



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

DNOs, IDNOs, consumer groups
and representatives, and other
interested parties

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Dear Colleagues

Open letter on Ofgem's review of the Electricity Customer Service Reward Scheme

I am writing to ask for your views on the future of the electricity customer service reward scheme in the light of the development of a broad customer satisfaction measure and the introduction of the Low Carbon Network Fund (LCNF). Please send your views to Dorothy.eke@ofgem.gov.uk by 25 January 2012 with a copy to lia.santis@ofgem.gov.uk.

The electricity customer service reward scheme was introduced in 2006 as part of the fourth Distribution Price Control Review (DPCR4). The aim of the scheme is to encourage the Distribution Network Operators (DNOs) to provide better service for consumers in areas that cannot be easily measured or incentivised through more mechanistic regimes.

The scheme is not intended to directly fund initiatives proposed by DNOs. It is instead designed to highlight leading performance within the industry and to recognise those DNOs who go beyond their licence obligations in the categories of service covered by the sector.

The scheme has focused on three established categories. These are -

- corporate social responsibility
- priority customer care
- wider communication strategies.

As well as providing recognition for activities undertaken by the DNOs, a total annual financial reward of up to £1million is available under this scheme, across all DNOs. The share that is awarded to each DNO is determined by a panel of independent experts chaired by Ofgem.

As part of the fifth Distribution Price Control Review (DPCR5)¹, we introduced a broad measure of customer satisfaction to drive improvements in the quality of the overall customer experience. This comprises a customer satisfaction survey, a measure of how successful DNOs are at handling complaints, and a reward for stakeholder engagement.

The stakeholder engagement element of the broad measure of customer satisfaction will incentivise DNOs to understand the requirements of their stakeholders and demonstrate that they have taken these into account in developing their plans and policies. The incentive will

¹ Electricity Distribution Price Control review Final Proposals – Incentives and Obligations
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=348&refer=Networks/ElecDist/PriceCtrls/DPCR5>

not prescribe how DNOs should conduct their stakeholder engagement. However, DNOs will need to have in place, as a minimum, an up to date engagement strategy addressing how they inform and obtain feedback on the impacts of their business activities from a range of stakeholders.

We consider that where DNOs effectively engage and respond to the needs of their stakeholders, the resulting initiatives are likely to develop with activities put forward under the current customer service reward scheme. Moreover, the revenue exposure from the stakeholder engagement element of the broad measure alone is up to £8 million per annum across all DNOs, providing a much stronger financial incentive than the customer service reward scheme.

We also introduced the Low Carbon Network Fund² under DPCR5. This incentive mechanism came into effect on 1 April 2010 and provides funding of up to £500m across the DNOs over the five year price control period, for innovative new technologies and commercial arrangements which address low carbon issues. We have found that DNOs' submissions under the customer service reward scheme in the last year have included some initiatives funded by the LCNF.

In the DPCR5 final proposals document³ we recognised the potential for overlap between price control incentives. We stated that we would consult with the industry on whether areas of the customer service reward scheme have been made redundant in light of the development of the broad measure and the LCN Fund. This consultation is part of our review of the scope, value and viability of the customer service reward scheme.

In Appendix 1 we set out the issues behind this consultation in greater detail. We would be grateful in particular for your views on three options:

- **Option 1** – whether we should retain the customer service reward scheme in the current format.

If you see value in retaining the electricity customer service reward scheme, please state: what you believe the benefits are likely to be; what types of initiatives are likely to arise from the customer service reward scheme which would not result from the LCNF or the broad measure of customer satisfaction;

- **Option 2** – whether we should remove the scheme on the basis that the scope of other DPCR5 incentives (i.e. the broad measure of customer satisfaction incentive and the LCNF) encompass activities included in the customer service reward scheme and whether there would be any detrimental impact to customers from removing the scheme; and
- **Option 3** – whether the categories of the scheme should be amended, for example to avoid overlaps with other incentives and/or running it less frequently to enable bedding in of initiatives before a reward is given. If so, it would be helpful to understand what the categories should be and how often we should run the electricity customer service reward scheme.

For clarification, if we were to decide that the customer service reward scheme should be run less frequently than annually or removed, we would not run the scheme in 2011/2012.

Please send us your views by e-mail to Dorothy.eke@ofgem.gov.uk before or by Wednesday 25 January 2012 at the latest with a copy to Lia.santis@ofgem.gov.uk. Unless you mark your response as confidential, all responses will be published by placing them in Ofgem's

² LCN Fund Governance Document v.4 <http://www.ofgem.gov.uk/Networks/ElecDist/lcnf/Pages/lcnf.aspx>

³ Electricity Distribution Price Control Review, Final Proposals – Incentives and Obligations, 7 December 2009 (Ref:145/09)

library or on our website. We intend to publish our decision on the customer service reward scheme early in 2012.

Yours faithfully

James Veaney
Head of Distribution Policy

Appendix 1 Overview of the customer service reward scheme

1. Purpose

1.1 The purpose of this consultation is to review whether the customer service reward scheme is appropriate for the current price control period given incentives set out in DPCR5, in particular the introduction of the broad measure of customer satisfaction incentive and the Low Carbon Network Fund.

1.2 We consider that the range of initiatives arising from the two incentives could make the customer service reward scheme superfluous and therefore it may be appropriate to remove the scheme. However, if respondents consider that the continuation of the scheme has value we would need to understand what this value is and whether the scheme should continue to run in its current form.

1.3 This paper sets out:

- The background to the issue including how the scheme works, how the scheme was developed for DPCR5 and DNO performance under the scheme;
- Developments since the introduction of the scheme including the broad measure of customer satisfaction, low carbon networks fund (LCNF) the gas discretionary reward scheme and how the gas scheme has been developed as part of RIIO-GD1;
- Options for the customer service reward scheme and our views.

Background

How the scheme works

The customer service reward scheme is a voluntary scheme and has focused on three established categories namely corporate social responsibility, priority customer care and wider communication strategies. These categories can be alternated each year to reflect customer needs. To qualify for a reward under this scheme, the distribution network companies have to demonstrate that their initiatives went above and beyond the minimum requirements set by Ofgem and could be recognised as examples of best practice. The minimum requirements are included in the guidance notes and entry forms and published on our website. The aim of the scheme is to identify which DNO is achieving the best outcomes for its customers.

There is a total annual reward of £1 million available across all DNOs. The reward amount is allocated to the chosen categories in each year and weightings applied according to the focus of the scheme in that year. The panel can share the amount allocated to each category between up to three frontier performers. There is flexibility in the scheme to only reward a proportion of the available fund for each category. The panel also have the discretion to make smaller rewards of up to £50,000 (flagship awards) in each category for one off initiatives that they believe demonstrated to be individually outstanding and innovative.

DNO submissions under the customer service reward scheme are assessed by an independent panel which comprises of five or six voting members who represent different stakeholder groups and a non-voting Chair from Ofgem. The panel recommend which companies should be rewarded and the split of the awards. A proportion of the panel is alternated each year to allow for diversity of views and organisations to be represented and to incorporate new expertise while maintaining continuity. Over the years the panel has consisted of representatives from Consumer Focus, Age Concern, Ofwat, Utility Week, Environment Agency, the Fuel Poor Agency, RNIB and the Centre for Sustainable Energy, etc.

Development of the customer service reward scheme as part of DPCR5

In our final proposals document⁴ we proposed that in the first two years of DPCR5, the scheme will continue to cover the established three categories; corporate social responsibility, priority customer care and wider communications but within these categories there will be particular emphasis on:

- Communication with worst-served customers;
- Approach to understanding customer needs and responding to them; and
- Assistance for other categories of customers such as vulnerable customers who only have an electricity supply and are not connected to the gas network.

The best practice examples identified during DPCR4 have now been adopted as minimum requirements for DPCR5. The purpose of this is so that customers across the country can benefit from the good practices that emerged from the scheme during DPCR4.

We also proposed to streamline the set three categories from April 2012 prior to the broad measure of customer satisfaction going live and possibly reduce the £1 million reward available under this scheme as the DNOs have the opportunity for greater reward under the under the broad measure of customer satisfaction.

Performance under the scheme

The Electricity customer service reward scheme has resulted in a number of customer focussed initiatives including improvements to the priority services register, working with communities and charities, improving communications with customers, particularly through new technology and facilitating the development of green technologies. Appendix 2 sets out a summary of rewards made under the customer service reward scheme and appendix 3 provides a summary of how these initiatives have been embedded as best practice.

However as the scheme matured we expected DNOs to demonstrate that they were focussing on initiatives that they had identified as their stakeholders' priorities, demonstrate how the initiatives shaped their company strategy and measure the impact their initiatives have on stakeholders and the environment. In recent years the panel has not awarded the full amount of the customer service reward available to them in recognition that they are not meeting these expectations.

Developments since the introduction of the scheme

Developments since the introduction of the scheme have included the introduction of the broad measure of customer satisfaction and the Low Carbon Network Fund. Details of the two schemes are set out below:

The Broad Measure of Customer Satisfaction – Stakeholder Engagement

The broad measure of customer satisfaction incentive takes effect from 1 April 2013 and will capture and measure customers' experiences of contact with their DNOs across the range of service and activities that the DNOs provide. The broad measure will capture DNOs' ongoing approach to stakeholder engagement as well as the customer satisfaction survey and complaints handling.

Through the stakeholder engagement component of the broad measure of customer satisfaction, we aim to incentivise DNOs to carry out a range of activities which include;

⁴ Electricity Distribution Price Control Review, Final Proposals – Incentives and Obligations, 7 December 2009 (Ref:145/09)

- to identify who their stakeholders are and the best ways to elicit and collect stakeholder views;
- Identify instances in which lack of understanding or lack of information prevent feedback on key debates and ways to address it;
- Identify top concerns from stakeholders about DNO performance and implement plans to address them;
- Understand that different types of customers will have different needs and their needs will change with time and tailor information accordingly;
- Access how consumers might change their use of the networks and should shape the service provided by DNOs; and
- Produce robust business plans for DPCR6 which are informed by stakeholder engagement feedback.

The stakeholder engagement component of the broad measure is intended to reward meaningful discussions and organisational change rather than just stakeholder activities. It will take into account how the business responds to external messages and how this is incorporated into their business plans. It will concentrate on outcomes rather than inputs and DNOs will be required to demonstrate genuine customer understanding. This aspect has to form part of the overall strategy of the company.

Stakeholder engagement was trialled alongside electricity customer service reward scheme in 2010/11. The purpose of the trial exercise was to help Ofgem establish benchmarks among the industry and best practices that will help to develop a baseline which can be used to assess future performance and provide DNOs an opportunity to develop engagement strategies based on a genuine understanding of their customers prior to the introduction of financial rewards in 2013. The maximum financial reward that each DNO can receive will depend on the size of the company but varies between £0.3 million to £0.9million per year in 2007/8 prices.

We consider that the size of the incentive will encourage DNOs to effectively engage with their stakeholders and ensure their business plans are meeting their needs.

Low Carbon Network Fund

As part of DPCR5 Ofgem also established a Low Carbon Networks (LCN) Fund which makes up to £500m of funding available to DNOs (over the price control period) to try out new technology, operating and commercial arrangements. The objective of the projects is to help all DNOs understand what they need to do to provide security of supply at value for money as Great Britain (GB) moves to a low carbon economy.

There are two tiers of funding which are available under the LCN Fund. DNOs are able to use First Tier funding to recover a proportion of expenditure incurred on small scale projects and to recover expenditure incurred to put in place the people, resources and processes to progress innovative projects. DNOs submit projects for funding and Ofgem determines which of the projects to approve.

Under the Second Tier of the LCN Fund there is an annual competition for an allocation of up to £64m to help fund a small number of flagship projects. Ofgem appointed an expert panel to provide a recommendation to the Authority on which projects should receive funding. Ofgem can also appoint consultants to review the submissions and assist the expert panel or the Authority.

In the first year, four projects were awarded Second Tier funding totalling £63.6million through the annual competition and 11 projects were registered under the First Tier. These projects involve the DNOs partnering with suppliers, generators, technology providers and other parties to explore how networks can facilitate the take up of low carbon and energy saving initiatives such as electric vehicles, heat pumps, micro and local generation and demand side management, as well as investigating the opportunities that smart meter roll out provide to network companies.

The Gas Distribution Discretionary Reward Scheme and RIIO-GD1

The gas discretionary reward scheme has a similar design to the electricity customer service reward scheme but with an annual award of £4 million. It has been running for three years and has three set categories under which the GDN submissions are evaluated;

- Initiatives which reduce environmental impact of gas distribution;
- Initiatives which facilitate network extensions, particularly those that increase the affordability of network extensions for fuel poor consumers; and
- Schemes to promote gas safety, including awareness of the dangers of carbon monoxide.

