

30 October 2013

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By email only to: RIIO.ED1@ofgem.gov.uk

Dear James

### **RIIO-ED1 customer service and connection incentives**

Please find our responses to the questions posed by Ofgem in their consultation on "*RIIO-ED1 customer service and connection incentives*" published on the 4 September 2013.

Ofgem makes reference to setting targets to encourage DNOs to share best practice. We believe that where best practice is identified it should be shared more widely than just among DNO licensees.

DPCR5 placed the obligation/ incentive for DNOs to demonstrate that they were effective at facilitating competition within their Distribution Service Areas. Responses by some DNOs to this have been disappointing. In their decision document of December 2009 Ofgem stated that:

*"DNOs that have failed to demonstrate competition or put forward a case by December 2013 will be reviewed by Ofgem and could subsequently be referred to the Competition Commission".*

We hope that the proposals for ICE are in addition to, and not instead of, Ofgem reviews and potential Competition Commission referrals of those DNOs who have failed to demonstrate effective competition.

Yours sincerely

Mike Harding  
Head of Regulation

## **Appendix Response to Ofgem's questions**

### **Customer satisfaction survey (CSS)**

***Question 1: Do you agree with setting a common target for all DNOs? If not, why do you consider that we should introduce separate targets for different DNOs?***

Customer Satisfaction Surveys are subjective. A customer's perception will be influenced on their:

- Direct experience of a service, and changes in experience over time
- Experience compared to other services
- Reputation/ image as portrayed by media (national and local)

Customers should not receive differing service levels depending on the network to which they are connected. The incentives and penalty exposure is linked to the base revenue of each DNO. Therefore each DNO has a comparative and proportionate exposure based on their performance. It would therefore seem inappropriate to place differing targets on DNOs with this proportionate linkage to base revenue in place.

Further to the above, customer satisfaction is not just about service delivery, it is also about communication and managing expectations. On this basis we think the task is the same across GB and therefore believe targets should be common to all DNOs

***Question 2: Do you agree with setting a common target for all customer categories? If not, please give reasons for taking an alternative approach.***

Yes in line with question 1.

***Question 3: Do you agree with our "minded to" approach to calculate the target and the maximum reward/penalty score? If not, please give reasons for taking an alternative approach.***

We believe that this is an acceptable approach and agree with the 'minded to' approach.

***Question 4: Do you agree with our proposed approach to calculate the incentive rate?***

We believe that the 'minded to' position is a reasonable approach.

***Question 5: Do you agree with the approach used to incorporate unsuccessful calls into the CSS? Do you agree with our "minded to" position of not introducing a deadband or a cap on penalty exposure?***

We believe that the 'minded to' position is a reasonable approach.

### **Complaints metric**

***Question 6: Do you agree with our proposed approach to calculate the target and the maximum penalty score? If not, please specify your preferred alternative and the reasons why.***

We believe that the 'minded to' position is a reasonable approach.

***Question 7: Do you agree with our proposed approach to calculate the incentive rate?***

We believe that the 'minded to' position is a reasonable approach.

### **Time to connect incentive**

**Question 8: Do you agree with our "minded to" position to set common targets for all DNOs? Please explain why you agree or disagree.**

We believe the targets should be common across GB. In providing connections we do not think that the level of service that a customer is entitled to should be unduly differentiated across the UK. We see little evidence to justify differentiating the targets across GB

*We agree with this approach. It would seem strange as a customer to expect a different level of service across the UK depending on the DNO area that we operated within.*

**Question 9: Do you agree with our "minded to" position to set different targets for different types of connection? If not, please explain why and outline your preferred alternative.**

We agree with Ofgem's minded to position. We recognise that in general responses to LVSSA work should be quicker than responses to LVSSB work.

**Question 10: Do you agree with our "minded to" position to place an equal weighting on all four elements of the time to connect incentive? If not, please explain why and outline your preferred alternative.**

We agree with Ofgem's minded to position. We understand that different stakeholders may argue for different weightings for different activities. However, we find it difficult to provide objective justification for this. Further, we would find it difficult to determine any rational logic to justify what such justified weightings would be.

**Question 11: Do you agree with our "minded to" approach to calculate the target and the maximum reward score? If not, please explain why and outline your preferred alternative approach.**

Whilst we agree with the mechanism proposed, we make no comment on whether 30% is the right target.

**Question 12: Do you agree with our proposed approach to set the target/maximum reward score now for the first four years of RII0-ED1 and then calculate the target/maximum reward score for the final four years based on RII0-ED1 data?**

Yes.

**Question 13: Do you agree with our proposed approach to calculate the incentive rate?**

Yes. We agree that the value of the incentive rate should be reviewed for the final four years of the price control review.

### **Incentive on connections engagement (ICE)**

**Question 14: Do you agree with splitting the penalty equally across the market segments? If not, please explain why and give details of your preferred alternative.**

We see the response by some DNOs to pass the competition test is extremely disappointing.

We note that in paragraph 12.15 of their consultation "Electricity Distribution Price Control Review Final Proposals - Incentives and Obligations published on 7 December 2009 (Ofgem reference 145/09), Ofgem stated:

*"Where DNOs can demonstrate effective competition in their regions by meeting our competition test, an unregulated margin constrained by competition will be allowed. DNOs that have failed to demonstrate competition or put forward a case by December 2013 will be reviewed by Ofgem and could subsequently be referred to the Competition Commission."*

Whilst we support the proposed ICE arrangements, we hope that they are in addition, and not instead of the promised review by Ofgem of those DNOs who have failed to demonstrate effective competition.

We agree that the incentive on customer engagement should be split across all market segments. We understand that different stakeholders may argue for different weightings for different activities. However, we find it difficult to provide objective justification for this. Further, we would find it difficult to determine any rational logic to justify what such justified weightings would be.