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8 May 2014

Dear James,

Stakeholder Engagement Incentive reward consultation

1. This is the Northern Powergrid response to the Ofgem March 2014 consultation that covers a proposal for a new system for financial reward in the Stakeholder Engagement Incentive scheme. This response also includes feedback to the question of whether the reward for DNOs should be indexed in line with inflation.

Question 1: Do you consider that companies should meet a threshold level of performance before they are entitled to receive a reward? If so, what should the threshold score be and why?

2. In relation to Option B we believe that a score of 2 as the threshold for financial reward is too low. Below a score of 4, we consider to be an underperformance that should not be recognised with a financial reward. As with Ofgem's preferred option (Option C), we agree that a score of 4 is a good threshold for financial reward.

Question 2: Do you consider that companies should be able to receive their maximum reward for performance above a specified level? If so, what should the maximum reward score be and why?

3. The suggestion to have a qualifying score for financial reward we accept is a good suggestion. In regards to Option C, as Ofgem's preferred option, we consider a score of 9 out of 10 for the maximum reward to be too high. The preferred option for Northern Powergrid is the threshold suggested in Option B of 8.
4. We suggest that year on year the expectations of the regulator and the expert panel will and should be higher as we make the continuous improvements, which the scheme expects. As such we believe that achieving maximum reward will become unattainable, with a score of 9, very quickly as the standard of our initiatives will be subjectively judged against previous performance.

Question 3: What should the incentive rate be between the threshold score and the maximum reward score?

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5. The incentive rate should mirror option B in that if you achieve a score of 4 the minimum reward would be set at 40%. We believe this option significantly incentivises those companies finding themselves in the middle of the table to improve.

Question 4: Should the reward available for the DNOs be indexed in line with inflation?

6. We believe that the reward should be indexed in line with inflation (as measured by the Retail Price Index). The cost of running a successful, sustainable business and maintaining our network is subject to inflation and so we would prefer that this is reflected in our Stakeholder Engagement Incentive reward in order to ensure that the value of the reward remains relevant.

Closing comments

7. On the whole we agree that a change needs to be made in the way the Stakeholder Engagement Incentive scores influence the financial reward. In summary we would support the introduction of model B with the minimum and maximum thresholds set at 4 and 8, we also support the potential reward being indexed in line with inflation.
8. If you have any questions or would like any further information on the enclosed, please contact Sharon Roper, Stakeholder Manager (Sharon.roper@northernpowergrid.com or phone 01977 605620) or contact me directly.

Yours sincerely,



John Barnett
Commercial Director

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