

Table 6.3 – Our proposed reward and penalty thresholds for the environmental scorecard ODI for Year 3 (2023-24)

Number	Metric	Values for Year 3				
		Penalty threshold 2	Penalty threshold 1	Target	Reward threshold 1	Reward threshold 2
1	Percentage of our fleet that is alternative fuel vehicles	11%	13%	15%	17%	19%
2	Percentage reduction in carbon emissions from our business mileage	4%	5%	6%	7%	8%
3	Percentage of our operational and office waste that is recycled	45%	49%	53%	57%	61%
4	Percentage reduction in the waste we create at our offices	3%	5%	6%	7%	9%
5	Percentage reduction in water use for our main offices	3%	5%	6%	7%	9%
6	Percentage increase in the environmental value of our non-operational land	2%	4%	6%	8%	10%
7	Percentage net gain on all construction projects	0%	5%	10%	15%	20%

Table 6.4 – Our proposed reward and penalty thresholds for the environmental scorecard ODI for Year 4 (2024-25)

Number	Metric	Values for Year 4				
		Penalty threshold 2	Penalty threshold 1	Target	Reward threshold 1	Reward threshold 2
1	Percentage of our fleet that is alternative fuel vehicles	24%	27%	30%	33%	36%
2	Percentage reduction in carbon emissions from our business mileage	4%	6%	8%	10%	12%
3	Percentage of our operational and office waste that is recycled	49%	53%	57%	61%	65%
4	Percentage reduction in the waste we create at our offices	4%	6%	8%	10%	12%
5	Percentage reduction in water use for our main offices	4%	6%	8%	10%	12%
6	Percentage increase in the environmental value of our non-operational land	4%	6%	8%	10%	12%
7	Percentage net gain on all construction projects	0%	5%	10%	15%	20%

Table 6.5 – Our proposed reward and penalty thresholds for the environmental scorecard ODI for Year 5 (2025-26)

Number	Metric	Values for Year 5				
		Penalty threshold 2	Penalty threshold 1	Target	Reward threshold 1	Reward threshold 2
1	Percentage of our fleet that is alternative fuel vehicles	52%	56%	60%	64%	68%
2	Percentage reduction in carbon emissions from our business mileage	6%	8%	10%	12%	14%
3	Percentage of our operational and office waste that is recycled	50%	55%	60%	65%	70%
4	Percentage reduction in the waste we create at our offices	10%	15%	20%	25%	30%
5	Percentage reduction in water use for our main offices	10%	15%	20%	25%	30%
6	Percentage increase in the environmental value of our non-operational land	6%	8%	10%	12%	14%
7	Percentage net gain on all construction projects	0%	5%	10%	15%	20%

Scoring system for the environment scorecard ODI

We developed the scoring system for this ODI based on internal and external reviews. The main points of feedback were:

- We should keep the scoring system as simple as possible
- We should take account of the degree of outperformance and underperformance against each metric to increase the power of the incentive to drive performance improvements.

Following stakeholder feedback, we considered options for different weightings for the seven metrics or additional rules on when under-performance on some metrics should block an overall reward. However, we considered these would go against the simplification that our other stakeholders wanted.

The scoring system below shows how many points we would get for different levels of performance for each of the 7 metrics.

Table 6.6 – Environmental scorecard ODI scoring system

Scoring system:
2 points for being above reward threshold 2
1 point for being above reward threshold 1
0 points for being between reward threshold 1 and penalty threshold 1
-1 point for being below penalty threshold 1
-2 points for being below penalty threshold 2

Each year our score will be based on our performance against the EAP and translated into a penalty or reward using the table below.

Table 6.7 – Penalty and reward calculation for environmental scorecard ODI

Score	-14 to -11	-10 to -8	-7 to -5	-4 to -2	-1 to +1	+2 to +4	+5 to +7	+8 to +10	+11 to +14
Penalty / reward	-£4m	-£3m	-£2m	-£1m	£0m	£1m	£2m	£3m	£4m

The scoring system means that the size of the penalty or reward relates to the size of our under- or out-performance against our EAP. The examples below illustrate this.