In our RIIO-GD1 document, we proposed that we will continue with the existing gas discretionary reward scheme to provide a reward for companies that can demonstrate that they have delivered additional outputs that contribute to environmental or social objectives beyond those funded at the price review. The social objectives may include rewarding GDNs for working with other players in the sector (DNOs, suppliers, technology providers) to facilitate sustainable energy solutions to the fuel poor.

Unlike in the electricity scheme, we believe that there is scope to retain the gas discretionary reward scheme. For example, in relation to the fuel poor it may not be feasible to connect to the gas main but the GDN may have role in assessing an appropriate energy solution. We see this incentive as complementing the stakeholder engagement element of the gas broad measure of customer satisfaction.

In our decision on strategy document⁵ we have set out that the gas discretionary reward scheme will run once every three years and will be wider in remit as it will include facilitating social and environmental objectives. By running the scheme over three years it should be easier to evaluate the success of the initiatives and how they have been embedded. The award will be a maximum of £4million and companies will be expected to have strong stakeholder evidence/support for the outputs they have delivered in order to qualify for a discretionary reward.

Options for the customer service reward scheme

We are seeking views on the following options:

- **Option 1** - Retain the customer service reward scheme if we can determine what the benefit of retaining it will be in view of the broad measure of customer satisfaction and the LCNF;
- **Option 2** – Amend the categories of the scheme to avoid overlaps with other incentives and determine what the categories should be; or
- **Option 3** – Run the scheme less frequently to enable bedding in of initiatives before a reward is given.

⁵ Decision on strategy for the next gas distribution price control – RIIO-GD1 Outputs and incentives, 31 March 2011

Appendix 2: Summary of rewards made under the customer service reward scheme to date

Rewards		
2005-06	Priority customer care (£600,000)	
	Shared by EDF Energy and WPD (£300,000 each)	<ul style="list-style-type: none"> ▪ Work with suppliers and energywatch to improve Priority Service Register and raise awareness of available services. ▪ Support offered to priority customers during interruptions, such as regular updates and additional assistance. ▪ EDF Energy was also commended for its proactive customer research and for incorporating this into staff training to improve services.
	Corporate social responsibility (£200,000)	
	WPD (£200,000)	<ul style="list-style-type: none"> ▪ Breadth and depth of initiatives, good governance procedures and holistic approach. ▪ E.g. Staff participation in educational projects which relate to the industry and its work.
2006-07	Priority customer care (£600,000)	
	Shared by CE Electric and EDF Energy (£300,000 each)	<ul style="list-style-type: none"> ▪ Demonstration of the impact of initiatives on customers. ▪ Recognition of the need to serve temporarily vulnerable customers. ▪ Work to update records and provide customers with additional services. ▪ Staff training from relevant organisations. ▪ CE Electric was also commended for its treatment of disabled customers and for senior management involvement in its priority customer care programme. ▪ EDF Energy was also praised for its work with a disability charity to build knowledge of customer needs and for its contact with vulnerable groups through talking newspapers and hospital radio.
	Wider communication strategies (£400,000)	
	CE Electric (£400,000)	<ul style="list-style-type: none"> ▪ Language line providing translation into over 100 languages. ▪ Distribution of update newsletters to parish councils. ▪ Work with community groups, MPs and media to raise customer awareness.
2007-08	Corporate social responsibility (£700,000)	
	Central Networks and EDF Energy (£350,000 each)	<ul style="list-style-type: none"> ▪ Exceeding obligations within local communities to mitigate the environmental and social impacts of electricity networks. ▪ Wider business commitment to CSR, senior level engagement and innovative initiatives demonstrated.
	Wider communication strategies (£300,000)	
	Central Networks and WPD (£150,000 each)	<ul style="list-style-type: none"> ▪ Responding to the specific communication needs in their communities, in particular hard to reach customers. ▪ Wider business commitment to communicating with hard to reach customers and senior management engagement with the cause.
2008-09	<ul style="list-style-type: none"> ▪ Corporate social responsibility (£500,000) 	
	SSE (£200,000), Central Networks and WPD (£50,000 flagship award each)	<ul style="list-style-type: none"> ▪ Demonstration of enduring and long term commitment to CSR, particularly partnership works to tackle youth unemployment. ▪ Support for a local radio station (Isle FM) to serve customers in isolated communities ▪ Outstanding CSR initiatives designed to minimise safety risk to visually impaired people ▪ Empathy training project which encourages staff engagement with vulnerable customers and delivers benefits for the wider community as well as the company.

Rewards		
		<ul style="list-style-type: none"> ▪ Priority customer care (£500,000)
	WPD (300,000), EDF (£50,000)	<ul style="list-style-type: none"> ▪ Demonstration of a wider business commitment in reaching and supporting vulnerable customers during outages ▪ Positive approach to working with suppliers to overcome data protection issues ▪ Creative and valuable partnership work initiative with British Red Cross to support vulnerable customers during power cuts
2009/10	Corporate social responsibility (£600,000)	
	CE (£100,000)	<ul style="list-style-type: none"> ▪ Air source heat pump initiative developed in partnership with Community Energy Solutions (CES), aimed to cut fuel bills for fuel poor customers and reduce carbon emission;
	Wider communication strategies (£400,000)	
	WPD (£225,000), CN (£175,000), SSE (£100,000)	<ul style="list-style-type: none"> ▪ Wide breadth of communication strategy and extent to which these are embedding into ongoing business practices ▪ Proactive management of PSR initiative ▪ Commitment to customer service exemplified by senior management involvement ▪ Positive approach to partnership work ▪ Innovative deployment of technology to reach customers using a wide range of tools such as internet, live charts and text messaging ▪ Demonstration of a consistent long-term drive in the area of communications enabled by an established senior management team
2010/11	Corporate social responsibility (£500,000)	
	WPD (£200,000)	<ul style="list-style-type: none"> ▪ Use of partnership and staff engagement ▪ Embedding of carbon reduction within the business ▪ Community Chest initiative, a good demonstration of the impact of forging relationships with stakeholders
	Wider communication strategies (£500,000)	
	WPD (£250,000) CE (£125,000) CN (£125,000)	<ul style="list-style-type: none"> ▪ Broad range of initiatives which demonstrated innovative thinking and effective use of the feedback opportunities provided by an established process of stakeholder engagement; ▪ Attention and use of technology and seeking out and listening to understand customer needs ▪ Demonstration of a consistent long-term drive in the area of communications enabled by an established senior management team

Appendix 3: Summary of best practice examples from the customer service reward scheme to date

Best practice
Corporate social responsibility (CSR)
<ul style="list-style-type: none"> ▪ Staff induction programmes to improve the local community. ▪ Active participation in the community and establishment of links with other agencies/stakeholders. ▪ A strategic approach to CSR with active senior management involvement and commitment above and beyond reporting responsibility. ▪ A range of initiatives related to the business such as addressing potential skill shortages, mitigating environmental impacts, safety awareness campaigns and initiatives to prevent doorstep crime. ▪ Inclusion of contractor performance within the company's CSR programme and active encouragement of staff involvement. ▪ Partnership work with local organisations to provide training and development opportunities for disadvantaged young people.
Priority customer care
<ul style="list-style-type: none"> ▪ Partnerships with voluntary groups or parish councils to offer support during power interruptions. ▪ Customer support vehicles and winter packs to provide assistance during interruptions. ▪ Customer research to better identify the needs of priority customers. ▪ Initiatives to ensure priority customers are kept informed of progress or offered assistance during unplanned interruptions. ▪ Partnership with a home oxygen equipment provider to raise awareness of the Priority Service Register among oxygen dependent customers and co-ordinate emergency care. ▪ Work with community partners to expand the Priority Service Register and initiatives to ensure information is accurate and up to date. ▪ Active promotion of the Priority Service Register. ▪ Work with relevant organisations to ensure that staffs are properly trained to help vulnerable customers. ▪ Commitment and involvement of senior staff. ▪ Providing practical and innovative solutions to enable vulnerable customers to cope with power cuts (i.e. analogue phones and UPS solutions)
Wider communication strategies
<ul style="list-style-type: none"> ▪ Work with local radio to reinforce and extend coverage, enabling radio updates during storms and power interruptions. ▪ Other partnership work with parts of the community, such as Post Offices, MPs and media. ▪ Proactive use of materials and communication techniques such as easy-to-read, audio and Braille formats. ▪ Proactive use of customer complaints and customer research. ▪ Provision of live network information during interruptions enabling customers to check estimated restoration times. ▪ Media training for key staff members. ▪ Initiatives that recognise the specific communication needs of the company's particular communities including hard to reach customers ▪ Use of employee feedback in targeting communication strategies ▪ Sharing established partnerships with other DNOs to facilitate the sharing of best practice ▪ Bespoke customer service training initiatives to empower staff to respond to the needs of customers with learning difficulties.