

Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

jenny.smith@sse.com

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

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Dear James,

Re: Stakeholder Engagement Incentive reward consultation

Thank you for the opportunity to provide comments on the Stakeholder Engagement Incentive reward consultation on the mechanism to be used for converting the stakeholder engagement performance of Electricity Distribution Network Operators, Transmission Owners, and Gas Distribution Operators (together Network Owners, NWOs) to a financial reward.

I am pleased to provide comments on behalf of Scottish Hydro Electric Power Distribution, Southern Electric Power Distribution and Scottish Hydro Electric Transmission.

In summary, our main points are:

- We agree that the threshold for maximum reward should be reduced to a reasonable level;
- We also agree that a minimum threshold is appropriate to ensure that companies are not rewarded for poor performance;
- However, we believe a threshold of 4 out of 10 does not encourage participation; and
- We suggest that the threshold for reward should be a performance score of 2, and the maximum reward should be available at a score of 8, using option B gradient where a score of 2 gives 20% of the reward, up to a score of 8 which gives 100% of the reward.

We are keen that the mechanism used to convert performance to a financial reward is designed to help achieve both a high level of commitment to the incentive as well as a year on year improvement in the way NWOs engage with stakeholders.

The consultation letter states that Ofgem considers that different approaches between the NWOs are unnecessary. Our response is based on a balanced view for electricity distribution and electricity transmission which ensures that participation is not discouraged in either discretionary reward scheme.

We believe it is vital that the panel assessment is made on the foundation of a clear understanding of the roles and responsibilities of the participating NWOs. In particular we feel it is necessary to ensure the panel fully understands the different relationship between the three NWO groups and their customers.

Our responses to specific questions posed in the consultation are attached. Should you have any questions on these, or wish to discuss this, please let me know on 01738 512909.

Yours sincerely,

Jenny Smith
Regulation, Networks

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?

Yes, we consider that NWOs should meet a minimum threshold of 2 in order to receive a reward. As there is already a requirement to pass Part 1 of the submission which considers whether the NWO has passed the minimum requirements, we believe a threshold of 2 with a reward of 20% is the right level to maximise engagement and participation in the scheme.

We believe setting the score at 4 out of 10, as Ofgem is minded to, may discourage NWOs from participating in the discretionary reward scheme as it is a very high threshold to pass before receiving any reward.

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?

Yes, we consider that NWOs should be able to receive their maximum reward if they receive a score of 8 or more. This level is appropriate in order to both encourage participation and encouraging NWOs to do their best in engagement activities in order to achieve the highest score they can. Set any higher and the likelihood of being able to reach the score is low, particularly in the early years, which may have negative results in terms of participation.

With regards to joint learning, we feel participating and demonstrating all that has been carried out in the last year has been useful for everyone involved, and is in the spirit of sharing best practice and learning from each other. Having too high a threshold before maximising their reward may not result in the desired outcome.

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

As detailed in Ofgem's consultation, under option B, if the score is between 2 and 7.99, the incentive rate should be a straight line. As per option B, if a NWO scores less than 2, we feel they should not be rewarded, and once the NWO reaches a score of 8, they should receive the full reward.

This is appropriate given the fact that a NWO must have already met minimum requirements and passed Part 1 of the submission.

We believe option C is not consistent with the desired outcomes of this process. However if option C were to be amended to show a score of say 4.1 would result in 41% of the maximum reward, this would move the processes closer to achieving the desired outcomes.

4. Whether the electricity distribution Stakeholder Engagement Incentive should take into account price indexation?

Yes, we believe that the values for the incentive should be inflated using the Retail Price Index as the licence currently sets out the value of the incentive in 2007/08 prices. We would also expect there to be a retrospective adjustment made to DNOs for this adjustment for the Stakeholder Engagement rewards directed by Ofgem in 2013.