Table 6.8 – Example 1 of how the environmental scorecard ODI works: poor performance

Performance (A)	**Number of metrics (B)**	**Score per metric (C)**	**Summed score (BxC)**
Metrics above reward threshold 2	0	2	0
Metrics above reward threshold 1	1	1	1
Metrics between reward threshold 1 and penalty threshold 1	2	0	0
Metrics below penalty threshold 1	2	-1	-2
Metrics below penalty threshold 2	2	-2	-4
Total			-5
Penalty or reward			-£2m

Table 6.9 – Example 2 of how the environmental scorecard ODI works: outperformance

Performance (A)	Number of metrics (B)	Score per metric (C)	Summed score (BxC)
Metrics above reward threshold 2	2	2	4
Metrics above reward threshold 1	2	1	2
Metrics between reward threshold 1 and penalty threshold 1	2	0	0
Metrics below penalty threshold 1	1	-1	-1
Metrics below penalty threshold 2	0	-2	0
Total points	7		5
Penalty or reward			+£2m

Assessment against Ofgem's criteria for bespoke outputs

In the table below we show how our environmental scorecard ODI meets the assessment criteria in Ofgem's 31 October 2019 RIIO-2 Business Plan Guidance (page 14).

Table 5.10 - Assessment of environment scorecard ODI against Ofgem's criteria for bespoke outputs

Criteria	Our assessment of how we meet Ofgem's criteria
1 – best dealt with through the price control	The environmental scorecard ODI relates to our own environmental performance. An ODI in the price control is a proportionate way to encourage us to deliver the commitments in our EAP and to outperform them if we can.
2 – backed by robust evidence	As we explain in annex "A11.05 – Environmental Methodology and EAP" we engaged with our stakeholders to identify the issues they wanted us to cover in our EAP. Our EAP reflects the importance our stakeholders place on us reducing our carbon emissions, providing environmental leadership, enhancing the natural environment and preserving precious resources. We shared early drafts of our EAP with our stakeholders for feedback and we consulted with leading experts in the relevant fields to review our ambition level and validate our approach. In annex "A11.03 – Environmental benchmarking" we explain how we benchmarked the targets in our EAP.
3 – the value consumers will receive	The size of the ODI is based on Ofgem's assessment of environmental value (+£4m per year) for the T1 environmental incentive called the Environmental Discretionary Reward (EDR). We have used this value because Ofgem's incentive, like our ODI, covers a wide range of our environmental performance. We have not updated this amount for inflation (which would increase the value to +£4.9m). The ODI is symmetrical in terms of the penalties and rewards available. However, we consider our EAP to be stretching and hard to outperform, therefore we consider the likelihood of actual incentive payments will be on the penalty side.
4 – an independent measure is available	We have based the environmental scorecard on the 7 metrics in our EAP that we can currently measure. They are all metrics that we will be required to report to Ofgem.
5 – level of service provided by others	Our environmental scorecard ODI uses metrics that the three transmission owners (TOs) will be required to report to Ofgem. We compared our proposals to the other TOs' proposals in their published 1 July draft business plans to make sure they are appropriately stretching. In annex "A11.03 –

	Environmental benchmarking" we explain how we benchmarked the targets in our EAP.
6 - activities associated with achieving the target	We explain the activities associated with achieving the targeted levels of service in annex "A11.05 – Environmental Methodology and EAP" and in chapter 11 of our business plan. These include: • Trialling the use of alternative-fuel vehicles and procuring the ones with the best environmental impact and fit with our business needs. • Identifying and implement the best ways of reducing our office waste. • Scaling up significantly our work to improve the natural capital at our sites compared with the T1 period.
7 - penalties if performance falls below existing service levels	Our ODI includes penalties if our performance across our whole EAP falls below our stretching targets. This is more demanding than penalties only if our performance falls below existing service levels because we are proposing large improvements in our service levels during the T2 period.

An alternative to the environmental scorecard ODI

Alongside our environmental scorecard ODI we developed a second approach based on three individual environmental ODIs. We consulted with our stakeholders on our approach and they preferred the environmental scorecard ODI to individual environmental ODIs (by 50% to 20%, with 30% saying they had no strong preference. There were 20 responses in total).

If Ofgem rejects our environmental scorecard ODI, it will still be important for us to have bespoke ODIs to encourage us to achieve our EAP and outperform it if we can. In that scenario, we would propose three individual environmental ODIs. While there are 7 commitments in our EAP that we can currently measure, we consider 7 bespoke ODIs on the environment would be too many. The three ODIs in the table below are those that our stakeholders consider to be most important.

Table 5.11 – The bespoke environmental ODIs we could develop as an alternative to the environmental scorecard ODI

Name and description	Benefit to consumers / future consumers	Incentive rates
Controllable business carbon footprint - An ODI to encourage us to reduce our controllable carbon emissions (excluding SF_6, which is covered by another ODI)	A reduction in our greenhouse gas emissions.	Based on the non-traded carbon price.
Carbon intensity of construction – An ODI to encourage us to reducing the carbon intensity of our construction projects.	A reduction in our greenhouse gas emissions.	Based on the non-traded carbon price.
Natural environment – An ODI to encourage us to improve the environmental value of our non-operational land.	An improvement in the natural environment around our assets.	Based on the average environmental value we deliver at each site.

7. NGET bespoke ODI proposal 2 – Quality of outage management

Purpose

The purpose of this ODI is to incentivise us to continually improve how we plan for and carry out vital repair work on the network with least disruption to our customers and stakeholders. We can save our customers and stakeholders time, effort and cost by continually improving how we communicate and manage outages based on their evolving needs. This would enable our customers to provide better services and lower costs to consumers. We are proposing this ODI will be based a survey providing direct feedback from our affected customers.

Stakeholder engagement

We have engaged extensively with our customers to understand their views on how we can carry out vital repair work on the network with least disruption to them. We obtained feedback through customer satisfaction survey feedback, bilateral meetings, interviews with network companies and workshops to redesign the customer journey.

Our customers have told us that we do not sufficiently communicate or explain the changes we make to outages and that we do not fully appreciate the impact our decisions can have on their businesses. Some emerging themes were:

- in some cases, we do not sufficiently explain the reasons for our changes;
- in some cases, we do not sufficiently assess the impact of our planned outages, which might subsequently get cancelled; and
- there are delays to works which create more changes in planned outages.

You can find more detail on our engagement with customers about the coordination of planned outages in chapter 8 of our plan and in annex “A8.01 Engagement log on connections and use of network”.

Box 7.1 – Relationship between our “quality of outage management” ODI to Ofgem’s common ODI on the “quality of connections”

We have engaged with Ofgem on the feedback from our customers and asked whether their outage experiences could be included in its common ODI on the “quality of connections survey”. Ofgem has indicated it will include “generators post-energisation” in its common ODI. We are clarifying with Ofgem whether this would cover all our customers affected by outages.

If Ofgem includes all our customers affected by outages in its common ODI, we expect not to take forward this bespoke ODI.

Setting the target

We have data on our customers’ satisfaction with how we have managed outages affecting them for the first six years of the T1 period (please see figure 7.1). Our average score so far in the T1 period has been 7.7 out of 10, although only 7.6 in the three most recent years.

We engaged with our stakeholders on what type of target they would like us to set at a webinar on 9 October 2019. The results were:

Table 7.1 – webinar feedback on type of target for quality of outage management ODI

Type of target	Percentage supporting
A target set in advance that is flat for the 5 years of the T2 period	32%
A target set in advance that increases over the 5 years of the T2 period	36%
A target that adjusts based on performance during the T2 period	27%
No preference	5%

