



*Promoting choice and value for
all gas and electricity customers*

Electricity distribution network operators (DNOs), Independent network operators (IDNOs) and other interested parties

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Ofgem Decision on Electricity Discretionary Reward scheme (DRS)

In November 2011 we consulted on the future of the electricity Discretionary Reward Scheme (DRS). The purpose of our consultation was to review whether the scheme was appropriate for the current price control period given the introduction of other incentive schemes, such as the Broad Measure of Customer Satisfaction and the Low Carbon Network Fund (LCNF)

We considered that the range of initiatives being incentivised by these schemes could overlap with the type of activities we are trying to incentivise through the DRS and that it might therefore be appropriate to remove the scheme. The options we proposed are as follows:

Option 1 – retain the scheme in its current format;

Option 2 – remove the scheme; or

Option 3 – amend categories of the scheme to avoid overlaps with other DPCR5 incentives and/or run the scheme less frequently.

We have now reviewed all responses received in relation to the electricity DRS consultation. The purpose of this letter is to communicate our decision supported by an overview of responses.

Background

The DRS was introduced in 2006 as a voluntary scheme. The purpose of the scheme is to encourage the distribution network operators (DNOs) to provide better service to their customers in aspects of customer service not covered under the licences, particularly the hard to reach customers. The scheme has focussed on three established categories. These are; corporate social responsibility, wider communication strategies and priority customer care. The categories have been alternated each year to take account of customer needs. There is a reward of up to £1 million per annum available under this scheme across the chosen categories.

The scheme has resulted in some good initiatives and best practices established across the industry. Over the years, DNOs have taken steps to meet customer needs and continue to identify improvements to the service provided. The scheme has recognised and rewarded DNO performance where it has gone beyond their licence obligations.

Summary of responses

The responses received highlight the general consensus that the DRS has resulted in some good customer service initiatives being implemented across the industry. However, six out of seven respondents supported removal of the scheme (Option 2).

DNOs generally agree that whilst the discretionary reward scheme has been useful, the introduction of the Broad Measure of Customer Satisfaction as well as LCNF may make elements of the DRS redundant. The LCNF and the Broad Measure of Customer Satisfaction incentivise activities that cut across those targeted by the DRS. In particular, the Stakeholder Engagement element of the Broad Measure would ensure that DNOs continue to provide information and respond to the needs of different groups of stakeholders. Therefore any detrimental impact of removing the DRS will be minimal. DNOs also believe that removal of the DRS will enable DNOs to focus on delivering projects and services under the new Broad Measure.

According to the non-DNO respondent who also supported removal of the DRS, the UK customer satisfaction index 2009 states that "Utilities are the worst performing sector" therefore any incentives that are in place are having questionable impact. They are of the view that whilst the DRS has not failed, the scheme does not necessarily support good customer service as a DNO could perform poorly against standards of service and yet succeed in the DRS. The respondent suggested that there was room to develop the market so that customer service is driven by the market and not by incentive schemes.

Only one DNO supported maintaining the DRS. This DNO suggested amending the categories to avoid overlaps with other DPCR5 incentives and running the scheme less frequently (option 3). It believed that running the scheme less frequently would provide more opportunity to develop and embed longer-term innovation projects that would deliver enduring benefits to customers. It was also of the view that running the scheme less frequently would enable Ofgem to publish the guidance notes and all relevant documentation well in advance of the entry submission dates. With regard to defining the categories going forward, it suggested these would become clearer when the Broad Measure of Customer Satisfaction was more established. However, the DNO stated that this should ensure aspects of customer service provision and innovation previously captured as part of the DRS were not overlooked.

Our decision

We have taken into account all responses received from our open letter consultation dated 30 November 2011. We have decided to remove the scheme on the basis that the scope of other DPCR5 incentives (i.e the Broad Measure of Customer Satisfaction and the LCNF) cover activities included in the DRS. We will however be engaging with the DNOs in order to consider the role DRS might play in incentivising activities on social issues as part of the forthcoming price control of electricity distribution (RIIO-ED1).

Yours faithfully

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