

Minutes of RIIO-GD1 Customer and Social Issues Working Group (CSIWG)

Minutes of RIIO-GD1 CSIWG meeting held at Ofgem on Tuesday 12 th June 2012	From Date and time of Meeting Location	Stephen Perry 12 th June 2012 10:30 to 1:30 Ofgem, 9 Milbank, London, SW1P 3GE	12 June 2012
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1. Present

Ofgem

James Veaney (JV)
Olivia Powis (OP)
Phil Sumner (PS)
Lia Santis (LS)
Stephen Perry (SP)

Stakeholder representatives

Duncan Carter (Consumer Focus)

GDNs

Margaret Hunter (SGN)
Chris Bielby (SGN)
Stephen Mills (SGN)
Tracy Hine (NGG)
John Downing (NGG)
David Gill (NGN)
Eileen Brown (NGN)
Claire Edwards (WWU)

2. Introduction

2.1. James Veaney (JV) welcomed everyone to the gas distribution Customer and Social Issues working group. JV highlighted that the meeting would mainly be focused on determining the aspects of the Broad Measure of Customer Satisfaction left outstanding from the March RIIO-GD1 Strategy decision document.

3. Broad Measure of Customer Satisfaction weighting

3.1. In Ofgem's March RIIO-GD1 Strategy decision document Ofgem stated that the exposure of the RIIO-GD1 Broad Measure of Customer Satisfaction exposure would be +/- one per cent of the GDN's annual allowed revenue. The RIIO-GD1 March Strategy document stated that this one percent exposure would be split +/-0.5 per cent on the Customer Satisfaction Survey, -0.5 per cent on the Complaints Metric and +0.5 per cent on the Stakeholder Engagement component.

3.2. At the last working group meeting, some GDNs expressed concern at the revenue amount attached to the Stakeholder Engagement incentive, given the subjective manner in which performance is assessed. The working group discussed various methods of recalibrating the weightings of the Broad Measure incentive. Ofgem sought views on each of the options discussed.

3.3. Tracy Hine (TH) stated the GDNs had discussed the various options and had jointly concluded that the overall RIIO-GD1 package needed enhancing and that developing the Broad Measure was a good opportunity of achieving this. The GDNs proposal was to remove the Stakeholder Engagement incentive from the Broad Measure (but retain the

incentive's current revenue exposure of +/- one per cent annual allowed revenue) and introduces a separate Stakeholder Engagement incentive with an exposure of +0.5 per cent of annual allowed revenue. John Downing (JD) noted that the Transmission companies have an asymmetrical exposure and considered that this approach could be replicated for RIIO-GD1.

3.4. JV stated that the Authority would need considerable justification from the GDNs to increase the upside exposure and introduce an overall asymmetrical revenue exposure of +1.5/-1 per cent. Duncan Carter (DC) encouraged the GDNs to outline the added value that this proposal would provide consumers. DC also noted that the Broad Measure is a new incentive and questioned whether the incentive would achieve the desired outputs for consumers. DC asked the GDNs to assess the extent to which the Broad Measure will deliver and capture the intended outputs for consumers. JV highlighted that the GDNs proposal to increase their revenue exposure would affect the overall value of the RIIO-GD1 package and that he would need to discuss this proposal with colleagues internally.

3.5. In discussion the GDNs stated that their alternative approach was to retain the Stakeholder Engagement as part of the Broad Measure but recalibrate the weighting attached to each of the components (reducing the weighting of the Stakeholder Engagement assessment from +0.5 per cent to +0.2 per cent and increase the Customer Satisfaction Survey exposure from +0.5 per cent to +0.8 per cent). JV felt that it would be useful for the GDNs to provide further justification why they were keen to recalibrate the weightings of the Broad Measure incentive.

Action

- GDNs to provide further justification to support their proposal to change the exposure of the Broad Measure and Stakeholder Engagement incentive, by 22 June 2012.
- GDNs to provide further justification why the Stakeholder Engagement exposure should reduce from 0.5% to 0.2%, by 22 June 2012.

4. Customer Satisfaction Survey

4.1. There were several elements of the customer satisfaction survey that were left undetermined in the March Strategy Decision paper; the working group discussed these elements of the Customer Satisfaction Survey.

4.2. The GDNs considered that it was more appropriate to attach a target and financial incentive to performance in each category of the Customer Satisfaction Survey (ie planned interruptions, emergency response and connections), rather than applying them to an overall customer satisfaction score. JV stated that it would be useful to understand the potential benefits of this approach for the GDNs.

4.3. The GDNs were content with the six month trial data being used to calculate the customer satisfaction survey target (based on upper quartile performance across the six months).

4.4. The working group also discussed the incentive rate used for the Customer Satisfaction Survey. In recognition that the target is based on the upper quartile performance in the trial survey, the GDNs preference was to introduce an asymmetrical incentive rate for the reward and penalty. The GDNs' proposal was to calculate the incentive rate for the reward using 0.2 or 0.5 standard deviations from the upper quartile (with a preference for 0.5sd) and the incentive rate for penalties using 1.75 standard deviations from the upper quartile. The GDNs considered that they were already performing to a high standard and they believed that the best performing GDN in each category should be able to achieve their maximum reward.

4.5. The GDNs also modelled an incentive rate using 1.75 standard deviations from the mean, for comparison with the incentive rate used for the electricity customer satisfaction survey. JV noted that this approach was more relevant for the DNOs because their target changes each year, based on average industry performance.

4.6. Stephen Perry (SP) stated that Ofgem had considered various approaches to setting the incentive rate, including a symmetrical incentive rate of 1.75 standard deviations from the upper quartile. SP noted that this approach is relatively aligned with the GDNs approach to setting the downside of the incentive. SP was concerned that if we use 0.5 standard deviations from the upper quartile some GDNs might be rewarded inconsistently for statistically insignificant differences between scores. JV noted that the actual scores needed to receive the maximum reward under these two approaches (0.5sd and 1.75sd from the upper quartile) were not substantially different. JV considered that using a simpler incentive rate may offer transparency for consumers (eg fixing the maximum reward at a score of nine and the maximum penalty at a score of eight).

4.7. TH considered it unlikely a GDN would be able to achieve the maximum reward if we use a symmetrical incentive rate. TH noted that Ofgem's decision on the customer satisfaction survey incentive rate may inform whether the GDNs prefer to attach a +0.2 or 0.5 per cent weighting to the Stakeholder Engagement incentive.

4.8. DC stated that it may be appropriate to set a challenging incentive rate for the first few years of an eight year price control. TH considered that the current levels of performance are very high and believed that sustaining these levels of performance over an eight year price control, with potential changes in technology and customer expectations, was already a challenge.

Actions

- GDNs to provide further justification why the target and incentive should be applied to each component of the Customer Satisfaction Survey.
- The GDNs to provide further justification for the incentive rate approach. Ofgem also sought the GDNs views on the approaches proposed by Ofgem (ie setting a symmetrical incentive rate of 1.75sd from the upper quartile and setting the incentive rate using absolute figures), by 22 June 2012.
- Ofgem to circulate their analysis on the incentive rate options discussed at the meeting as soon as reasonably practicable.

5. Complaints

5.1. The GDNs noted that there were also elements of the complaints metric left undetermined. The GDNs proposed setting the minimum level of performance using 1.75 standard deviations from the mean. Ofgem stated that they would like further justification for the GDNs approach to setting the minimum level of performance. SP stated that Ofgem had considered various approaches to setting the minimum level of performance and highlighted that their initial thinking was relatively aligned with the GDNs.

5.2. The GDNs proposed keeping the weightings of components of the Complaints Metric the same as DPCR5 (ie 10% percentage unresolved after one day, 20% percentage unresolved after 31 working days, 50% percentage repeat complaints, 20% Ombudsman decisions found against the GDN).

5.3. The GDNs considered that it may be appropriate to apply exemptions to some Ombudsman decisions (for example if the Ombudsman agrees with the cost proposed by the GDN, but offers an additional goodwill payment to the customer). JV considered that, in this scenario, it may be appropriate to apply an exemption, as long as the goodwill

payment did not relate to the primary cause of the complaint with the GDN. David Gill (DG) noted that this topic could be captured as part of the Regulatory Instructions and Guidance (RIGs). JV noted that if we do apply an exemption to some Ombudsman decisions, then these exemptions would also need to be applied to the six month trial survey, to ensure that these decisions are not included in the target.