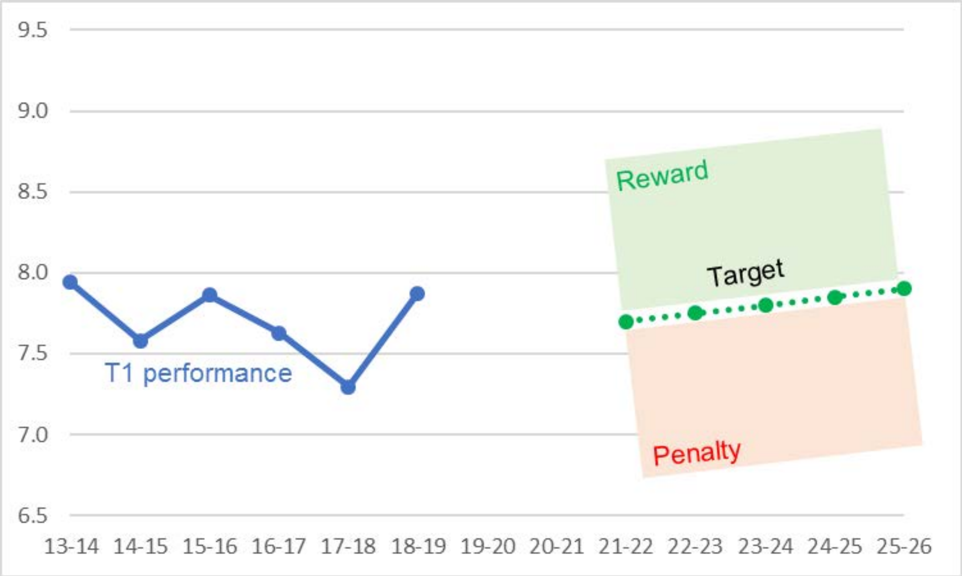
Out of 22 votes.

While the results were close across the options, we are proposing to go with the most popular option. We consider there is an advantage to setting a target in advance (favoured by 68% of respondents) so that customers and our business know clearly what we are aiming for. A target that increases over time means we must improve our performance and sets out a clear direction of travel.

We propose a target, for all our customers and stakeholders affected by outages, that starts at 7.7 in 2021-22 increasing to 7.9 in 2025-25. This is a stretching target because:

- the target starts at a score 0.1 above our average performance in the three most recent years;
- the target increases by a further 0.2 points during the T2 period, which is a large change to sustain in terms of customer satisfaction.
- the target ends at a score that is the highest score we have ever achieved;
- customer expectations tend to increase over time so that the same score becomes harder to achieve each year.

Figure 7.1 – Historical customer satisfaction scores for outages and our proposed target for the T2 period



We are also proposing that the reward cap and penalty collar should be set 1.0 points above and below the target in each year of the T2 period. This range will retain the incentive to improve performance over 2.0 points, which is a wide range of performance for customer satisfaction. The cap and collar protect consumers and us from paying too much should performance be unexpectedly high or low in any year.

Setting the incentive rate

It is difficult to measure the value to consumers of increases in the satisfaction of our customers with outage management, although we know the savings for our customers of better outage management can be considerable.

In the T1 price control Ofgem used a value of ±1% of base revenue for the maximum reward and penalty for satisfaction surveys covering all our customers and stakeholders. We suggest using the proportion of our current customer survey responses related to outages (just under 40%) multiplied by ±1% of base revenue as a measure for the value consumers will receive. This would mean the maximum reward and penalty is ±0.4% of our revenue, around ±£6m.

We propose a cap and collar of ±1 point of satisfaction above and below the target. This cap and collar implies a penalty of £0.6m (0.04% of revenue) for each 0.1 of satisfaction score below our target, with a reward of £0.6m for each 0.1 point above the target.

Assessment against Ofgem's criteria for bespoke outputs

In the table below we show how our satisfaction of customers with outage management ODI meets the assessment criteria in Ofgem's 31 October 2019 RIIO-2 Business Plan Guidance (page 14).

