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Your Ref:
Our Ref: RBA/DPCR/QOS/17
Direct Dial: 020 7901 7306
Email: angela.bourke@ofgem.gov.uk

15 March 2006

Dear Colleague,

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

On 26 October 2005, Ofgem published an open letter consulting on the proposed format of the Discretionary Reward Scheme for electricity Distribution Network Operators (DNOs) – the companies that own and operate the poles and wires that deliver electricity to peoples' homes.

The letter sought stakeholders' views on the proposed format of the scheme in general, as well as a number of specific aspects of the scheme, including:

1. The proposed split of the total annual reward across the categories;
2. How the scope of the categories and reward weighting should be decided in future years;
3. The proposed minimum requirements of best practice outlined for each category;
4. Whether DNOs' submissions should be supported by relevant external stakeholder organisations;
5. The format of a Best Practice Register; and
6. Possible members of the Panel.

Ofgem received a number of responses to the open letter which have been published on our website. All responses received were considered in finalising the development of the Discretionary Reward Scheme.

The purpose of this letter is to advise stakeholders of the structure and format of the Discretionary Reward Scheme and how it will operate for 2005/06.

The finalised structure and format of the scheme is summarised in the attached Annex along with the entry form DNOs are required to complete and submit with their application.

Any queries regarding the Discretionary Reward Scheme should be directed to Angela Bourke, who can be contacted on 020 7901 7306 or on the above email.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'M. Crouch', with a long horizontal flourish extending to the right.

Martin Crouch
Director, Electricity Distribution
Ofgem

Annex – Finalised format of the Discretionary Reward Scheme

1. The Discretionary Reward Scheme

The aim of the discretionary reward scheme is to encourage better service for consumers in areas that cannot be easily measured or incentivised through more mechanistic regimes.

The scheme will achieve this by recognising leading performance and beacons of excellence within the industry and driving innovation and creativity through the promotion of best practice.

The scheme is designed to reward the performance of those DNOs which best serve the interests of customers across the chosen categories throughout the year, particularly those DNOs which exceed their licence obligations and have a holistic approach to these areas embedded in broader business processes, not necessarily 'flagship' projects or one-off initiatives.

2. Format for the scheme

Weighting of the reward categories

The scheme has a total annual reward of £1 million available across all DNOs and will cover three areas:

- | | |
|------------------------------------------------------------------|-------------|
| 1. Priority customer care initiatives | (£ 600,000) |
| 2. Initiatives relating to corporate social responsibility (CSR) | (£ 200,000) |
| 3. Wider communication strategies implemented by DNOs | (£ 200,000) |

For 2005/06, a greater focus has been given to the 'priority customer care initiatives' category as this has been identified as an area with many challenges and where much improvement can be made. In future years Ofgem will decide the scope of the categories and how the reward is weighted, on recommendation from the Panel and after consultation with stakeholders.

Minimum requirements

For each of the three areas assessed under the Discretionary Reward scheme, Ofgem has specified a number of minimum requirements which should be included in any best practice submission. DNOs should demonstrate that their initiatives incorporate these minimum requirements in their application for a reward.

Provided the minimum requirements are met, the aim of the scheme is to identify which DNOs are achieving best outcomes for their customers. DNOs should also demonstrate the impacts of their initiatives both directly and as part of broader business processes.

How the minimum requirements will operate in future years and whether they change over time has not yet been specified. This will be determined at a later stage, after discussion with the Panel and experience has been gained from the first allocation of rewards.

Stakeholder support

Given that some of the DNOs' initiatives may not readily lend themselves to stakeholder support and that stakeholders may not be best placed to validate the information provided by the DNOs in their application, Ofgem has decided to make stakeholder support an optional requirement.

Ofgem notes, however, that should a DNO include support from a stakeholder in its application that this would add weight to the submission and would be favourably considered by the Panel.

Ofgem has not specified what format the stakeholder support should take and has left it to be decided between the relevant DNO and stakeholder organisation. Ofgem has however specified that the support information provided should not exceed one page in length per category to minimise the burden placed on stakeholder organisations.

Panel members

The panel will be comprised of five voting members and a non-voting Chair. Sarah Harrison, Managing Director Corporate Affairs, from Ofgem will chair the Panel and the remaining five members will be drawn from energywatch and various organisations with expertise in the categories covered by the scheme.

Tenure on the Panel will be time limited, with a proportion changed every few years to allow for a diversity of views, regions and organisations to be represented. Panel member's tenure will be limited to two years initially, with an option to extend some members tenure to allow for the retention of some experienced Panel members.

