

Joint DN Customer Broad Measure Proposal

Discussion Document

Look of the Customer Broad Measure

March 2011 strategy – summary of what was on the table

- Broad Customer Measure (+/- 1%) made up of:
 - +/- 0.5% CSAT
 - - 0.5% Complaints
 - + 0.5% Stakeholder engagement

At joint meeting on 10 May Ofgem sought opinion on 3 options:

1. Take out the stakeholder engagement component out of the Broad Measure of Customer Satisfaction and recalibrate the incentive accordingly
 - Stakeholder Engagement to be separate Discretionary Reward
2. Leave Broad Measure as proposed with the three components but reduce incentive linked to Stakeholder Engagement, as per Electricity DPCR5
 - Stakeholder Engagement set at +0.2%
 - CSAT and CM recalibrated at CSAT (-.5%/+.8%) CM (-.5%)
3. Leave Stakeholder Engagement in broad measure and as proposed in Strategy document (+.5%)

In addition there was a joint recognition that more objective criteria is required

Customer Broad Measure Joint Proposal

To enhance the RIIO-GD1 incentive package generally, and consultation responses welcoming the publication of an objective and defined set of criteria for the Panel to make an assessment, our joint response is:

- Take out stakeholder engagement from Broad Customer Measure BUT retain overall size of Customer Broad Measure at +/-1%
 - +1%/-0.5% CSAT
 - -0.5% Complaints
 - Stakeholder (still worth + 0.5%) to be panel based, BUT measured against a more objective set of criteria (see more detailed approach in stakeholder engagement section)
- This asymmetric incentive of +1.5% and -1.0% aligns to both Gas and Electricity RIIO-T1 proposals

Customer Satisfaction

ERR – refers to Emergency Repair and Replace

PW – refers to Planned Work

Conn – refers to Connections

Customer Satisfaction

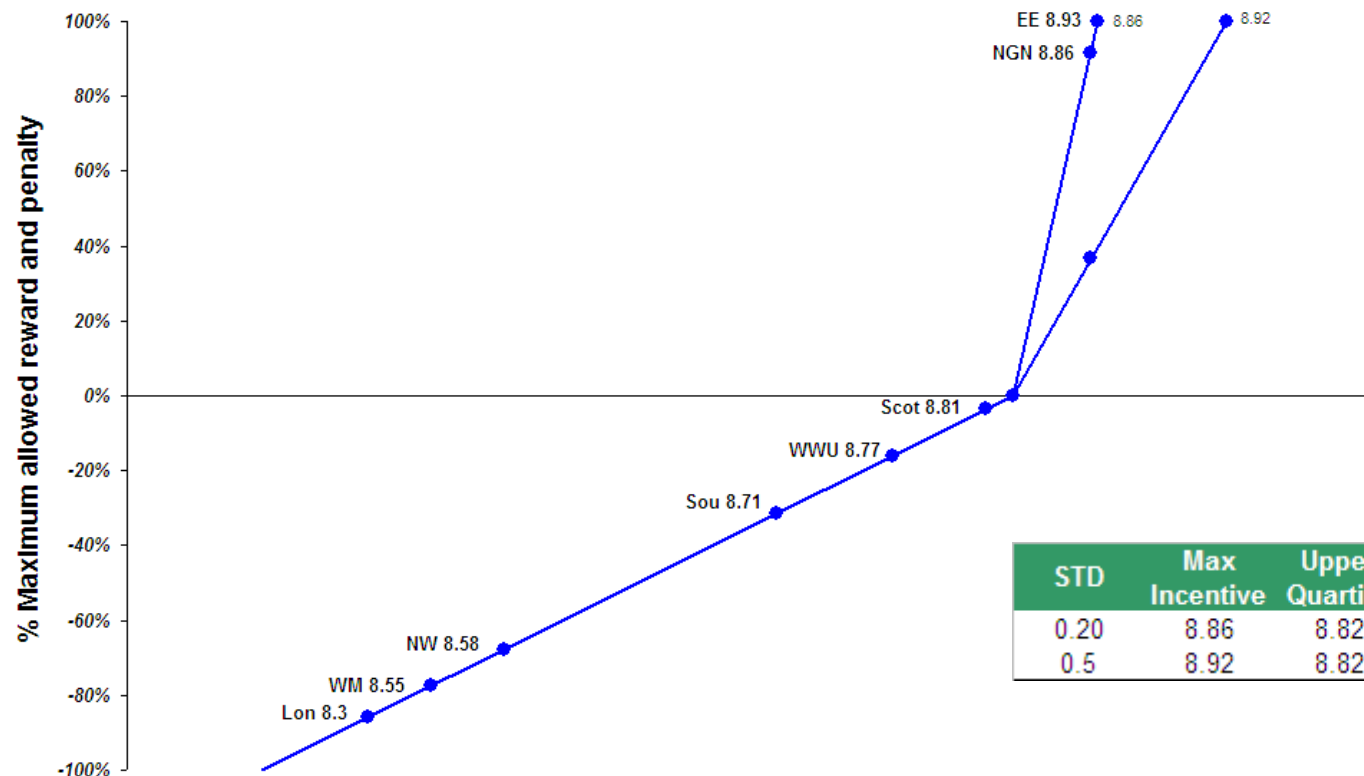
Key Points

Customer Satisfaction

- That incentive earned should be achievable by creating an asymmetric measure
- Retain incentive earned and penalty earned at upper quartile
- Sliding scale up and down from the upper quartile
- Two options considered
 - Feel for achievable score and appropriate STD to match (0.2 / 0.5STD upside and 1.75STD downside)
 - Use of 1.75STD around the mean
- We have jointly agreed to take forward scoring using the killer* question methodology

* Refers to single questions scoring, as opposed to current method based on key customer touch points

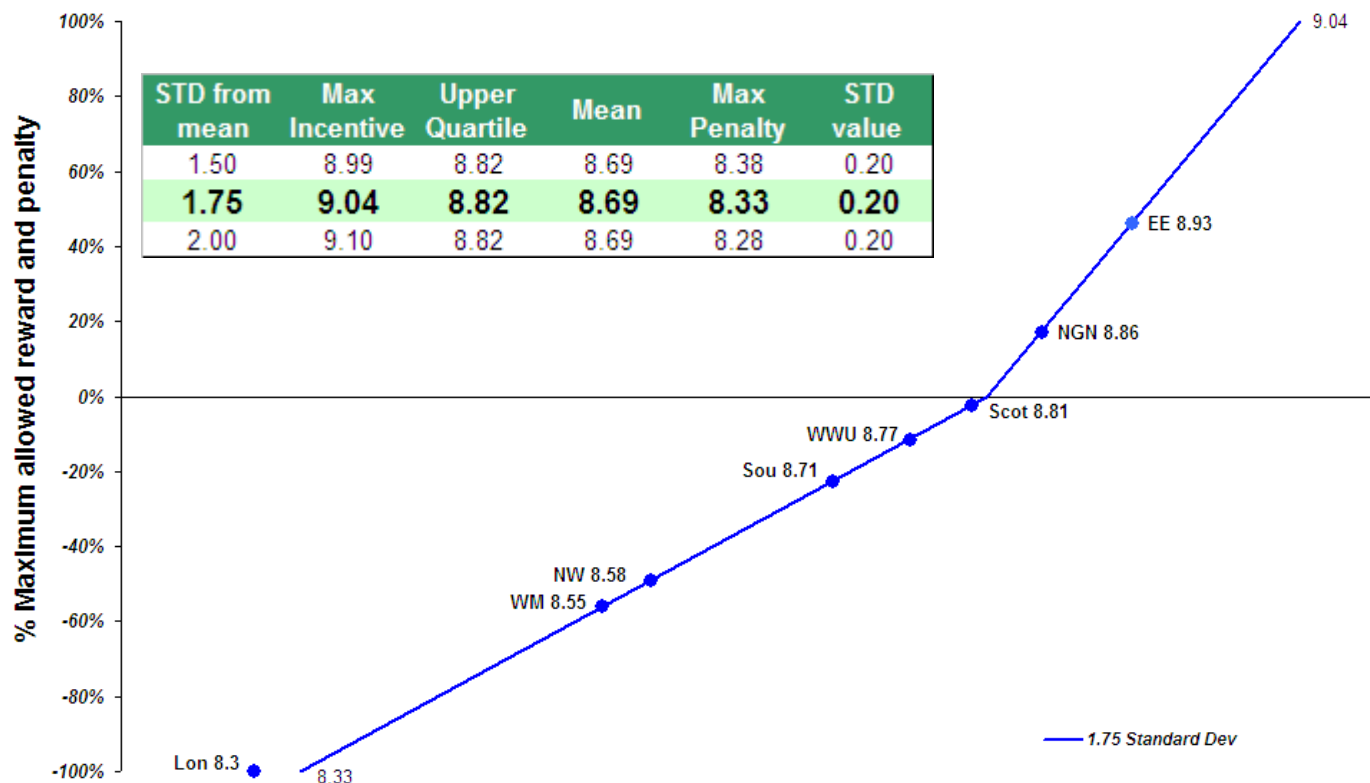
ERR Killer 1.75STD Down 0.2 & 0.5 STD Up



STD	Max Incentive	Upper Quartile	Max Penalty	Mean
0.20	8.86	8.82	8.46	8.69
0.5	8.92	8.82	8.46	8.69

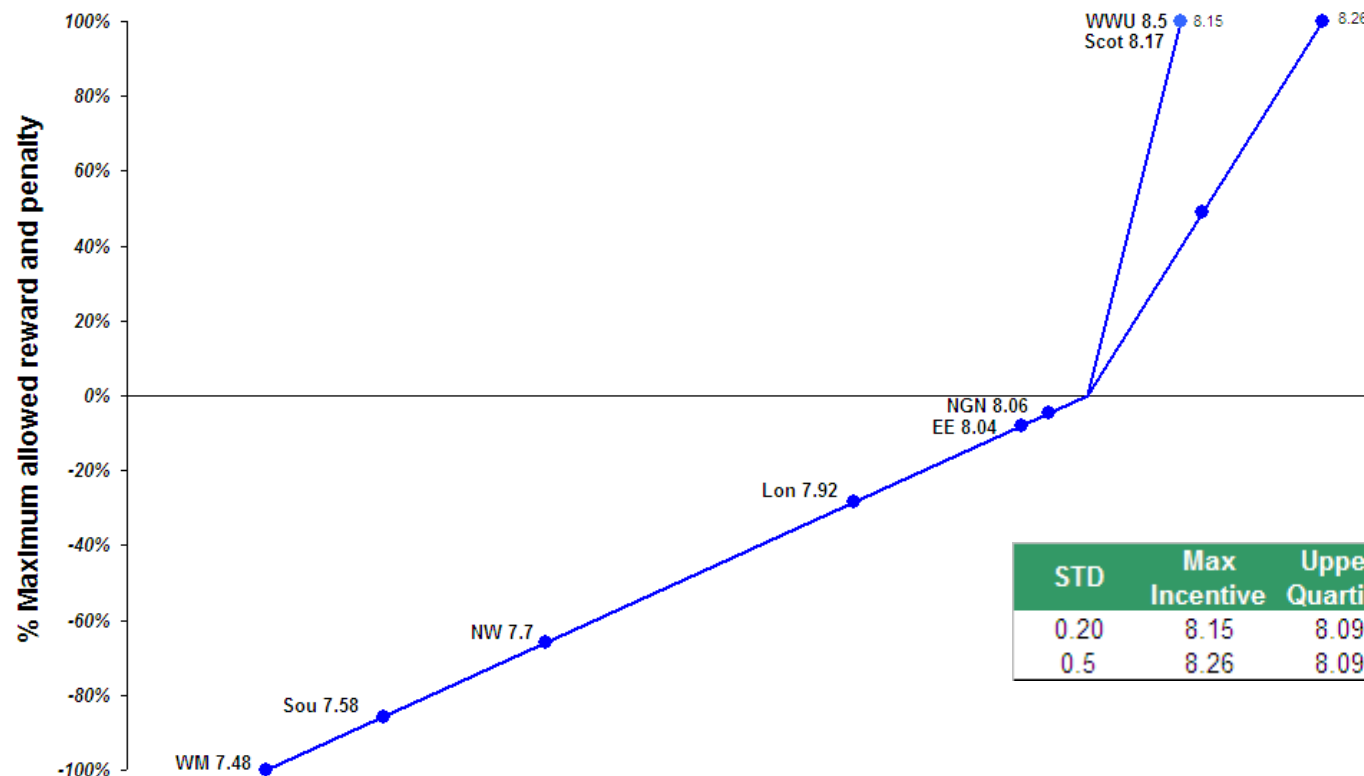
- Upper quartile is already an extremely high score for a utility to achieve and maintaining will be an achievement in itself – considered 0.20STD but agreed 0.50STD is our preferred option
- Principle that those in first place should be close/at max incentive within the first years
- Getting the right feel for what constitutes great performance (ERR circa 8.90)
- Down side reflects that bottom performer is close/at max penalty and must improve

ERR - 1.75STD around the mean alternative



- Use the mean to set the max incentive and max penalty as with DNO model
- Use 1.75 STD same as DNO level
- Keep incentive earned and penalty earned at Upper Quartile (8.82)
- Sliding scale up and down from Upper Quartile creating an asymmetric measure
- Issue that leading performers do not max out in first years

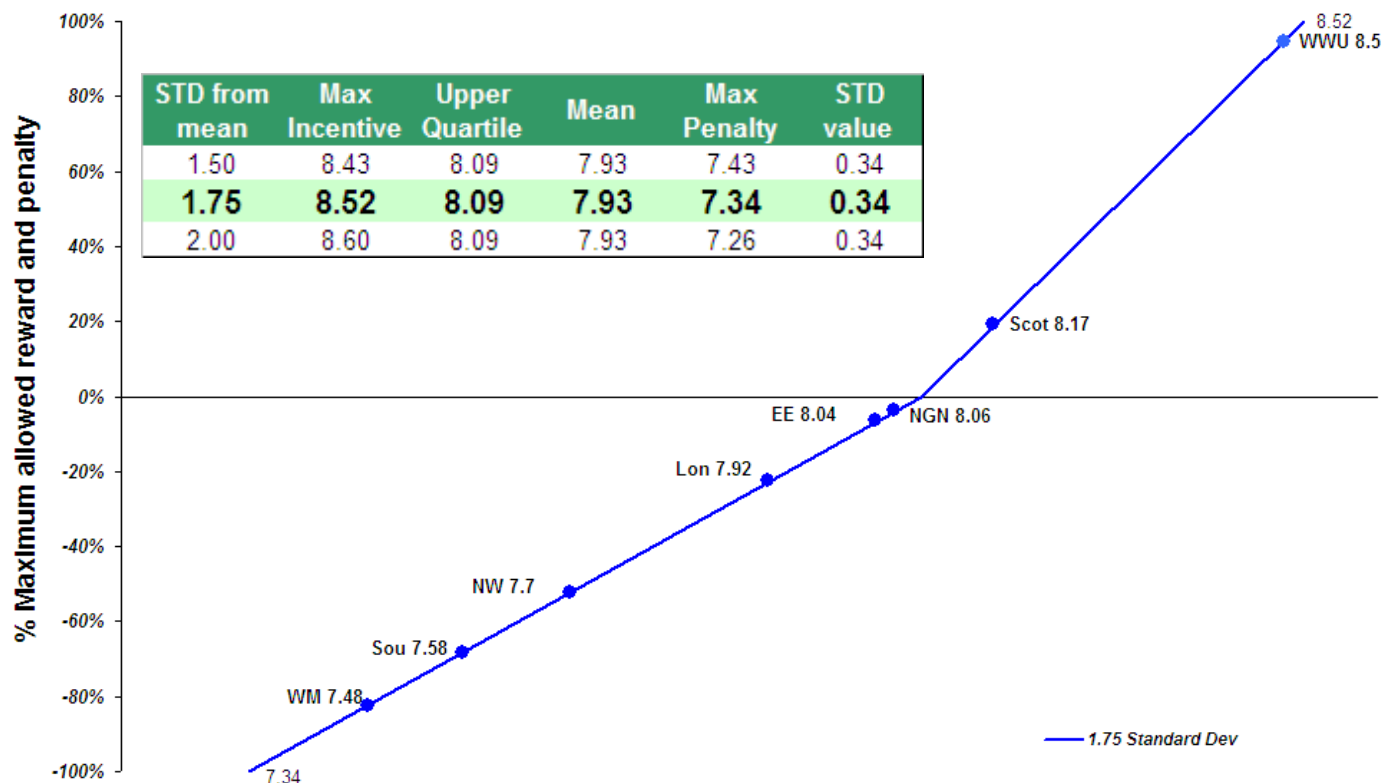
PW Killer 1.75STD Down 0.2 & 0.5 STD Up



STD	Max Incentive	Upper Quartile	Max Penalty	Mean
0.20	8.15	8.09	7.50	7.93
0.5	8.26	8.09	7.50	7.93

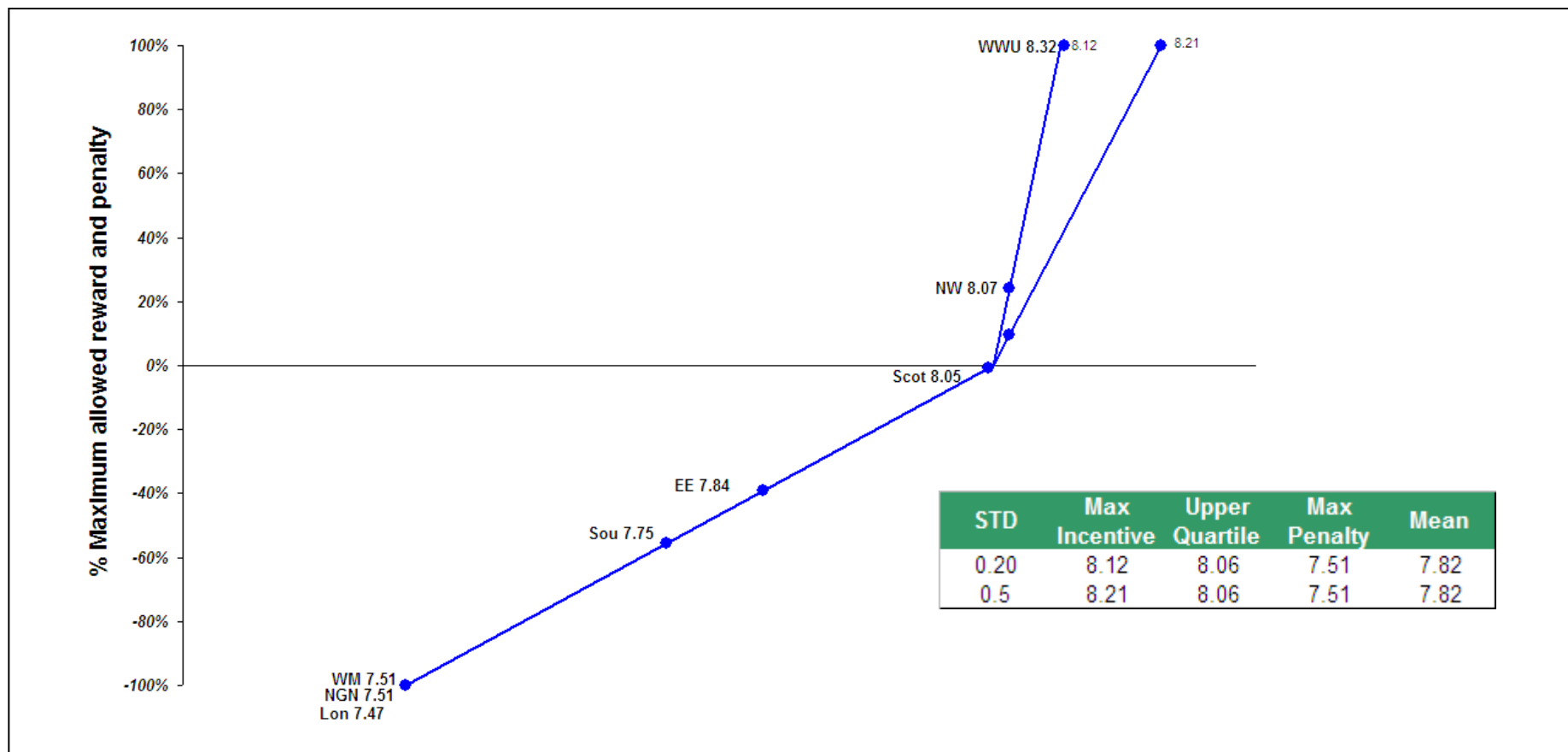
- Upper quartile is already an extremely high score for a utility to achieve and maintaining will be an achievement in itself – considered 0.20STD but agreed 0.50STD is our preferred option
- Principle that those in first place should be close/at max incentive within the first years
- Getting the right feel for what constitutes great performance in each process (PW circa 8.30)
- Down side reflects that bottom performer is close/ max penalty and must improve

PW – 1.75 STD around the mean alternative



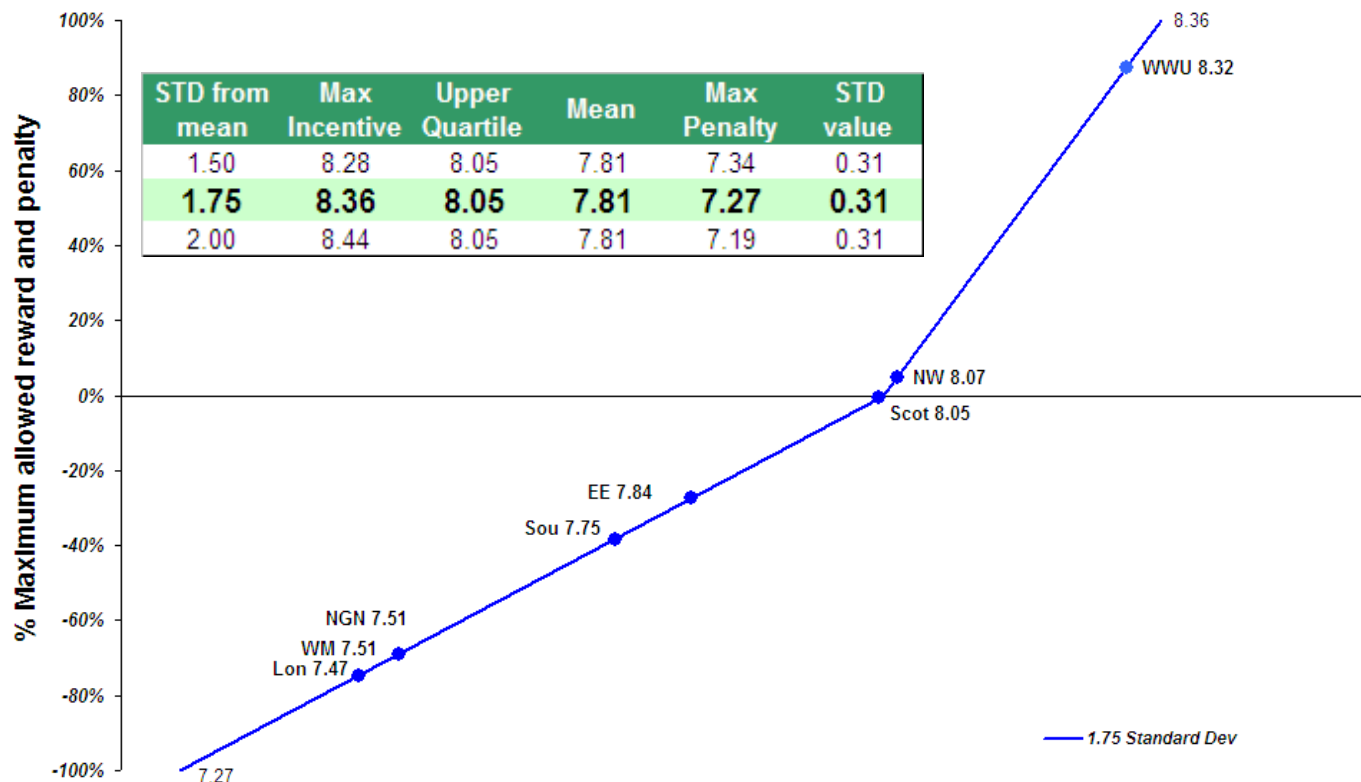
- Use the mean to set the max incentive and max penalty as with DNO model
- Use 1.75 STD same as DNO level
- Keep incentive earned and penalty earned at Upper Quartile (8.09)
- Sliding scale up and down from Upper Quartile creating an asymmetric measure
- Issue that leading performers do not max out in first years

CON Killer 1.75STD Up 0.2 & 0.5 STD Down



- Upper quartile is already an extremely high score for a utility to achieve and maintaining will be an achievement in itself – considered 0.20STD but agreed 0.50STD is our preferred option
- Principle that those in first place should be close/at max incentive within the first years
- Getting the right feel for what constitutes great performance (CO circa 8.20)
- Down side reflects that bottom performer is close/ max penalty and must improve

Con - 1.75STD around the mean alternative



- Use the mean to set the max incentive and max penalty as with DNO model
- Use 1.75 STD same as DNO level
- Keep incentive earned and penalty earned at Upper Quartile (8.05)
- Sliding scale up and down from Upper Quartile creating an asymmetric measure
- Issue that leading performers do not max out in first years

Complaints

Complaints Key Points

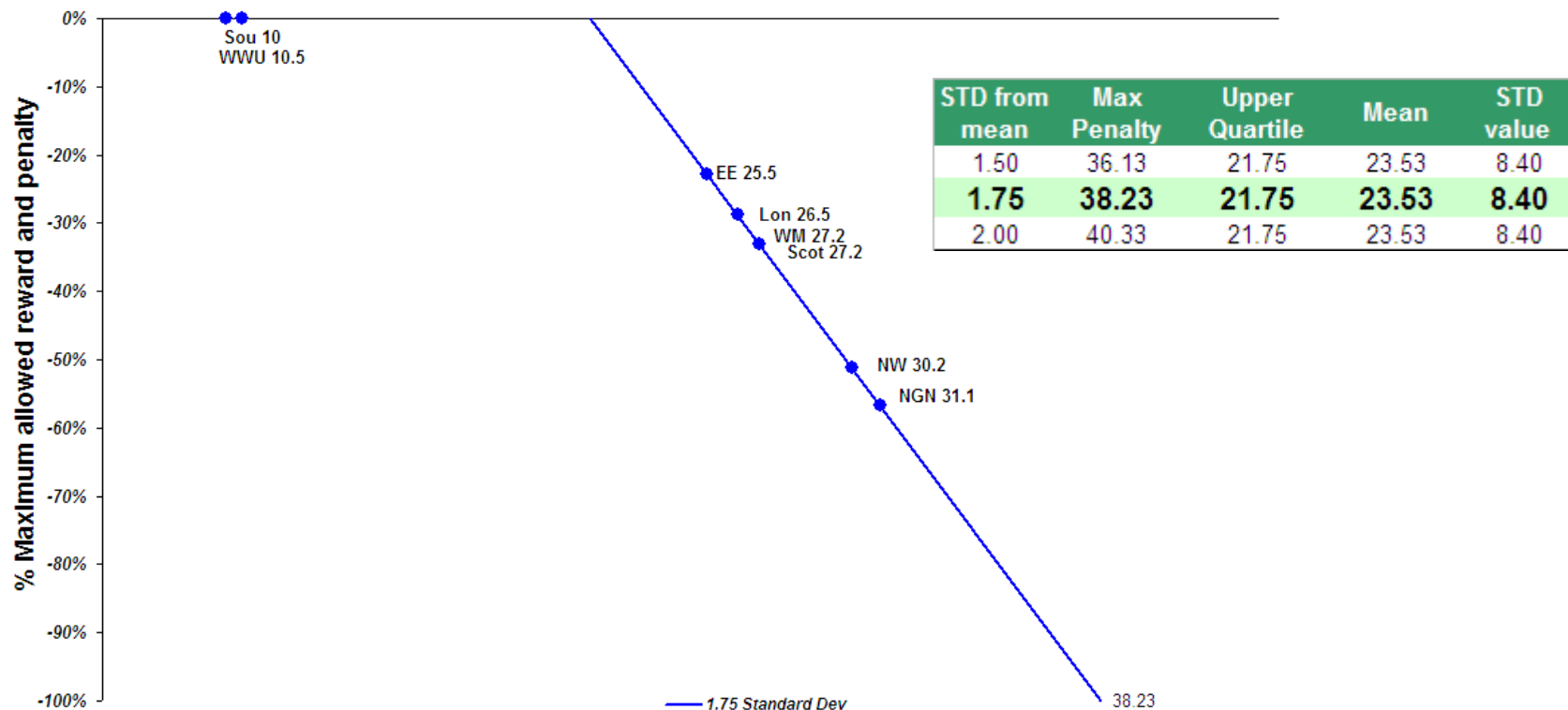
Complaints

- Use the mean to set the max penalty rather than the upper quartile
- 1.75 STD is used to match c-sat proposal (same as DNO level?)
- Keep penalty earned at below upper quartile - sliding scale down from upper quartile
- Keep all other methodology and all % weightings the same as the original proposal
- Do not split products (as with c-sat) because it will make the disproportionate Ombudsman issue more pronounced
- Must consider some exemptions/objective criteria
 - Any complaint that agrees with DN but awards a good will sweetener
 - Any decision that finds in the customer favour but contravenes legislation

Complaints – All DN Trial Data (Oct – Mar)

		EE	Lon	NW	WM	Scot	Sou	WWU	NGN
Unresolved complaints at end of first working day from being received		95.06%	95.59%	95.52%	95.27%	52.26%	64.75%	66.58%	84.14%
Unresolved complaints at end of 31 working days from being received		23.25%	25.23%	27.69%	31.19%	8.85%	15.69%	18.10%	4.41%
% of repeat complaints		2.74%	3.85%	3.61%	2.82%	0.35%	0.79%	0.51%	3.52%
Ombudsman findings against DNO		50.00%	50.00%	66.67%	50.00%	100.00%	0.00%	0.00%	100.00%
	Weighting	Score	Score	Score	Score	Score	Score	Score	Score
% of Unresolved complaints at end of first working day from being received	10	9.5	9.6	9.6	9.5	5.2	6.5	6.7	8.4
% of Unresolved complaints at end of 31 working days from being received	20	4.7	5.0	5.5	6.2	1.8	3.1	3.6	0.9
% of repeat complaints	50	1.4	1.9	1.8	1.4	0.2	0.4	0.3	1.8
Ombudsman findings against DNO	20	10.0	10.0	13.3	10.0	20.0	0.0	0.0	20.0
Combined complaints metric		25.5	26.5	30.2	27.2	27.2	10.0	10.5	31.1

Complaints – All DN Trial Data (Oct – Mar)



- Use the mean to set the max penalty rather than the Upper Quartile
- 1.75 STD is used to match c-sat proposal (same as DNO level?)
- Keep penalty earned at below Upper Quartile - sliding scale down from Upper Quartile

Stakeholder Engagement

Stakeholder Engagement Key Points

Stakeholder Engagement

- Stakeholder to be Discretionary Reward based, BUT measured against a more objective set of criteria:
 - Reward to be allocated on a **per network** basis against an individual allocation (as opposed to a central pot that everyone bids against) to support collaboration and network sharing
 - Propose size of Stakeholder reward 0.5% to incentivise great outcomes for customers
 - Separate to the DRS proposed under RII0-GD1 for social and environmental. A biddable pot of £14m over 8 years

Stakeholder Engagement

Ofgem Guidance

- Through various discussions and workshops we have been provided with guidance from Ofgem. This has been used to help shape the score card approach.

GDNs are required to:

- identify best way to elicit and collect views;
- identify instances where lack of understanding prevents feedback on key debates and how to address it;
- identify top concerns of stakeholders about GDN performance and implement plans to address them;
- understand different types of customers will have different needs in the future and tailor accordingly; and
- assess how consumers might change their use of the networks; this should shape the services provided by GDNs

Minimum requirements:

- up to date engagement strategy addressing how GDNs inform and obtain feedback on the impact of their business activities;
- a range of stakeholders have been engaged and have commented on approach to engagement AND on the changes being made as a result of these views;
- a variety of engagement mechanisms has been used to inform and engage; and
- the GDN is adapting its internal processes and policies in response to feedback from stakeholders

Stakeholder Engagement

Scorecard Approach – strawman for discussion

Aspect of performance	Weight	Good 01-33	Very Good 34-66	Excellent 67-100	Some Examples
Strategic understanding and commitment to stakeholder engagement	Each GDN to determine weightings annually as this may be different each year and by each GDN as it is stakeholder driven	Identify instances where lack of understanding and communication channels prevent feedback on key debates and how to address it	Strategy developed with stakeholders and have input into initiatives to be developed	Stakeholder culture embedded across whole of company. Stakeholders impact decisions at Board level	•CO Awareness •Volunteering and CSR
Annual performance reviewed with stakeholders		Feedback sought on an annual basis of current performance. Tested via wider engagement and solutions sought	Identify top concerns of stakeholders about GDN performance and implement plans to address them	Initiatives from implementation plans embedded within business processes	•Charging volatility •Theft of gas
Recognition of changing needs/network use		Developing approach to understand that different types of customers will have different needs (in the future)	Assess how consumers might change their use of the networks and tailor accordingly	Services shaped to recognise current and future use of networks	• Connecting customers • Future use of heat
Collaborative approach to stakeholder activities and use of new ideas		Proactive approach to sharing ideas and initiatives with others	Proactively sharing and learning from industry experience	Driving best practice, creating industry excellence	•Congestion management
Involvement in wider industry change		Understand industry drivers, actively reviewing policy and working to secure industry change	GDNs welcomed by their presence	Facilitating and leading industry change	•Future of gas •Code mods

Award on sliding scale (as per rationale for CSAT and Complaints)

Stakeholder Engagement

Submission and Role of the Panel

- GDNs will make submissions annually using a defined template (to be developed)
- The template will require a number of questions to be completed
- Evidence will be provided with the submission
- GDNs will be invited to the Panel session to provide clarification / answer questions on submission
- Using the above, the Panel's role will be to:
 - Work within explicit, transparent and clearly defined and agreed criteria
 - Assess where GDNs sit within the category range (i.e. good, very good, excellent) NOT on amount of reward (this is to decouple reward amount from engagement outcomes)
 - Points awarded in the category range will determine award amount
 - Provide feedback and clear rationale for decisions and how GDNs can improve
 - Publish proceedings