Table 7.2 - Assessment of quality of outage management ODI against Ofgem's criteria for bespoke outputs

Criteria	Our assessment of how we meet Ofgem's criteria
1 – best dealt with through the price control	A bespoke ODI, based on a satisfaction survey, is a simple and effective way to encourage a transmission owner to improve its management of outages for its customers.
2 – backed by robust evidence	We have engaged with our stakeholders through bilateral meetings, interviews with network companies, workshops and customer satisfaction feedback. Our stakeholders consider we could provide better explanation of our changes to outages, better assess the impact of our planned outages and cancellations, and take better account of the knock-on effects of delays to outages. For more detail please see chapter 8 of our business plan and annex "A8.01 Engagement log on connections and use of network".
3 – the value consumers will receive	In the T1 price control period Ofgem used a value of ±1% of base revenue for the maximum reward and penalty each year for satisfaction surveys covering all our customers and stakeholders. We suggest using the proportion of our current customer survey responses related to outages (just under 40%) multiplied by ±1% of base revenue as a measure for the value consumers will receive.
4 – an independent measure is available	An independent market research company has been surveying our customers' experience of outages for the last six years. We have presented the data in figure 7.1 above.
5 – level of service provided by others	The other TOs have also been surveying their customers' satisfaction as part of the T1 incentive, but we do not have access to the outages part of this data. The data might not be comparable because of the different type of customers connected to our network compared to the other TOs.

6– activities associated with achieving the target	The activities we can carry out to improve our customers' experience of outages include: bundling work to reduce the duration of outages where possible; introducing a steering committee with customers to act on their feedback; and managing changes to our year ahead plan with our customers.
7 – penalties if performance falls below existing service levels	Our proposed ODI includes penalties for poor performance. We would incur a penalty of £0.6m for each 0.1 of satisfaction score below our target up to a maximum penalty of £6m.

8. NGET bespoke ODI proposal 3 – Accelerating low-carbon connections

Purpose

The purpose of this ODI is to encourage us to deliver shorter connection lead times to get new generation onto our network more quickly, bringing forward the benefits of low-carbon generation and more competition in the wholesale electricity market. This ODI help supports the drive towards achieving the UK's target of net zero greenhouse gas emissions by 2050.

Additional contribution to low carbon transition

We propose this bespoke ODI could qualify as an "additional contribution to low carbon transition" ODI as set out in Ofgem's sector-specific methodology decision (pages 62-65).

Stakeholder engagement

Our stakeholders have told us they want a simplified, flexible, affordable and coordinated approach to connections (see chapter 8 of our business plan). The independent stakeholder group challenged us on how we could provide more certainty on connection dates for customers and take on more risk. Our stakeholders also want us to take ambitious action on climate change by reducing greenhouse gas emissions (see chapter 11of our business plan). In addition, the UK government has put into law a target for the UK of achieving net-zero greenhouse gas emissions by 2050.

Based on this stakeholder feedback we have developed an ODI to incentivise us to deliver shorter connection lead times.

Setting the target

We are proposing two different ways of setting the target for new and existing customers:

- New customers: All network companies have built their business plans using the Energy Network Association's common RIIO-2 scenario report, which we call the "common energy scenario". The common energy scenario includes an average delivery time for generation connections of 64 months. This could be the baseline for new customers for this ODI, but it will need adjusting for the particular type of customer.

- Existing customers: we propose that for customers with existing contracts the baseline for this ODI is the date in the contract.

There is only a benefit to consumers of delivering a connection early if the customer wants it and can bring its generation to the market earlier than the planned connection date. For this ODI, we suggest it only applies if the customer says it would find an early connection beneficial.

Setting the incentive rate

There are several benefits from us connecting generation to our network more quickly (but only if the customer is ready to connect earlier):

- benefits to the customer from being able to sell its energy sooner;
- benefits to consumers from more competition in the wholesale energy market; and
- benefits to consumers and future consumers from lower greenhouse gas emissions if the connection is to a low-carbon generator.

The first two of these benefits are difficult to value, but we can use the BEIS's short-term traded carbon values to value the benefits of delivering low-carbon generation earlier.

Table 8.1 – Inputs to calculate the incentive rate

Inputs to the calculation	Number	Source
The average central short-term traded carbon price for the years 2021 to 2025 (per tonne of CO_2e)	£33.94	BEIS's short-term traded carbon values
The average amount of carbon dioxide emitted per unit of electricity supplied from fossil fuels in 2018 (tonnes per GWh of electricity supplied)	430	BEIS 2018 UK greenhouse gas emissions (page 12)
Hours in a year	8,760	24 x 365
Average capacity factor for UK offshore wind farm (i.e. percentage of maximum hours it operates for)	39.2%	Energy Numbers UK offshore wind capacity factors

To calculate the incentive rate we follow these steps:

1. The average central short-term traded carbon price for the years 2021 to 2025 is £33.94 per tonne of CO_2e.
2. 1 GWh of electricity generation in the UK creates on average about 430 tonnes CO_2e of emissions.
3. If we can bring forward a low-carbon energy connection by one year the benefit will be: 365 days x 24 hours x 430 tonnes of CO_2e x 0.392 / 1,000 = 1,477 tonnes of CO_2e per 1MW of low-carbon generation per year early.
4. This can be converted into a financial incentive by multiplying by the carbon price in step 1 to give: £33.94 x 1,477 = £50,115 per 1MW of low-carbon generation per year early.
5. To provide more precise incentives it would be better to use a monthly incentive rate, which would be: £4,176 per 1MW of low-carbon generation per month early.
6. We also need to apply a sharing factor so that we are incentivised to deliver the early connections, but so that consumers and future consumers benefit. We propose a 50:50 sharing factor for this new incentive to give it sufficient strength to change how we operate our business to incur the costs and changes needed to deliver connections earlier.
7. This gives an incentive rate of: £2,088 per month early per MW of low-carbon generation

We are expecting to connect 10.6GW of low-carbon generation, storage providers and interconnectors in the T2 period. However, we only expect this incentive to apply to a small proportion of that generation – those customers who can and want to connect earlier to the network and those customers where it is possible for us to deliver earlier connections at a cost lower than the incentive rate.

To protect consumers from any risk that we could earn unexpectedly high rewards from this incentive we propose for there to be annual cap of 1.0% of our base revenue, which is just over £16m per year.

We are proposing this is a reward-only ODI for the reasons set out in section 7 of the table below.

Assessment against Ofgem's criteria for bespoke outputs

In the table below we show how our connection dates ODI meets the assessment criteria in Ofgem's 31 October 2019 RIIO-2 Business Plan Guidance (page 14).

Table 8.2 - Assessment of the connection dates ODI against Ofgem's criteria for bespoke outputs

Criteria	Our assessment of how we meet Ofgem's criteria
1 – best dealt with through the price control	A bespoke ODI is an effective way to encourage us to bring forward connection dates for customers that want earlier connections and to help reduce the energy system's greenhouse gas emissions to support the UK's net zero by 2050 target. Ofgem recognised this by specifically including "additional contribution to low carbon transition" ODIs in its RIIO-2 methodology decision.
2 – backed by robust evidence	We have strong stakeholder support for providing a better connection service and reducing greenhouse gas emissions (as we explain in the stakeholder engagement section above).
3 – the value consumers will receive	We are restricting the incentive rate for this ODI to the greenhouse gas emission reductions earlier low-carbon connections can deliver. We are not including the benefits to the customers of an earlier connection or the benefits to consumers of more competition in the wholesale electricity market because they are difficult to value. The BEIS traded carbon values provide a robust measure of the value consumers and future consumers will receive from earlier low-carbon connections. We propose the incentive rate is half of the carbon value to share the benefits equally between us and consumers.
4 – an independent measure is available	For existing customers, the connection date in the contract provides the baseline measure. For new customers, the average delivery time for our generation connections in the common energy scenario could be the baseline, but it will need adjusting for the particular type of customer (see section on "setting the target" above).
5 – level of service provided by others	The nature of our network and the mix of customers connecting to it is different to the other two TOs. For this reason, we consider existing contracts and our own connection delivery times provide the most appropriate baseline for this ODI.
6 – activities associated with achieving the target	The activities we can carry out to improve our connection lead times include: innovating in the design of connections; further standardising our processes; and using our experience to reduce the lead time to achieve consents.
7 – penalties if performance falls below existing service levels	This ODI is focussed on delivering an improved service and is therefore reward only. The ODI balances the penalties we face for poor connection service under other parts of the RIIO-2 package: • We face penalties for late connection offers of up to 0.5% of revenue through a licence obligation common to all three TOs. • Our chance of penalties under the quality of connections survey common ODI will increase if we deliver our connections late. • Ofgem is proposing that we will face penalties for the late delivery of large projects. We have proposed in chapter 7 of our main business plan and annex "ET.08 outputs" that these penalties should involve: o a mechanism to recover the time value of money benefit to network companies from any delay or non-delivery; and o contractual payment for damages with suppliers to be used to offset the consumer detriment from any delay or non-delivery.

9. NGET bespoke ODI proposal 4 - Stakeholder engagement (non-financial)

As we explain in chapter 6 of our business plan, we are proposing to have ambitious, well-evidenced and stretching performance commitments for our approach to stakeholder engagement in the T2 period. We will make our approach transparent to our stakeholders, including how we will measure progress against our commitments and the consequences for non-delivery.

Our proposal for the T2 period is for the independent stakeholder group to set ambitious targets for stakeholders, against which they would hold us to account. We cannot yet be specific about the actual targets given that the preferences of our stakeholders continually change. We expect our targets to be based around the independent stakeholder group's engagement principles and to include these types of metrics:

- The quality/scope of our engagement and how well we've embedded a stakeholder focus. For example:
  - the numbers of stakeholders engaged and appropriate representation of relevant segments/organisations;
  - our AA1000 health check score (the AA1000 stakeholder engagement standard is an internationally-recognised framework for stakeholder engagement excellence);
  - stakeholder satisfaction with our engagement process; and
  - the percentage of business plan we have engaged on.
- The impact/outcomes of our engagement. For example:
  - the benefits to stakeholders driven by engagement (financial and otherwise); and
  - the plan/business decision changes we have made.

The independent stakeholder group will determine these metrics (following proposals from us), set the relevant targets, and outline their expectations of how we should report and communicate them to our stakeholders, to ensure we are as open and transparent as possible. We will work with the existing group to develop a suite of metrics before the start of the T2 period. We expect these to include challenging targets around what we change as a result of our engagement activities and the stakeholder benefit we create as a result.

We propose that we should include at least one of the targets we agree with the independent stakeholder group as non-financial ODI in the T2 period. This will give the target more prominence as an ODI and will also make sure that our set of ODIs includes something on stakeholder engagement, which is an important part of our T2 business plan.

Table 9.1 - Assessment of the stakeholder engagement reputational ODI against Ofgem's criteria for bespoke outputs

Criteria	Our assessment of how we meet Ofgem's criteria
1 – best dealt with through the price control	We consider that having a reputational ODI on stakeholder engagement in the price control signals its continued importance as an integral part of the price control process.
2 – backed by robust evidence	We will propose a stakeholder engagement ODI based on robust evidence to the independent stakeholder group, who will challenge us to make sure it is backed by robust evidence.
3 – the value consumers will receive	We consider consumers will benefit indirectly from us engaging better with our stakeholders, who include consumer representative groups and governmental organisations.

	This is a reputational ODI so there are no financial incentives.
4 – an independent measure is available	We will propose a stakeholder engagement ODI based on a robust, best-practice measure to the independent stakeholder group, who will challenge us to make sure it is appropriate.
5 – level of service provided by others	In developing our proposals for a stakeholder engagement ODI we will look at what good practice in other companies looks like. The independent stakeholder group, when assessing our proposals will consider the level of service provided by other companies.
6 – activities associated with achieving the target	Our activities will involve adjusting aspects of our stakeholder engagement, such as engagement styles, materials, channels and venues, to fit with our stakeholders' preferences.
7 – penalties if performance falls below existing service levels	We will work with the independent stakeholder group to develop an appropriate approach for measuring our progress and the consequences for non-delivery. As this is a non-financial ODI, any consequences would be non-financial.