Financial Incentives for Electricity and Natural Gas Distribution in the Regulatory Period from 2025

Our Response to Stakeholder Comments

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Europe Economics
330 High Holborn
London
WCIV 7QH

www.europe-economics.com

Contents

1 Introduction

This note sets out our response to the points raised by stakeholders in relation to financial incentives following VREG's consultation on the tariff methodology for the 2025-2028 regulatory period (CONS-2024-02).[1] In addition to a response from Fluvius, VREG received responses from seven other stakeholders (Agoria, Bond Beter Leefmilieu, FEBEG, Febeliec, Gazelco, ODE and VVSG).

In Section 2, we first address general points raised by stakeholders regarding VREG's proposed financial incentives. In Section 3, we then consider points made by stakeholders in relation to each of the five specific financial incentives on which we advised VREG. In each case, we first summarise the points raised by Fluvius and other stakeholders and then provide our response.

[1] The consultation documents are available online.

2 General Points Relating to Financial Incentives

Fluvius and other stakeholders made the following points about financial incentives:

- Fluvius raised some legal issues relating to checking the balance between the quality of services provided and tariffs.
- Fluvius claimed that quality incentives cannot be determined on the basis of past performance given the challenges associated with the energy transition
- Indicative calculations by Fluvius suggested that it may incur penalties for both the electricity and gas sectors for the first year in which financial incentives are expected to be fully assessed (2026).
- Fluvius suggested adjusting the parameters of the incentive mechanisms on an annual basis during the next regulatory period to take account of both positive and negative extreme results and objectives that prove to be unrealistic.
- Fluvius proposed some adjustments to the formula used to calculate the score for the quality indicator.
- Fluvius proposed to adjust the reference value and collar for the incentives where the cap and collar are not symmetric in practice.
- Bond Beter Leefmilieu argued that quality incentives should include further incentives linked to the energy transition.
- Fluvius argued that consultation between Fluvius and VREG is needed to discuss reporting requirements for 2025.
- Fluvius proposed a change regarding the certificate to be provided from the Internal Audit department.

We response to these points below.

Balance between quality of services and tariffs

The issues raised by Fluvius in terms of checking the balance between the quality of services provided and tariffs are of a legal nature, and therefore are outside of the scope of our work.

Claim that past performance is not a valid indicator of future performance due to the energy transition

The energy transition has already started which means that the historical data used to determine the reference values for the financial incentives will already reflect some of the challenges experienced by Fluvius in relation to the energy transition. Our approach is also in line with VREG's overall framework which is based on the extrapolation of historical trends. Finally, in our view it is also important that customers are protected through adequate quality of service metrics as the economy goes through the energy transition.

Fluvius' calculations suggesting penalties for both sectors in first year of full assessment

Fluvius' calculations assume that its performance in 2026 will not have improved at all since 2023. This ignores the fact that the very purpose of the financial incentives is to incentivise Fluvius to improve its performance in the future. Reference values need to be sufficiently stretching to ensure that Fluvius has to deliver significant improvements in order to avoid penalties and earn rewards.

Fluvius's proposal to adjust parameters of incentive mechanisms on an annual basis

We strongly disagree with Fluvius' proposal to adjust the parameters of the incentive mechanisms on an annual basis, for the following reasons.

First, the caps and collars determined for each financial incentive[2] limit DSOs' exposure to financial risk, and thus already mitigate the impact of extreme results, both positive and negative.

Furthermore, regulatory best practice is to fix the parameters of financial incentives related to quality of service ahead of the regulatory period, in order to provide the firm with strong incentives to improve quality of service to avoid penalties and earn rewards.[3] By contrast, adjusting parameters (including reference values, caps and collars) during the regulatory period would mean that:

- Weak performance by Fluvius in the earlier years would translate into weaker, less stretching reference values, caps and collars for the later years of the regulatory period.
- Conversely, strong performance by Fluvius in the earlier years would translate into more stretching reference values, caps and collars later in the regulatory period.

Both of these effects would significantly dampen the incentives for Fluvius to improve its performance.

By contrast, the annual adjustments to the WACC cited by Fluvius in its response refer to annual updates to the risk-free rate, cost of embedded debt, cost of new debt and tax based on external market data such as government debt yields, yields for utility indices, and corporate tax rates. Therefore, the annual updates to these WACC parameters will not have the same adverse effects on Fluvius' incentives.

