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Dear Ms Bourke

Open letter on Ofgem's Electricity Distribution Customer Service Reward Scheme

energywatch welcomes the opportunity to consider the issues raised in the open letter.

Scope of the Discretionary Reward Scheme

energywatch notes the various tools currently at Ofgem's disposal which are intended to provide Distribution Network Operators (DNOs) with appropriate incentives to improve their quality of service to consumers. We agree that the proposed discretionary reward scheme should act as a further spur to DNOs to consider new and innovative ways to serve consumers. We look forward to seeing how the scheme operates in practice and have further specific comments about this (see below).

Consumers normally have no regular contact with DNOs yet, when the reliability and efficiency of the distribution networks is impaired for whatever reason, disrupting supplies to consumers they have an expectation that their local DNO will provide a quality of service which is efficient, effective and measurable. In that respect, any type of incentive which improves consumers' knowledge of the role of DNOs in the provision of their electricity supplies, and likewise allows DNOs to improve the quality of service to consumers, should be welcomed.

We note the three categories that Ofgem suggests should constitute the scope of the initial scheme. energywatch agrees that the categories provide a focus for DNOs in understanding the types of initiative which would help raise the quality of service and would be worthy of additional reward. We would expect that any innovation proposal which is put forward by a DNO under the scheme is additional to any current initiative already undertaken. It is important that the scheme is of **incremental** benefit to consumers and DNOs alike and not a substitute for existing initiatives already covered under price controls and other mechanisms. It is perhaps not always clear at present

whether current initiatives are effective and it may be a by-product of defining the reward scheme that it helps to establish some type of benchmark for the efficacy of current initiatives against which the incremental value of a reward scheme proposal can be assessed.

Regarding the particular issues on which Ofgem has invited comment, energywatch would like to make the following observations:

Proposed split of the total reward across the three categories

We are particularly encouraged that the majority of the total reward will be made available for initiatives dedicated to vulnerable customers. Substantive improvements to the internal processes of DNOs regarding these customers and effective communication with them through new initiatives would be particularly welcome.

In addition, any innovations by DNOs regarding wider communication strategies are also to be encouraged, particularly given the critical nature of electricity supply to all consumers and the emphasis on civil contingencies. DNOs must seek to communicate and encourage feedback from as wide a cross-section of the community as is affected by their policies and operations. The improvement in communication must be subject to effective monitoring and assurance that real progress is being made.

Finally, we recognise that there is now a greater emphasis generally within industry on corporate social responsibility. Whilst we appreciate that a separate reward has been earmarked for this area, we would encourage DNOs to go further than the minimum requirements outlined if they are to reap the rewards of innovation, especially as they play a key role in providing a critical service to all their consumers.

The role of the Panel: scope and distribution of rewards

energywatch notes the important role that the multi-disciplinary Panel will play in determining whether particular DNO proposals are suitable for reward. At this stage, Ofgem seems to be proposing that the Panel will be involved largely to assess and advise the Authority on the suitability of proposals. However, we do not see why the Panel should not have a wider remit over time, perhaps in terms of determining whether the current categories, and the weighting of the reward across those categories, remains appropriate. The Panel should be regarded as an expert body with the ability to pass judgement on proposals by DNOs with due regard to development of the electricity market in general. We understand that final decisions rest with the Authority but that the Panel has a significant input to those decisions and may even want to undertake its own consultations on proposals to inform its and the Authority's view. We would request Ofgem to consider the potential for a more pro-active role for the Panel.

The proposed minimum requirements of best practice for each category

energywatch agrees that, as outlined, these appear to be fit for purpose. We would suggest, however, that there should be explicit recognition that an output from the rewards scheme should be to measure its effectiveness against the intention to improve DNOs' quality of service and that this should be incorporated in some way. It may also be useful to recognise that, if particular schemes pass muster and are suitably rewarded they could be established as a benchmark for all DNOs in terms of determining the minimum requirements for future reward schemes of this kind, as well as for general improvement to the quality of service standards as incentivised under the price controls and other existing schemes for DNOs.

Support for DNO submissions from external stakeholders

energywatch agrees that the support of external stakeholders may be a helpful aspect of an innovation proposal put forward by a DNO. However, the main thrust of the proposal must be established and 'sold' by the DNO. Any external stakeholder should only provide verification that the proposal will indeed deliver some innovative method for improving quality of service. In practice, and based on some experience of the communication difficulties encountered by medically dependent consumers which we have established, the support of local emergency services may be helpful to a DNO when submitting its proposal. The supporting statement should not involve excessive work on the part of the stakeholder and a degree of monitoring to verify supporting statements may also provide additional comfort that the proposal is appropriately supported.

Best Practice Register

We believe that the most important aspect of the Register should be its visibility and the prominence it receives. Appropriate transparency of the effort made by the DNO to be innovative will be of greater value to it than the financial element of the reward scheme, and it is the former which will no doubt attract DNOs to participate. There is also scope for using the information on the Register to provide a more holistic picture of a DNO's performance. One example may be that publication of statistics on quality of supply, including the effort made to innovate, could sit alongside Guaranteed Standards of Performance results and customer satisfaction ratings to provide a wider picture of the various DNOs' performance.

Possible members of the Panel

energywatch would expect to have a role on the Panel, as our day-to-day contact with consumers provides an insight into the types of issues which innovative schemes would be expected to address on quality of service. Similarly, we would expect a role for other groups working with consumers,

particularly those working with vulnerable consumers, given the prominence of the share of the reward scheme for innovation for that category. In terms of providing a degree of independence and objectivity, as well as financial scrutiny of the proposals, we would agree that it would be useful to have input from the business community in some form. Similarly, input from all the above groups, ourselves and independent individuals could provide scope for suggesting improvements to any submissions which could be taken on board by the DNOs concerned.

Conclusions

energywatch hopes that some of the views presented above are helpful to Ofgem in its further consideration of the scope and practical operation of the proposed reward scheme.

In addition, we would note that we are pleased to see that Ofgem has indicated the potential to work with energywatch on service standards to be provided by DNOs. We note that one area of ongoing concern is the lack of clarity on which additional services are currently provided to vulnerable consumers during supply interruptions. We would welcome the opportunity to discuss and further develop with Ofgem and the industry minimum levels of service which would be agreeable to all, while ensuring that these are also communicated effectively to both consumers and stakeholders.

If you do wish to discuss our response further please do not hesitate to contact me on 0191 2212072 or email regulatory.affairs@energywatch.org.uk

Yours sincerely

Carole Pitkeathley
Head of Regulatory Affairs