5.4. Ofgem stated that they were uncomfortable with the size of the weighting applied to "percentage of Ombudsman findings against the GDN", due to the small number of cases included in this category. Ofgem proposed reducing the weighting on this component from 20 to 10 per cent and increasing the weighting applied to the "percentage unresolved after 31 days" component from 20 per cent to 30 per cent. JV considered that was justified because the GDNs have a slightly longer time period to resolve complaints than the DNOs (the GDNs use working days and the DNOs use calendar days).

5.5. Claire Edwards (CE) suggested that if we are considering applying additional weighting to the number of complaints outstanding after 31 days component, then we may want to consider exemptions if the delay is customer driven (eg if a customer wants a compensation connection six months later). JV suggested that these customers would already be included in the target and the GDNs would therefore not be unfairly penalised for this.

Actions

- GDNs to identify any Ombudsman decisions in the trial data that would be captured by the proposed exemption, by June 22 2012.
- GDNs to provide further justification on the approach used to decide the minimum level of performance, by June 2012.
- GDNs to further consider the weightings applied to components of the Complaints Metric and provide justification behind their proposal, by June 2012.
- Ofgem to circulate the slides presented at the meeting, as soon as reasonably practicable.

6. Stakeholder Engagement

6.1. Since the last meeting, the GDNs had jointly developed their approach to assessing stakeholder engagement. TH proposed that all GDNs use a fixed template for submission and that the panel assess each submission using a pre-determined scorecard, the score produced from this scorecard would be used to set the value of the reward. JV noted that the approach proposed by the GDNs, is very similar to the approach developed internally by Ofgem for the electricity network companies.

6.2. Lia Santis (LS) informed the working group that Ofgem are trialling the Stakeholder Engagement panel this summer with the DNOs. As part of this trial assessment Ofgem has produced a panel assessment scorecard and all DNOs have been required to complete common entry forms outlining where they have met the minimum standards. LS stated that the learning from this trial would inform the approach taken for RIIO-GD1.

6.3. DG questioned whether a GDN submission could pass the initial assessment by Ofgem, but still be considered "weak" by the assessment panel. JV noted that this might happen particularly during the trial stages, but believed that if the initial assessment is completed rigorously then this should not happen.

6.4. DC queried whether the panel would be happy being told that they have to give a reward to all the network companies that reach the panel assessment. LS stated that

Ofgem will be hosting follow-up sessions with all trial panel members to gather any feedback on the approach taken.

6.5. The working group discussed various aspects of the panel scorecard, including the categories of assessment, the approach used to score the GDNs' submissions and how the scores prescribed by the panel would correlate into financial incentive amounts.

6.6. The GDNs agreed that they would trial the Stakeholder Engagement component of the Broad Measure in summer 2013. This trial would assess GDN performance in the 2012-13 regulatory year.

6.7. DG queried whether there was an overlap between the Discretionary Reward Scheme (DRS) and the Stakeholder Engagement component of the Broad Measure. DC considered that there was the potential for GDNs to receive a "double payment" for the same activities. JV noted that there could be some overlap between the schemes however he considered there were subtle differences between the two schemes. DC was concerned that the panel might not be aware of these subtle differences. JV assured the working group that both panels would be properly briefed on their role, what they are assessing the GDNs on and any rewards that the GDNs have incurred under other incentives.

6.8. Ofgem was asked to clarify the incentive amount available under the DRS during RIIO-GD1.

Actions

- Ofgem to confirm the incentive amount available under the Discretionary Reward Scheme during RIIO-GD1, as soon as reasonably practicable
- Ofgem to circulate the slides presented at the meeting, as soon as reasonably practicable

7. Carbon Monoxide

7.1. JV noted that the levels of public awareness on the dangers of Carbon Monoxide (CO) had increased over recent years. At the last working group, the GDNs agreed to develop a common survey that could be applied to all network areas, to measure CO awareness across the different GDNs.

7.2. Eileen Brown (EB) noted that the all GDNs currently all undertake different activities and that this survey would sit alongside the GDN's existing work and data. JV considered that this survey could be a very useful opportunity for the GDNs to capture demographic information on the levels of CO awareness.

7.3. JV asked how the survey would be administered. TH stated that the survey is flexible as it could be conducted by telephone, in person or by post. DG considered that the GDNs would report the survey results to Ofgem on a quarterly basis.

7.4. Steve Brown (SB) had several specific comments on the wording of the questionnaire that the GDNs noted.

8. Next Meeting

8.1. The working group discussed that they may need an additional meeting in advance of the RIIO-GD1 Initial Proposals being published in July 2012.