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(By email)

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Dear James,

RIIO-ED1 customer service and connections incentives

We are pleased with the progress that Ofgem has made in the development of these targets. We also commend you on the process that preceded your consultation. The working groups have been an important feature of the RIIO-ED1 process and allowed stakeholder engagement and transparency of the approaches.

We support Ofgem's approach in concluding the setting of these targets well in advance of the start of the RIIO-ED1 period and consider this to be in the best interests of customers overall. We have responded to each of your detailed questions in the attached appendix.

We would note that there are two particular aspects of this suite of incentives that do require further work. The details of how the Stakeholder Engagement incentive will work, in particular to incorporate social issues remains outstanding. Similarly, details of the Incentive on Connections Engagement are at an early stage and only limited stakeholder discussions have been held. We are keen to work with Ofgem over the next few months to progress these remaining aspects.

If you require any further information, please do not hesitate to contact me.

Yours sincerely,

Paul Bircham
Regulation Director

RIIO-ED1 customer service and connections incentives

Customer satisfaction survey

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?

Whilst we have large underground network we acknowledge that other DNOs could argue that there are other factors that impact them. Therefore we agree that common targets are a sensible approach.

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

We note that customer satisfaction with connections always lags that of interruptions. However, based on the proposed approach based on 'good service' we accept it is reasonable and logical to have that same level service for all three categories set as a common target.

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 support Ofgem's approach to setting fixed targets and maximum penalty/reward scores for the RIIO-ED1 period. We consider that the approach to setting the targets commensurate with the levels of service seen in other industries is a progressive step forward. We believe that these set challenging but appropriate targets that will incentivise companies, us included, to improve our performance. Our experience is that customer expectations continue to rise and therefore we have to do more in order to even maintain the level of score we currently achieve. Therefore even the best performing companies have to 'run to stand still'.

We note that the approach to setting maximum reward/penalty scores results in asymmetric incentive rates above and below the target level. This does create a degree of uncertainty in justifying investment to make service improvements but much less than the current regime. Whilst the incentive rates for this incentive are currently the same irrespective of whether in reward or penalty we can see that it is broadly commensurate with incremental improvements above good practice being harder and more expensive.

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

See comments above.

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 support the principle that Ofgem seek to apply but have some concerns that the proposed approach acts in such a way that it simply reduces the size of the incentive. Unless a DNO has no instances where calls are lost then this approach simply reduces the strength of the incentive. All DNOs typically have some 'unsuccessful calls' though we would point out that the method by which these are measured means that where a customer hangs up satisfied with a message may be counted as an unsuccessful call if they do not hang up immediately the message ends. We do though welcome Ofgem's approach to remove unsuccessful calls that are outside the DNOs control eg where the telephone operator is responsible for the call not reaching the DNO.

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.

Ofgem's proposed approach exposes DNOs to a much greater level of penalty than the existing incentive. The transition could be mitigated by using an average of the worst performing DNO scores for 2011-12 and 2012-13 for the maximum penalty score. This would ensure that there remains a strong incentive to improve if any DNO slipped below the performance of the worst performing company score in 2012-13.

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

Yes, we agree with this 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 agree that this seems a sensible approach.

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 that this is a sensible approach. There is a different mix of work between the DNOs and this could change over time. We believe that it is an important principle that DNOs are not unduly advantaged or disadvantaged due to changes in the mix of work that is outside their control. The different targets means that DNOs are incentivised to improve the service to them all rather than focusing on the type that makes up the largest proportion.

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 this approach as outlined in our response to question 9.

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.

We support the approach to allow the early setting of targets for RIIO-ED1. However, we have some concerns that changes in customer behaviour outside our control could make these targets difficult to achieve.

Changes in requirements for street works permits may change in the future and make it difficult to make improvements in the average time to connect.

In particular for the LVSSB category, which includes up to four properties, the build profile is critical in terms of whether the DNO is able to make the connections. If customer behaviour changes such that they seek a quotation for two properties and only build one now and the second in two years, the average time to connect is detrimentally affected. We acknowledge that to a degree this issue will be included in the data used to calculate the targets but consider that a mechanism to adjust for extreme examples is appropriate where customer behaviour impacts on our performance. Our proposal would be for the DNO to identify any extreme

circumstances and for these to be excluded from the calculation of the average time to connect, subject to review and approval by Ofgem.

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

We welcome the approach to set targets now for the first four years of RIIO-ED1. In order to give clarity of any reset targets, we would advocate that the mechanism is defined now with the methodology replicated as described in the consultation. We would propose that the first three years data is used to calculate both the target and the maximum reward score. This means that that this can be calculated and communicated in advance of the second four year period commencing.

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

Yes, we agree with this approach.

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.

On balance we agree with the proposed approach. Based on our analysis this approach could mean we have a greater financial exposure depending on which, if any, of the three remaining market segments that pass the Competition Tests in our area. Notwithstanding that point, our preference is for the simplicity and certainty of the approach. Our view is that a more complex method could lead to unintended consequences in terms of the weight (large or small) of the incentive in any one market segment.

The details of how this incentive will work need further development and we are keen to work with Ofgem in developing the details.