Ofgem and energywatch have collaborated to develop a shortlist of potential Panel members and will be approaching them during March. Ofgem expects to have the Panel established by April 2006.

3. Application process

DNOs are required to complete the covering entry form (see below) and submit it with their application attached to apply for a reward. A DNO may only submit one entry per category and must complete a separate entry form and application for each category. Should a DNO Group, which has a number of licensees who have all implemented the same initiatives, wish to apply for a reward, it may submit one entry per category, as above, clearly noting which licensees it applies to in the relevant section of the entry form. Should it be successful in receiving a reward, the reward amount would be shared proportionately (based on customer numbers) between all licensees named on the application.

Entries for each category must be limited to 2 pages (excluding the covering entry forms and any stakeholder support). The length of an overall application from a 'DNO Group' may include one additional page should it include a category entry which is specific to one licensee area. Ofgem has identified that a DNO's application should include:

- A brief description of the initiative(s);
- Background information (how it was identified, why it was implemented, objectives, etc);
- The scope and influence of the initiative(s) including: the target audience(s), whether partnerships were used, timeframe, impacts, etc;
- Communications (how the initiative(s) were communicated to the target audience, how feedback was sought and used);
- How the initiative(s) were monitored and how success was measured, what were the benefits to customers and the business;
- How the minimum requirements were met and exceeded.

Entry forms must be received at Ofgem by no later than the specified deadline. Entries will be judged by the Panel who will recommend award winners to the Authority. A determination regarding the winners of any rewards under this scheme would then be issued as per the relevant licence condition (Special Condition C2).

Ofgem will provide some guidance to the Panel to assist them in making their recommendations regarding the rewards. This will take the format of some basic high-level principles which the Panel should consider when assessing submissions from the DNOs. These principles include:

- Which initiative(s) should be recognised as best practice and an example of excellence within the industry;
- Which initiative(s) are part of a holistic approach embedded in broader business processes, rather than 'flagship' or one-off projects;
- Which initiative(s) meet and exceed the minimum requirements specified by Ofgem;
- Which initiative(s) have been supported by external stakeholder organisations; and
- Which initiative(s) have best served the interests of customers throughout the year and resulted in measurable benefits.

Ofgem will collate the submissions and send them to the Panel prior to their meeting to decide the rewards. Ofgem will perform a secretariat role at the Panel meeting.

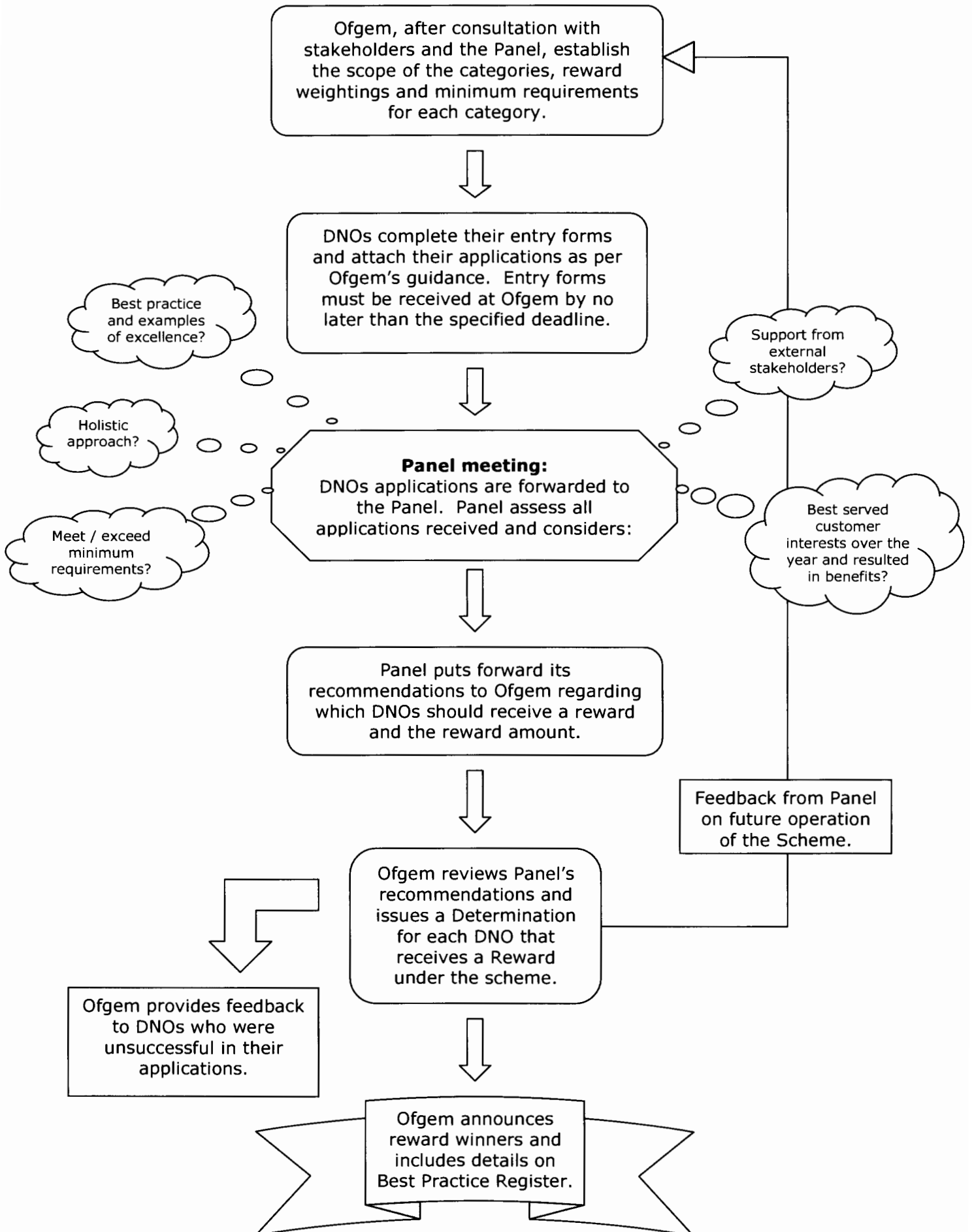
Those DNOs who received a reward under the scheme would have the details of their initiative(s) published and promoted on a 'Best Practice Register'. It is anticipated that this would include a short description of the initiative, why it was highlighted as a best practice example and contact details should further information be required. The format of the Register will be decided in the coming months.

