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Date
27 January 2012

Dear Stephen,

Consultation letter on the customer satisfaction survey incentive rate term in Part D of electricity distribution Special Licence Condition CRC8.

I am writing on behalf of Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc, Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc.

WPD fully agree with the high-level principles used to inform the Authority's "minded to" position. These principles include the fact that it must be possible for the top industry performer in all components of the customer satisfaction surveys, to earn 100% of the incentive available (+0.8%) and vice versa, in terms of penalty.

Our response to the specific questions raised, are as follows:

Do you agree with the Authority's "minded to" position? If not, why?

WPD agrees with the "minded to" position to set the incentive rate term at 1.75 standard deviations from the industry mean for all components of the customer satisfaction surveys.

The incentive should deliver rewards and penalties that are sufficiently strong to drive performance improvements and to deliver returns consistent with RORE analysis as set out in the DPCR5 final proposals. The Authorities minded to position is a compromise recognising;

- A large incentive rate term is more likely to yield maximum reward for the best DNO performer (and vice-versa), but middle pack companies with similar performance can receive very different rewards/penalties.
- A small incentive rate term means few companies receive the maximum but companies with similar performance receive similar rewards.

Providing the high level principles can be met, the "minded to" position is a reasonable compromise. Results from the pilot surveys indicate that this is the case.

Are there any arguments in favour of one of the options that you think we have overlooked?

No – we believe that all the arguments in favour have been considered.

Are there any other options that you think we should consider?

Whilst the “minded to” position is an acceptable compromise, it is still the case that amongst “middle pack” performing companies, a small difference in overall performance scores can see a large difference in the reward/penalty received. WPD would therefore favour the introduction of a dead band around the mean in which companies would receive no reward or penalty. This would remove the issue of significantly different financial outcomes for companies with very similar performance, whilst at the same time continuing to deliver maximum rewards and penalties for top performing and worst performing companies respectively.

Based on the latest regulatory year to date performance scores in December, for two DNO licence regions whose maximum achievable rewards/penalties are the same, a difference in overall performance of just 0.2 equates to a financial swing of £0.71m. Any dead band should reflect the accuracy of the data (the standard room for error) that Accent has stated they can provide.

Given that Ofgem believe that the introduction of a dead band around the mean is currently beyond scope and would require a significant change to the special licence condition CRC8, WPD would like it to be considered for the next regulatory price control period, from 2015.

Do you agree that the incentive rate term should be fixed for the remainder of DPCR5?

Historically, the introduction of incentives has driven a narrowing of the performance range. Indeed, in the short six month pilot this has already been shown to be the case. It would be prudent to take this probable narrowing into account in choosing the scaling factor and the appropriate range of deviation. If DNO performance converges to the extent that 1.75 standard deviations from the industry mean no longer allows the top performing DNO to achieve maximum reward (and vice versa), this would run counter to the purpose of the incentive as stated in the final proposals. This may necessitate revising the scaling factor annually if the high level principles can no longer be met.

If there are any aspects of this letter that you would like to discuss then please contact Alex Wilkes at awilkes@westernpower.co.uk or on 01332 827647.

Yours sincerely



ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager