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

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RIIO-ED1 Customer Service and Connection Incentives

Dear James

Thank you for the opportunity to respond to the above consultation. This response should be regarded as a consolidated response on behalf of UK Power Networks' three distribution licence holding companies: Eastern Power Networks plc, London Power Networks plc, and South Eastern Power Networks plc. The comments we have provided are not confidential and can be published via the DECC website.

We are supportive of the majority of Ofgem's minded to positions and outline in more detail our reasons for these in the appendix to this letter. We also outline a small number of minor changes that we believe would further improve the incentives.

I hope that you will find our comments helpful. If you have any questions, please contact me in the first instance.

Yours sincerely



Keith Hutton
Head of Regulation
UK Power Networks

Copy: Paul Measday, Regulatory Returns & Compliance Manager, UK Power Networks

Appendix

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?

UK Power Networks' experience and the experience within other service industries – both regulated and unregulated – remains that there are differences in regional customer satisfaction not driven by the quality of service provided. However, we recognise that there is a lack of current compelling evidence to enable Ofgem to set separate targets for different 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.

We are happy with a common target for all customer categories.

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 the target score (8.2), maximum reward score (8.9), maximum penalty score (6.8) and the use of UKCSI data underpinning the setting of these. ICS (who provide the UKCSI data) are a well-respected independent source of customer satisfaction benchmarking data and the setting of the target score against this using an upper-quartile target will ensure DNOs are stretched to achieve this target in all categories. The 8.2 target score is particularly challenging when the potential impacts of smart metering (specifically in respect of the customer impact of DNOs being required to conduct work to allow the installation of a smart meter) are factored in along with ever increasing customer expectations.

We support the benchmarking of customer satisfaction against companies outside of the electricity distribution, and wider utility sector. Cross-industry benchmarks show that a customer satisfaction score of 8.2 out of 10 is upper-quartile customer service performance (see Figure 1 overleaf).

However, it is clear from current DNO performance that it will be a challenge to achieve a score of 8.2 across all three service types (supply interruptions, connections and general enquiries). Hence, a score of 8.2 will provide a stretching target based both on current performance and also given that it is a level of customer satisfaction recognised by customers across all industries to be leading (upper-quartile) performance.

Where a DNO is able to deliver what customers deem to be a very good level of service (as measured by out-of-sector benchmarking), we believe that there should be recognition for the DNO and the ability to continue to invest not only to sustain, but to continue to improve, the service given to customers.

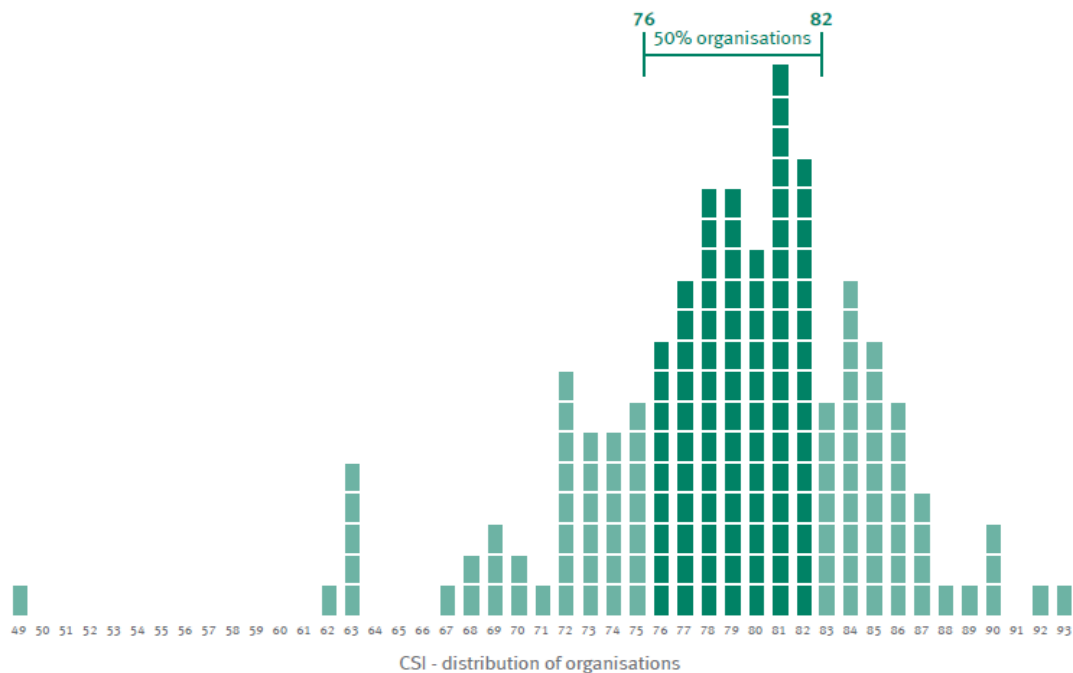


Figure 1: ICS cross-industry customer satisfaction scores, published February 2012 – upper quartile score is 82%

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

We support the straight-line approach to the calculation of the incentive rate as it removes the problem of the current mechanism whereby the impact of a change in score is magnified, as company performance converges, and hence the standard deviation of the scores for the whole group decreases. When combined with the common target, this new mechanism enables improvements in performance to be recognised and rewarded simply and in a very transparent manner.

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 understand Ofgem’s rationale for incentivising this area and are broadly comfortable with the proposal. We understand Ofgem’s concerns over our proposed deadband but are pleased that Ofgem have recognised that some calls should not be incentivised, e.g. those that are not under a DNO’s control. We look forward to working through the details of what categories of unsuccessful calls should be included in the count and which are to be outside the scope of the incentive.

Although not specifically addressed in the consultation, we believe that consideration should be given to the potential for changes impacting the unsuccessful calls element of the broad measure during RIIO-ED1. Currently DNOs receive almost all of their notifications of power cuts by telephone; however, with the rapid development of social media, it would be incorrect to assume that this would be the case, particularly in the latter years of RIIO-ED1. If this were to arise, any unsuccessful calls would result in a more significant financial penalty for DNOs. With this in mind it would be sensible to include in the licence a mechanism through which, Ofgem could switch off the unsuccessful calls element, subject to consultation, should the volumes of calls fall dramatically.

Complaints

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 support the proposed approach and the target score (8.33) and maximum penalty score (14.84) that arise from this proposal. We are also supportive of the change to the weighting of the category of jobs and the method of calculating the energy ombudsman percentages that were both outlined in the RIIO strategy document.

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

We are supportive of the approach described as it will give DNOs certainty of the scaling factor of any penalty. This will be of assistance in building investment cases to improve customer service.

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 understand and accept the rationale for common targets.

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 to set different targets for different types of connection.

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 to place an equal weighting on the four elements of the time to connect incentive.

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 agree with Ofgem’s approach for setting the target score. However, for the maximum reward score, we believe that Ofgem’s proposal to apply a stretch reduction of 30 per cent better than the current industry average is unrealistic and would therefore not act as an effective incentive; we believe that a rate of between 1 and 1.25 per cent per annum would be more appropriate. This rate is consistent with other on-going efficiency improvements assumed elsewhere in the RIIO-ED1 business plans.

The approach described in question 12, whereby there will be a reset of the maximum reward after four years of RIIO-ED1 should provide adequate protection against a situation where the DNOs are found to be routinely outperforming.

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 with Ofgem's proposed approach to set a target/maximum reward score now for the first four years and to then calculate a revised target/maximum reward for the final four years using RIIO-ED1 data.

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

We agree with Ofgem's proposal to calculate the incentive rate by dividing the reward exposure by the difference between the maximum reward score and the industry target score.

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 agree with Ofgem's proposal to split the penalty equally across the market segments.