As part of Ofgem's secretariat function, it will provide feedback to those DNOs who applied for a reward but were unsuccessful. Ofgem will also need to agree, formalise and publish the Panel's recommendations regarding the scheme's operation for the 2006/07 year, in sufficient time for the DNOs to respond.

It is important to highlight that some flexibility has been left in establishing the Scheme as it will inevitably evolve over time and with experience.

A summary of this process and the 'minimum requirements' is included below. See Figure 1.

Figure 1: DISCRETIONARY REWARD SCHEME - PROCESS



DISCRETIONARY REWARD SCHEME – MINIMUM REQUIREMENTS

Priority customer care initiatives

- DNOs are pro-active in ensuring that the details of their priority customers are up-to-date and accurate and that customers are aware of the priority register;
- DNOs have effective and efficient procedures and processes in place to ensure that information on customers eligible for inclusion on the priority register is transferred readily between themselves and suppliers' priority services register (and vice versa);
- DNOs have procedures and standards for staff on contact with priority customers and monitor performance against these standards;
- DNOs effectively use the priority register and provide support for their priority customers, particularly during power interruptions; and
- DNOs seek feedback from their priority customers, stakeholders, partners and staff regarding the support it provides for priority customers and whether they are meeting their needs. DNOs use this feedback to improve the support that they offer.

Initiatives relating to Corporate Social Responsibility (CSR)

- DNOs have a range of CSR programmes which are linked to their distribution businesses and result in benefits to their customers;
- DNOs' CSR programmes have been successfully incorporated into wider community programmes at local level through effective working with partners (where appropriate);
- CSR programmes and initiatives are effectively reaching their target audience and performance is regularly monitored;
- CSR is recognised as an integral element of the culture and ethos of the DNO with management level reporting responsibility;
- DNOs seek feedback from customers, stakeholders, partners and staff regarding their CSR initiatives and their effectiveness. DNOs use this feedback to improve their CSR programmes and initiatives.

Wider communication strategies

- DNOs have a range of communication strategies which effectively reach their target audiences and are regularly monitored to ensure that they are meeting customers needs;
- DNOs seek feedback from customers, stakeholders, partners and staff regarding their wider communication initiatives and their effectiveness. DNOs use this feedback to improve their communication strategies.



**QUALITY OF SERVICE DISCRETIONARY REWARD SCHEME
DISTRIBUTION NETWORK OPERATORS
ENTRY FORM**

Please note that the deadline for receipt of applications is 5pm, 10 May 2006.

DNO DETAILS: (please complete)

Company:

Licensee(s):

Address:

Postcode:

CONTACT DETAILS: (please complete)

Name:

Title:

Telephone:

Email:

CATEGORY: (select from drop down list)

Priority customer care initiatives

INTRODUCTION

The aim of the discretionary reward scheme is to encourage better service for consumers in areas that cannot be easily measured or incentivised through more mechanistic regimes.