Formula used to calculate the score for quality indicator

Fluvius proposed some adjustments to the formula[4] used to calculate the score for the quality indicator.

In our view the proposed adjustments appear reasonable. This is because in the case of asymmetric caps and collars the formula, as currently stated, could lead to quality scores which would mean that Fluvius receives a reward even when its performance is below the reference value.

Adjusting parameters for incentives where cap and collar are not symmetric in practice

We disagree with Fluvius' suggestion that the reference values and collars should be reduced for these incentives and deliverables. As explained in our final report,[5] we calculated the unit incentive rates such that they are equal for performance above or below the reference value for any deliverable, even if the maximum upside reward is different to the maximum downside penalty for that incentive due to the cap/collar hitting the upper/lower bound of possible performance. This means that Fluvius' financial exposure in terms of the maximum upside and downside is asymmetric for deliverables where the cap and collar are not symmetric in practice. We do not see this asymmetry as a problem, and it does not provide a valid reason for adopting weaker reference values and collars.

Including further incentives linked to the energy transition

We disagree with the suggestion of including a further incentive to decommission parts of the gas network, as the gas network could be repurposed (e.g. for hydrogen) as part of the energy transition. In addition, in our view it is not clear how such an incentive would work, as it would be counter-intuitive to reward companies with more money for carrying out fewer activities.

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2 We recommended that the incentive relating to innovation projects should be reward-only.

3 An exception would relate to cases in which the financial incentive involves ex post comparisons between regulated firms. However, this approach no longer provides adequate incentives in Flanders, as following the 2018 merger Fluvius is the operating company for all Flemish DSOs.

4 For further details please see Formula 3 in VREG (2024): "Tariefmethodologie elektriciteits- en gasdistributie 2025-2028, Bijlage 9: Financiële incentives" [online].

5 Europe Economics (2023): "Financial incentives for electricity and natural gas distribution in the regulatory period from 2025" Final report, section 8.1.3 [online].

Consultation between Fluvius and VREG to discuss reporting requirements for 2025

We agree with Fluvius' suggestion that reporting requirements should be discussed and agreed between Fluvius and VREG.

Change regarding the certificate from the Internal Audit department

The change proposed by Fluvius relates to the assurances to be provided by its Internal Audit department, and therefore are outside the scope of our work.

3 Points Relating to the Five Specific Financial Incentives

In this section, we discuss stakeholder comments relating to each of the five specific financial incentives on which we advised VREG.

3.1 Interruptions

Fluvius and other stakeholders made the following points about the interruptions incentive:[6]

- Fluvius argued that a higher relative weight should be applied to the interruption duration deliverable than to the interruption frequency deliverable, for both electricity and gas.
- Fluvius argued that all parameters for the interruption incentive should be re-calculated using the 2018-2023 reference period (i.e. 2017 data on interruptions should be excluded from the calculations while 2023 data should be included).
- Fluvius asked for clarification regarding the evidence that VREG would consider "sufficient" to disregard certain interruptions and queried VREG's definition of exceptional circumstances.
- FEBEG commented that the reference value could be gradually increased from the 60th to the 75th percentile during the next regulatory period.
- Similarly, Febeliec did not consider the 60th percentile as a reference value for interruptions to be ambitious enough.
- VVSG argued that VREG should not impose unattainable objectives on Fluvius and stated that VREG cannot assume that Fluvius' high performance in terms of interruptions will remain feasible during a period in which substantial network investment is being carried out.

Higher relative weight for interruption duration than interruption frequency

We accept that there is regulatory precedent for placing more weight on interruption duration than interruption frequency, as proposed by Fluvius. The table below summarises the relative weights used for interruption frequency and duration in the five jurisdictions we reviewed.

Table 3.1: Relative weight for interruption frequency and duration deliverables

		Netherlands (ACM)*	Germany (BNetzA)	Ireland (CRU)	Great Britain (Ofgem)**
Electricity	Interruption frequency	25	0	50	25
	Interruption duration	75	100	50	75
Gas	Interruption frequency	N/A	N/A	N/A	100
	Interruption duration	N/A	N/A	N/A	0

*The ACM uses different weights to account for the impact of interruptions on households and SMEs. The weights included in the table reflect those used for households, while the weights used for SMEs are: 60 per cent for interruption duration and 40 per cent for interruption frequency. The values reported are proxies based on the value for lost load.

**For electricity, the relative weights are based on the indicative incentive rates for the Interruptions Incentive Scheme for RIIO-ED2.

Note: CRE does not determine weights for the deliverables related to interruption frequency and interruption duration.

Source: Europe Economics analysis.

In its current methodology, VREG indicates that the frequency of interruptions has a greater negative impact on customers than the duration of the interruptions. Thus, VREG assigns a weighting of 55 per cent to the

6 This incentive is referred to as "ensuring security of supply" in our final report.

interruption frequency metric and 45 per cent to the interruption duration metric.[7] However, this price review provides an opportunity for these relative weights to be reassessed.

Taken together, the weights used in other jurisdictions and the arguments put forward by Fluvius suggest that it is reasonable to place a higher weight on interruption duration than on interruption frequency, for both the electricity and gas sectors. One way of doing this would be to reverse the current weights, such that a weight of 45 per cent is placed on interruption frequency and a weight of 55 per cent on interruption duration.

Adjusting reference period used to determine parameters for the incentive

We disagree with this suggestion. Our calculations for all incentives based on quantitative metrics used the historical time period for which good quality data were available. In the case of the interruptions incentive in both the electricity and gas sectors, we used the six years of data covering the period between 2017 and 2022 that were available at the time of preparing our final report. At the time, 2023 data on interruptions were not available for either electricity or gas. In the case of the connections incentive, the data available at the time of final report covered the period from 2018 to mid-2023.[8]

It would not be appropriate to drop 2017 from the historical reference period as this would mean that the calculations were not making use of the maximum number of years for which good quality data were available.

While it is ultimately up to VREG whether the calculations are updated to include 2023 data, we consider that doing so could be undesirable. In particular, Fluvius will have an incentive to propose an update for new data that emerges after VREG's consultation only if will weaken reference values and not if it will lead to a higher reference value. This bias in incentives means that accepting such requests from Fluvius will tend to reduce the protection that the financial incentives provide for customers.

Clarifications about proposals to disregard certain interruptions

To ensure that performance is measured in the same way as the historical data that we used to determine the parameters of this incentive scheme, the definition of interruptions needs to be kept the same as under the current q-factor (defined in section 3.1.1 of Appendix 9 of the current tariff methodology).[9]

Reference values not considered to be stretching enough

In line with the framework set out in Chapter 6 of our final report,[10] we calculated the reference value for the first year of the next regulatory period (i.e. 2025) based on the industry upper quartile level of performance (75th percentile) for the historical year with the best performance. This means that our recommendation is in line with the suggestions by FEBEG and Febeliec to set more ambitious targets for Fluvius.

At the same time, our final report noted that there is a degree of judgement involved in determining the reference value for quality incentives, with a number of different approaches available. In its consultation document[11] VREG proposed to use the 60th percentile as a reference value for the indicators related to interruptions.

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7 VREG (2020): "Tariefmethodologie reguleringsperiode 2021-2024: Bijlage 9: De kwaliteitsprikkel" [online].

8 We note that in the case of the connections incentive it was appropriate to include less than a full year of data for 2023. This is because the deliverables are based on the *percentage* of connection quotations or connections provided on time rather than on the absolute number, such that figures for part of a year are still meaningful. This is not the case for the interruptions incentive where the deliverables are based on the absolute number of interruptions and their duration, which means that a full year of data for 2023 would have been required.

9 Section 3.1.1 of VREG (2020) "Tariff methodology regulatory period 2021-2024: Appendix 9: The quality incentive" [online].

10 Europe Economics (2023): "Financial incentives for electricity and natural gas distribution in the regulatory period from 2025" Final report [online].

11 VREG (2024): "Consultatiedocument". section 6.1.3.3.5 [online].

We disagree with VVSG's claim that Fluvius will not be able to reach the same high levels of performance in terms of grid interruptions in a period in which it will be undertaking a large capital investment programme. The historical data show that Fluvius can and has been able to achieve these levels of performance. In section 6.1 of our final report we note that regulators often use the upper quartile as a rule of thumb to set stretching targets, meaning that there is a regulatory precedent for using the upper quartile in setting the reference value. In terms of investments in the grid, we note that some of these investments are ongoing and therefore the impact on interruptions will already be reflected in the historical data. Further, we would expect Fluvius' investment programme to primarily affect planned interruptions, whereas the financial incentive relates to unplanned interruptions.

3.2 Connections

Fluvius and other stakeholders made the following points about the connections[12] incentive:

- Fluvius highlighted that the 2023 results already indicate lower performance levels compared to 2022 and argued that these are not a one-off negative outlier.
- FEBEG commented that reference value could be gradually increased from the 60th to the 75th percentile during the next regulatory period.
- Similarly, Febeliec did not consider the 60th percentile as a reference value for connections to be ambitious enough.

Lower performance levels in 2023

The lower levels of performance reported by Fluvius for 2023 (compared to 2022) confirm the need to set stretching reference values for the next regulatory period that require Fluvius to improve its performance. It could lead to perverse incentives if VREG weakened its proposed reference values due to Fluvius' poor performance in 2023, as in future price reviews Fluvius may seek to weaken future targets by not trying so hard to improve performance around the time of the price review.

Fluvius' argument that relevant labour will become increasingly constrained due to the energy transition shows the importance of protecting customers needing demand connections in a period when Fluvius expects to undertake more work related to generation connections.[13]

Reference values not considered to be stretching enough

In line with the framework set out in Chapter 6 of our final report[14] and the available historical data, we calculated the reference value for the first year of the next regulatory period (i.e. 2025) based on the best level of historical performance for Fluvius as a whole.

Our framework also suggests an additional annual improvement for the deliverables where historical data indicates that there is a trend improvement in performance over time, while no further improvement factor is recommended where there is no trend improvement in the available historical data.

Therefore, our recommendation is in line with the suggestions by FEBEG and Febeliec to set more ambitious targets for Fluvius.[15]

At the same time, our final report noted that there is a degree of judgement involved in determining the reference value for quality incentives, with a number of different approaches available. In its consultation

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[12] This incentive is referred to as "providing a good connections service" in our final report.

[13] For the avoidance of doubt, we note that the data used for this incentive (provided by Fluvius) include demand connections but exclude generation connections.

[14] Europe Economics (2023): "Financial incentives for electricity and natural gas distribution in the regulatory period from 2025" Final report [online].

[15] We determine the reference values based on the best level of historical performance for Fluvius as a whole rather than based on percentiles, as DSO level data are not available for the connections incentive.

document[16] VREG proposed to use the 60th percentile as a reference value for the indicators related to connections.

3.3 Complete and timely communication of measurement data

Fluvius and other stakeholders made the following points about the incentive relating to complete and timely communication of measurement data:[17]

- Fluvius argued that the relative weights for the "missing daily values" and "estimated daily values" deliverables should be reversed for both the electricity and gas sectors.
- Fluvius argued that the reference values, caps and collars for this incentives should be recalculated using 2023, 2024 and 2025 data before it is assessed from 2026 onwards.
- Fluvius commented that the service level agreements (SLAs) with current meter operators are less strict than what is required for the proposed financial incentives, which means an additional risk for Fluvius.
- Fluvius claimed that the upper limit of zero contradicted the text in Verzameldecreet VI (Collective Decree VI).
- Fluvius asked for clarification regarding the evidence that VREG would consider "sufficient" to disregard certain measurement data and whether data from a stabilization period following the introduction of a new meter operator can also be excluded.
- FEBEG and ODE argued that the incentive should consider the data flow to energy suppliers.
- FEBEG commented that reference value could be gradually increased from the 60th to the 75th percentile during the next regulatory period.
- FEBEG also questioned the rationale for the deliverables under this incentive only coming into effect in 2026.

Higher relative weights for missing daily values than estimated daily values

As explained in section 9.4.1 of our final report, the weights on the deliverables for estimated data and the deliverables for missing data are based on the number of portal users impacted by each, so that the strength of the incentive is aligned with the historical scale of the problem. However, we doubled the weight placed on missing deliverables, because we consider missing values to be of greater detriment to customers than estimated values, and hence we have already taken account of the issue raised by Fluvius. In the case of daily values, the historical data provided by Fluvius indicates that greater weight should be placed on estimated daily values than missing daily values due to the higher number of portal users who are affected.

Adjusting reference values, caps and collars during the regulatory period

We strongly disagree with Fluvius' suggestion of adjusting reference values, caps and collars during the regulatory period to take account of data from the years 2023, 2024 and 2025.

As we pointed out in discussing Fluvius' general proposal to adjust the parameters of the incentive mechanisms on an annual basis, regulatory best practice is to fix the parameters of financial incentives ahead of the regulatory period. This is necessary in order to provide the firm with strong incentives to improve quality of service to avoid penalties and earn rewards.

By contrast, adjusting scheme parameters for performance during the years suggested by Fluvius — which include the rest of 2024 as well as 2025 — would give Fluvius strong perverse incentives. It would encourage Fluvius to allow performance to deteriorate between now and the end of 2025 when there will be no penalties for such poor performance, in order to obtain weaker reference values for 2026 onwards. This

[16] VREG (2024): "Consultatiedocument", section 6.1.3.3.5 [online].

[17] This incentive is referred to as "providing smart metering information" in our final report.

would then allow Fluvius to earn higher financial rewards from 2026 on the basis of the weaker reference values that it had achieved through its poor performance up to the end of 2025.

We would therefore strongly advise VREG against adopting this proposal from Fluvius.

Amending SLAs with current meter operators

We consider that it is for Fluvius to manage its relationship with third parties including its supply chain. In our view, it would not be good regulatory practice for price control parameters to be determined by the contractual relationships that Fluvius has chosen to put in place with its supply chain.

Alleged contradiction with text in Collective Decree VI

We do not see a contradiction between setting an upper limit of zero for some of the deliverables under this incentive and the text of the Verzameldecreet VI (Collective Decree VI). In this context, the parameters set by VREG for this incentive mean that Fluvius is encouraged to improve performance beyond the legal minimum set out in the Decree.

Clarifications about proposals to disregard certain measurement data

To ensure that performance is measured in a way that is consistent with the historical data used to determine the parameters of this incentive, we recommend that the same definition is used as applied during the historical reference period used in setting the incentive parameters.

We would not recommend excluding data from the stabilization period following the introduction of a new meter operator, as this would significantly lower the incentive for Fluvius to improve its performance during this time.

Inclusion of data flows to energy suppliers

As discussed in Chapter 4 of our final report, [18] the mutual exchange of market data (including meter readings and billing data) and market processes (e.g. supplier switches) is controlled by the Central Market System (CMS). As one of the joint organisers of the CMS, Fluvius can be held partially accountable for issues related to the exchange of market data that occur due to inefficiency or other problems within the CMS. However, relevant deliverables can be hard to define as the outcome of interest (e.g. punctuality of customer billing) is also impacted by third parties. Therefore, this deliverable is unsuitable for a financial incentive mechanism at the moment. Provided that a suitable deliverable (or deliverables) sufficiently within Fluvius' control can be defined in the future and that historical data for such deliverables are available, it may be possible to apply a financial incentive mechanism in this area in future price reviews.

Reference values not considered to be stretching enough

In line with the framework set out in Chapter 6 of our final report,[19] we calculated the reference values by taking the upper quartile (75th percentile) monthly performance from the historical data and multiplying it by twelve to get an annual reference value. With only one year of historical data available, we have not applied a trend improvement to the reference values over the regulatory period. The monthly values do not in any case provide any evidence of a trend improvement over time during the course of 2022. Therefore, our recommendation is in line with the suggestions by FEBEG to set more ambitious targets than the 60th percentile proposed by VREG in its consultation document.[20]

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18 Europe Economics (2023): "Financial incentives for electricity and natural gas distribution in the regulatory period from 2025" Final report [online].

19 Europe Economics (2023): "Financial incentives for electricity and natural gas distribution in the regulatory period from 2025" Final report [online].

20 VREG (2024): "Consultatiedocument", section 6.1.3.3.5 [online].

At the same time, our final report noted that there is a degree of judgement involved in determining the reference value for quality incentives, with a number of different approaches available.

Deliverables only coming into effect in 2026

It is for VREG to determine the timeline for when financial incentives should come into effect.

In our view, however, these incentives should come into effect as early in the regulatory period as possible, unless any delays to their introduction can be appropriately justified.

3.4 Customer satisfaction

Fluvius and other stakeholders made the following points about the customer satisfaction incentive:[21]

- Fluvius proposed alternative approaches to determine the customer satisfaction score.
- Fluvius stated that it would like to see the market research agency conducting the survey leading on ensuring the representativeness of the survey.
- Febeliec did not consider the reference values, caps and collars for this incentive to be ambitious enough. In addition, Febeliec also questioned the lack of performance improvement over the next regulatory period.
- Gazelco argued that customer satisfaction can be influenced by external factors.
- ODE questioned whether separate scores could be calculated for electricity and gas, as well as for different customer groups.
- Fluvius proposed that its name should be mentioned to survey respondents, even if the survey is commissioned by VREG.
- Fluvius argued that the survey should continue to take the form of a continuous survey conducted shortly after each customer contact, rather than a one-off "mass" survey.

Alternative approaches to determine the customer satisfaction score

We disagree with the alternative approaches proposed by Fluvius to either use the minimum percentage of 'satisfied', 'very satisfied' and 'extremely satisfied' scores or the maximum percentage of 'not really satisfied' and 'not at all satisfied' scores.

The first approach does not distinguish between a customer who is simply "satisfied" and a customer who is "extremely satisfied", despite the "satisfied" customer having a less positive view of the company's performance than the "extremely satisfied" customer. Similarly, the second approach does not distinguish between a customer who is 'not really satisfied' and a customer who is 'not at all satisfied'.

There is regulatory precedent for using composite scores based on customer satisfaction surveys. Ofgem's customer satisfaction metric at RIIO-ED1 asked the following question for each service area: "Overall, on a scale of one to ten, how satisfied were you with the service provided by your distributor?". The annual scores were based on the annual average customer satisfaction.[22]

Response rate and representativeness of survey

We agree with Fluvius that the response rate and hence the representativeness of the survey are partially outside the control of Fluvius and the market research agency, since they will depend on the willingness of customers to engage with the survey. A requirement that the response rate be above a certain threshold raises the question of how VREG will implement the financial incentive in cases in which this threshold is not passed. As noted in our final report, we recommend that Fluvius monitors whether the demographic

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[21] This incentive is referred to as "enhancing customer satisfaction" in our final report.

[22] For further details, please see: Ofgem (2015): "RIIO-ED1 regulatory instructions and guidance: Annex H – Customer Service", p.15 [online].

information reported for the survey (gender ratio and age profile) remains stable to allow for meaningful comparison of the scores achieved by Fluvius across time.[23]

Reference values not considered to be stretching enough

In line with the framework set out in Chapter 6 of our final report[24] and the available historical data, we calculated the reference value for the first year of the next regulatory period (i.e. 2025) based on the weighted average customer satisfaction score achieved by Fluvius in its best performance year over the historical period examined (2020 in this case). Therefore, our recommendation is in line with the suggestion by Febeliec to set more ambitious targets for Fluvius.

At the same time, our final report noted that there is a degree of judgement involved in determining the reference value for quality incentives, with a number of different approaches available.

In terms of performance improvements over the next regulatory period, the framework also suggests that in light of the deterioration seen in recent years no further improvement factor should be applied in setting the reference values for the subsequent years of the regulatory period.

We note that in its consultation document VREG proposes to use the average of the satisfaction scores achieved in the reference period 2019-2023 as a reference value for the 2025-2028 regulatory period.[25] In addition, VREG does not propose to apply a performance improvement factors for the 2025-2028 regulatory period.[26]

Impact of external factors on customer satisfaction

In our view it is not feasible to take account of the external factors mentioned by Gazelco. Even if such an approach was be feasible, it would mean that there is no historical data that takes account of these factors to set the parameters of the incentive.

We also consider that the customer satisfaction survey and the question used to measure customer satisfaction are robust and in line with regulatory precedent. For example, Ofgem's customer satisfaction metric uses a general enquiries survey that asks "overall, how satisfied were you with the service provided?"

Separate scores for gas and electricity sectors and different customer groups

As noted in section 9.3.1 of our final report,[27] we recommended that in future Fluvius records responses separately for gas and electricity customers, to allow separate scores to be calculated for each sector. This would allow for a more precise measurement of customer satisfaction for each sector.

In our view it would not be appropriate to determine a separate incentive (with its own reference value, cap and collar) for different customer groups as this could dampen Fluvius' incentive to improve its performance once it has hit the cap or collar for a specific customer group. By contrast, Fluvius is less likely to hit the cap or collar using a composite score, as customers' views regarding performance across the different customer groups may partially offset each other. The composite measure therefore provides better incentives for Fluvius to improve performance across all customer groups.

Mention of Fluvius to survey respondents

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23 Europe Economics (2023): "Financial incentives for electricity and natural gas distribution in the regulatory period from 2025" Final report, section 9.3.2 [online].

24 Europe Economics (2023): "Financial incentives for electricity and natural gas distribution in the regulatory period from 2025" Final report [online].

25 VREG (2024): "Consultatiedocument", section 6.1.3.3.6 [online].

26 VREG (2024): "Consultatiedocument", section 6.1.3.3.7 [online].

27 Europe Economics (2023): "Financial incentives for electricity and natural gas distribution in the regulatory period from 2025" Final report [online].

We agree with Fluvius' suggestion that Fluvius should be mentioned explicitly in the event that the customer satisfaction survey in carried out on behalf of VREG. This would ensure that customers are aware that the survey asks them about their satisfaction with the services provided by Fluvius.

Use of continuous survey

We also agree with Fluvius' suggestion that the survey should take the form of a continuous survey conducted shortly after customer contact, for two reasons. First, it is important that the survey continues to be conducted in the same way that it has been carried out in the past, so that survey data is comparable to the historical customer satisfaction data used to calculate incentive parameters. Second, customers are only likely to be able to give a meaningful view on how satisfied they are with Fluvius if they are asked shortly after they have had contact with Fluvius. By contrast, if the survey takes place months after their contact with Fluvius, they may not be able to remember much about it.

In addition, as noted in section 9.3.1 of our final report,[28] we also recommend that Fluvius continues to commission the survey each year, maintaining the same structure to the survey and the same wording to the question used for calculating the customer satisfaction.

3.5 Innovation projects to facilitate the energy transition

Fluvius and other stakeholders made the following points about the innovation projects to facilitate the energy transition incentive:[29]

- Fluvius proposed to add projects relating to repurposing natural gas assets to the scope of this incentive.
- Fluvius requested a clarification regarding the Technology Readiness Levels for eligible projects.
- Fluvius proposed that the expert panel should include experts from academia.
- Agoria argued that DSOs cannot receive subsidies in the context of innovation support.
- Bond Beter Leefmilieu argued that the incentive scheme cannot provide an incentive for a long-term approach.

Amending scope of the incentive

We agree with Fluvius' suggestion that projects relating to repurposing natural gas assets should be included within the scope of this incentive as this would contribute to the energy transition.

Minimum Technology Readiness Levels (TRL) for eligible projects

In our view, for a project to qualify for financial rewards it should meet a minimum TRL of 3 which means that it must have successfully passed the research phase and Fluvius must have provided at least an experimental proof of concept.

In line with the scorecard[30] developed for the Phase 2 assessment of the overall package of innovation projects, projects that have reached higher TRLs (i.e. projects closer to TRL 9) will attract higher scores and therefore would receive greater financial rewards.

Composition of expert panel

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[28] Europe Economics (2023): "Financial incentives for electricity and natural gas distribution in the regulatory period from 2025" Final report [online].

[29] This incentive is referred to as "innovative grid management to facilitate the energy transition" in our final report.

[30] Europe Economics (2023): "Financial incentives for electricity and natural gas distribution in the regulatory period from 2025" Final report, section 10.2.4 [online].

As noted in our final report,[31] we consider that academics are suitable candidates to be included in the expert panel (provided that all other selection criteria are met).

Avoidance of subsidies for innovation support

We emphasise that this incentive scheme is not intended to provide subsidies for innovation. Innovation activities should continue to funded by Fluvius out of the allowed revenue for endogenous costs, as in the past. Instead, the incentive scheme provides a reward for successful innovation.

Alleged lack of incentives for a long-term approach

We disagree with the suggestion that the incentive scheme does not encourage a long-term approach. In our final report[32] we recommended that VREG states in its decision document that it is "minded to" retain this incentive mechanism in subsequent regulatory periods. This will reduce the extent to which Fluvius is incentivised to focus on shorter-term innovation projects. This is because it will reduce any perceived risk that longer-term projects may not be rewarded because the incentive mechanism may no longer exist by the time the project is ready to submit.

[31] Europe Economics (2023): "Financial incentives for electricity and natural gas distribution in the regulatory period from 2025" Final report, section 10.2.3 [online].

[32] Europe Economics (2023): "Financial incentives for electricity and natural gas distribution in the regulatory period from 2025" Final report, section 10.2.2 [online].