By e-mail

RIIO.ED1@ofgem.gov.uk

James Veaney
Head of Distribution Policy
OFGEM
9 Millbank
London
SW1P 3GE

Your ref

Our Ref

Date
30 October 2013

Contact / Extension
Jeremy Blackford

0151 609 2346

Dear James

RIIO-ED1 Customer Service and Connection Incentives – 4 September 2013

I am writing in response to the open letter issued on 4 September 2013.   We welcome the opportunity to comment on the issues raised.

We broadly support the proposals set out in relation to the incentive rates and other parameters for the complaints metric and customer satisfaction survey.

In relation to the connections incentive mechanisms, we acknowledge the difficulty in establishing robust criteria for weighting the individual market segments, and on balance we. agree that the proposal for equal weighting in relation to each of the two mechanisms is reasonable.

We do, however, have a concern regarding the lack of detail on the assessment criteria for ICE,

The open letter does not add significant detail regarding the way in which the ICE assessment will be carried out and applied in informing the judgement to be made by the Authority each year.   We note the commitment in paragraph 8.23 of the March decision paper for Ofgem to work with stakeholders on the ICE assessment process.   Given that the maximum penalty will be 0.9% of base revenue, there is a significant issue here, and we look forward to working with Ofgem and other stakeholders to ensure that a transparent and robust methodology is developed in good time.

We also note that evidence provided for the Competition Test prior to 2014 which is used to calibrate the ICE mechanism will be up to 9 years old by the end of ED1. We remain concerned that there is no explicit mechanism currently proposed to allow for re-assessments during this period that would impact on exposure to ICE penalties.

Our detailed comments on the questions set out in the open letter appear in the attachment to this letter.

Please contact me if there are any queries.

Yours sincerely,

Jeremy Blackford
Regulation and Commercial
SP Energy Networks

Att,

RIIO-ED1 customer service and connection incentives – open letter 4 September 2013
Detailed Comments by SP Energy Networks – October 2013

Questions

Customer Satisfaction Survey

<u>*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?*</u>

We agree that common targets for all DNOs are appropriate given the approach of benchmarking against customer satisfaction scores across a range of sectors, which we also support.

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

We think that this is appropriate, for the same reasons as given above.

<u>*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.*</u>

We support the approach of using a target score based on a 'good' (upper quartile) score across a wide range of customer facing sectors.

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

We agree that this is appropriate.

<u>*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*</u>

We think that, like the time to connect incentive, this should be reviewed mid-term. If, for example, telephony usage for interruptions declines sharply over the coming years for technological or other reasons, there is a risk of significant impact on allowed revenues triggered by a small number of unsuccessful calls. In addition, it is important that unsuccessful calls and the denominator of total calls are measured and reported consistently across companies and that the RIGs support this.

Complaints Metric

<u>*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*</u>.

We broadly support the approach used of a fixed target based on the mean of current performance across companies and the proposed approach to setting the maximum penalty score. However, it is important to ensure that the reporting and categorisation of complaints

is consistent across companies and that the RIGs are reviewed accordingly prior to the start of ED1.

Question 7: Do you agree with our proposed approach to calculate the incentive rate?
We think that given the target and maximum penalty score, the proposed approach to calculate the incentive rate is reasonable.

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 in principle with common targets for all DNOs, but it is important that there is consistency in application across companies – for example in relation to the trigger point for "connection".

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 this approach, as there is likely to be a significant difference in work required as between, say, a single service connection and a small housing development of 4 plots.

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 think that it is sensible to weight the market segments equally for purposes of applying the mechanism.

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 think that using the best quartile and a score 30% better than the mean for the target and the maximum reward scores respectively is a reasonable approach.

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 agree that there is a case for reviewing the target and maximum reward scores after the first four years given the relatively short time that detailed data for these segments has been available.

Question13: Do you agree with our proposed approach to calculate the incentive rate?

We agree with the approach proposed to calculate the incentive rate.

Incentive on Connections Engagement

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 understand the appeal of splitting market segments equally for the purposes of applying ICE.   However, this means that the result may be highly sensitive to evidence relating to small numbers of customers in particular relevant market segments.

We are concerned at the apparent reliance of this mechanism on Competition Test evidence submitted by companies only up to December 2013. The result of this is that exposure to penalties will be influenced by evidence and decisions up to 9 years old over the course of ED1, with no explicit mechanism to provide for re-assessment of a licensee's Competition Test status.over that period.

We are also concerned that there is still relatively little detail available on the criteria to be used and the scoring procedure to apply for this penalty mechanism.   We are keen to work with Ofgem and other stakeholders as appropriate to clarify the criteria and scoring procedure that will be applied.