The scheme will achieve this by recognising leading performance and beacons of excellence within the industry and driving innovation and creativity through the promotion of best practice.

The scheme is designed to reward the performance of those DNOs which best serve the interests of customers across the chosen categories throughout the year, particularly those which exceed their license requirements and have a holistic approach to these areas embedded in broader business processes, not necessarily 'flagship' projects or one-off initiatives.

GUIDANCE FOR COMPLETING YOUR APPLICATION

- Keep it brief and simple. Keep to the page limits specified below, it will be the weight of your initiative(s) rather than the length of your application which will impress the Panel.
- Be specific, give examples and provide evidence where possible.
- Support of an application from an external stakeholder is welcomed and will add weight to your submission. The format should be negotiated between the stakeholder and the DNO and in any event should not exceed one page in length per category.
- Attach your application to this covering entry form.
- Your application should include:
 - A brief description of the initiative(s);
 - Information regarding how the minimum requirements were met and exceeded. (The minimum requirements are specified over page).
 - Background information (how it was identified, why it was implemented, objectives, etc);
 - The scope and influence of the initiative(s) including: the target audience(s), whether partnerships were used, timeframe, impacts, etc;
 - Communications (how the initiative(s) were communicated to the target audience, how feedback was sought and used);
 - How the initiative(s) were monitored and how success was measured, what were the benefits to customers and the business.

THE RULES

1. Entries will be judged by a Panel appointed by Ofgem who will recommend award winners to the Authority. The final decision rests with the Authority, who will issue a determination regarding the winners of any rewards under this scheme.
2. A DNO may only submit one entry per category. DNOs must complete a separate entry form for each category. A 'DNO group' may submit one entry per category which covers multiple licensees,

however, each of the licenses covered by the entry must be clearly indicated in the relevant section of the entry form.

3. Entries for each category must be limited to 2 pages (excluding the covering entry form and any external stakeholder support). Stakeholder support for each category must not exceed one page in length. The length of an overall application from a 'DNO Group' may include one additional page should it include a category entry which is specific to one licensee area (i.e. 7 pages).
4. Entry forms must be received at Ofgem by no later than **5pm on 10 May 2006**. Entry forms should be sent to angela.bourke@ofgem.gov.uk electronically, with a hard copy sent to:
Angela Bourke, Quality of Service Manager, Ofgem, 9 Millbank, London SW1P 3GE.
5. As set out in Ofgem's Corporate Plan, award winners will be announced during Quarter Two. Winners may include the category and year they received an award in advertising and promotional materials etc.

MINIMUM REQUIREMENTS

Priority customer care initiatives

- DNOs are pro-active in ensuring that the details of their priority customers are up-to-date and accurate and that customers are aware of the priority register;
- DNOs have effective and efficient procedures and processes in place to ensure that information on customers eligible for inclusion on the priority register is transferred readily between themselves and suppliers' priority services register (and vice versa);
- DNOs have procedures and standards for staff on contact with priority customers and monitor performance against these standards;
- DNOs effectively use the priority register and provide support for their priority customers, particularly during power interruptions; and
- DNOs seek feedback from their priority customers, stakeholders, partners and staff regarding the support they provide for priority customers and whether they are meeting their needs. DNOs use this feedback to improve the support that they offer.

Initiatives relating to Corporate Social Responsibility (CSR)

- DNOs have a range of CSR programmes which are linked to their distribution businesses and result in benefits to their customers;
- DNOs CSR programmes have been successfully incorporated into wider community programmes at local level through effective working with partners (where appropriate);
- CSR programmes and initiatives are effectively reaching their target audience and performance is regularly monitored;
- CSR is recognised as an integral element of the culture and ethos of the DNO with management level reporting responsibility; and
- DNOs seek feedback from customers, stakeholders, partners and staff regarding their CSR initiatives and their effectiveness. DNOs use this feedback to improve their CSR programmes and initiatives.

Wider communication strategies

- DNOs have a range of communication strategies which effectively reach their target audiences and are regularly monitored to ensure that they are meeting customers needs; and
- DNOs seek feedback from customers, stakeholders, partners and staff regarding their wider communication initiatives and their effectiveness. DNOs use this feedback to improve their communication strategies.

DECLARATION AND CONSENT

I declare that the information contained in this application is correct and true to the best of my knowledge and belief and I give consent for Ofgem to use the information and contact details provided when publishing the Best Practice Register.

Signature:

Date: