

The background of the slide features a close-up, slightly blurred image of a gas stove. On the left, a blue flame is visible from one of the burners. On the right, a white ceramic burner cap is shown. A large, white, 3D-style arrow is superimposed on the left side, pointing horizontally towards the right, partially overlapping the stove image.

Gas CSI: Initial Proposals discussion

10 Sept 2012

Structure of incentive

- Three components: connections, unplanned interruptions and planned interruptions.
- The survey asks all customers a series of introductory questions. The killer question 'Overall how satisfied are you' will be used to indicate performance.
- The target is based on upper quartile performance during the 2011-12 trial.

Consulted on	GDN proposed	Ofgem Proposed
Weighting applied to each component of CSS	Equal weightings. With separate targets and financial outputs.	Agree with GDN approach.
Score when GDN incurs max penalty/ reward	<ul style="list-style-type: none"> •Max reward incurred closer to the target than max penalty. •Based on fixed scores. •Using trial data, considered numerous statistical approaches, proposed simple numbers. 	<ul style="list-style-type: none"> •Agree with GDN approach (industry already performing well). •Slight difference in the simple numbers proposed for connection category (7.5-8.5 rather than 7.4-8.4).
Incentive rate applied to GDN scores	-	Divide total revenue exposure by the difference between max penalty /reward score and industry target.

Question 1: Welcome views on proposed weightings for different customer interactions, and scores associated with maximum penalty, targets and max reward.

Stakeholder	Comment
GDNs	<p>All GDNs agreed with separate targets for each component</p> <p>Agree with setting targets for the period.</p> <p>1 GDN - need to review approach to target setting. Consider that even with frontier service levels, they would not reach proposed upper range of outperformance.</p> <p>All GDNs considered that the connection targets were very tough and proposed that the max reward/penalty range should be 7.4-8.4.</p> <p>1 GDN considered that all GDNs use the same service provider or there should be a robust audit process needs to ensure that all providers are following the same procedures.</p> <p>Connection permits - affects London scores. Consider that permits have 6% difference in scores. Permits potentially rolled out over UK.</p>
DNOs	<p>2 DNOs supported establishing targets for the period.</p> <p>2 DNOs stated that they believe that the incentive to improve would diminish in final years of price control if there is no "incentive roller" or mechanism to allow targets to be recalibrated if performance converging/outperforming</p> <p>1 DNO considered that the weightings for each component should consider work volume.</p>
Suppliers	<p>Do not understand why there is a larger gap for penalties.</p> <p>Analysis uses a low allowed revenue and does not show the true impact of possible rewards.</p> <p>Disappointing that CSS only focuses on one class of customers. Shippers are also customers.</p>

Structure of incentive

- Four indicators : Percentage of complaints outstanding after 1 day, percentage of complaints outstanding after 31 days, percentage of repeat complaints, percentage of Ombudsman decisions against the GDN.
- The target based on upper quartile performance during the 2011-12 trial.

Consulted on	GDN proposed	Ofgem Proposed
Weightings of the relative complaints metric components	<ul style="list-style-type: none"> • Remove EO indicator or reduce weighting to 5% and place additional weighting on complaints outstanding after 31 days. • Exemptions to some EO decisions (eg if EO decision is not materially different to GDN proposals). 	<ul style="list-style-type: none"> • We consider that EO decisions still useful indicator. Reduce weighting attached to EO decisions to 10%, increase weighting on percentage of complaints outstanding after 31 days to 30%. • No exemptions on EO decisions. Plenty of opportunities to engage with EO before they make final decision.
The maximum penalty score	Based on 1.75sd from the mean using 2011-12 trial data.	Agree with GDN approach.
The incentive rate term	-	Dividing total revenue exposure by different between max penalty score and industry target.

Question 1 (b): Welcome views on proposed weightings for each complaint element (including whether to include EO findings) and score associated with target and maximum penalty.

Responses to IP – Complaints Metric

Stakeholder	Comment
GDNs	<p>EO weighting still too high. EO indicator not a meaningful indicator. Drives wrong behaviours.</p> <p>Different solutions proposed</p> <ul style="list-style-type: none"> •Remove EO component and place additional weighting on Day+31. •Needs to take account of a different volume driver. <p>Exemptions (when offers are basically the same) would truly reflect when ruling against.</p>
Suppliers	-
DNOs	<p>Important that EO service is used (eg novel cases). High weighting on EO could potentially raise costs for consumers f GDNs always pay the customer.</p> <p>Support further reduction on EO findings.</p> <p>Suggest that EO divided by "total complaints" to take into account total number of complaints.</p> <p>Support exclusion of exemptions as they add complexity.</p>

GDN concerns

- GDN concerns that SE is too subjective.

Ofgem proposals

- Developing SE proposals for gas distribution alongside electricity distribution.
- GDNs assessed against minimum requirements by Ofgem. Those that meet minimum requirements will be invited to attend a session with our independent panel of experts.
- The panel will assign a score to each network's submission based on assessment against a number of criteria, this will equate to a financial reward.
- We will undertake a trial stakeholder engagement session in Summer 2013.

Responses to IP – stakeholder engagement

Stakeholder	Comment
GDNs	1 GDN Have some reservations about reward process for SE and think it is hard to foresee a position where GDNs are awarded max reward.
DNOs	<p>Support approach for SE.</p> <p>GDNs need to understand process in advance of first submission under the incentive.</p> <p>Suggest notes and feedback published.</p>
Suppliers	<p>Incentives should be symmetrical.</p> <p>Stakeholder Engagement is part of BAU.</p> <p>Concerned that assessment process is subjective.</p> <p>GDNs need to prove that SE has been productive and informed their views.</p>

Revenue associated with Broad Measure

- Ofgem March Strategy document outlined that the Broad Measure would be +/-1 per cent of allowed revenue.
- GDNs proposed that BM exposure could be +1.5/-1% of allowed revenue. We do not believe that there is sufficient evidence has been provided to lead us to reconsider our position
- Proposed relative exposure of the three BMCS elements below. NGN believed that +0.8% on CSS offered appropriate incentive to improve QoS to all customers. Other GDNs and Ofgem believed that +0.2% was not enough incentive to improve SE.

INCENTIVE	Ofgem March 2011 proposals	NGN proposal
Customer satisfaction survey	+0.5% to -0.5%	+0.8% to -0.5%
Complaints metric	0% to -0.5%	0% to -0.5%
Stakeholder engagement	Up to 0.5%	Up to +0.2%

Question 1 (c): We welcome your views on one GDN's proposed changes to the weightings of the different elements of the broad measure

Responses to IP – assoc revenue

Stakeholder	Comment
GDNs (four GDNs)	Split support (three GDNs support equal split of upside and one GDN supports placing additional upside on the CSS).
DNO	Network companies important social role (eg location of outages). SE should incentivise DNOs to achieve this. As these activities become best practice they will become part of the base cost.

- Continue with FP network extension scheme. We will conduct a review whether justified in context of DECC heat strategy.
- GDN business plans outline projected GD1 output (in terms of no. of households connected).
- DRS provides financial incentive on DNOs to develop non-network solutions in partnership with other organisations.

GDN proposals

- Second business plan submissions provided greater detail on number of connections and assoc costs.
- GDNs acknowledged constraints to increasing the number of connections.

Our Proposals

- Propose to fund connections to approx 75,000 households over GD1. We will adjust GDN allowances if they fail to meet prescribed output levels.
- GDNs should work with other parties to identify least cost solutions for customers (including off-grid solutions). Stakeholder Engagement should incentivise this.

Question 1: We would welcome your views on the proposed number of fuel poor connections

Stakeholder	Comment
GDNs	<p>All GDNs - support Ofgem's proposal to continue to fund fuel poor customer connections</p> <p>Need a consistent approach to setting the Fuel Poor allowance to ensure consistent treatment of fuel poor customers across networks. Some GDNs disagree about that our approach is consistent.</p> <p>1 GDN not supportive to move from a single review of fuel poor policy from 2014 to anytime in the RIIO-GD1 period. They believe that uncertainty could significantly discourage other funding from other parties.</p> <p>1 GDN assumes that it will be allowable to over perform in some years and under achieve in others</p> <p>Should it become clear that the number of fuel poor connections will exceed those in the Initial Proposals; 1 GDN would like confirmation that these costs will be accepted automatically.</p>
Supplier	<p>Welcome the review mentioned in the initial proposals and we would expect a holistic approach to ensuring the right fuel source is enabled by the energy industry.</p>
DNO	<p>The inclusion of the 'economic test' in the mechanism will be important in ensuring that only those connections which are well justified go ahead through this route.</p> <p>Stakeholder engagement element of the broad measure should provide direct financial incentive for companies to demonstrate good practice.</p> <p>Greater cross-industry working in future may be required to ensure that the 'least-cost' approach can be progressed for potential fuel poor connection customers.</p>

GDN Proposals

- In business plans, all GDNs have set out proposed activities and output measures in relation to CO.
- SGN propose financial incentive in relation to CO awareness of up to 0.5% of annual allowed revenue. (with survey measuring public awareness).

Our Proposals

- All GDNs are implementing activities to address CO. We welcome the range of activities proposed by GDNs and don't intend to be prescriptive.
- Propose to set common output measure to assess CO awareness (eg survey). We consider that it is not appropriate to attach financial exposure – levels of CO awareness not just attributable to GDN (other parties also involved).
Reputational incentive only.
- Fund specific activities where activity will complement CO awareness activities, where requested by GDNs.
- DRS to reward sharing of best practice activities.
- Stakeholder Engagement incentives the GDNs to work collaboratively and strategically with different stakeholders to ensure right solution is implemented (including off-gas grid solutions).

Question 2: We would welcome your views on the proposed approach to CO issues, including setting an output measure based on improving CO awareness.

Response to IP – CO awareness

Stakeholder	Comment
GDNs	<p>Support financial incentive.</p> <p>Questions about the funding of CO proposals and its consistency across the GDNs.</p>
DNO	<ul style="list-style-type: none"> •We agree that in these circumstances a financial incentive would be inappropriate (expose parties to windfall gains and penalties due to the actions of others). •When developing reputational incentive ,care consideration should be given to how Ofgem will strip out any effects due to the actions of others. •The stakeholder engagement element incentive, could offer an effective way of creating both a reputational and (in cases where it was justified) a financial incentive.

The background of the slide is a photograph of a gas stove with blue flames. A large, semi-transparent white 'X' is overlaid on the left side of the image. The title text is centered over the right side of the 'X'.

Gas CSI: RIGs and Licence Drafting

10 Sept 2012

Broad Measure: Regulatory Instructions and Guidance (RIGs)

- We produced draft RIGs for the CSS trial. We will need to update RIGs to take into account learning from trial period.
- We seek feedback from stakeholders on possible changes to draft RIGs.
- Taking on board feedback from DNOs, we have made some changes to reporting templates. Again, we seek feedback.

Gas Distribution Licence

- Alongside the Initial Proposals consultation, we have also informally consulted on the Broad Measure licence condition (GD24 in the current consultation).
- We encourage all stakeholders (in particular the GDNs) to review/test the licence drafting.
- Consultation closes 21/09/12.