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Our ref

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Date

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06 May 2014

Dear James

Consultation on Stakeholder Engagement Incentive reward

I am writing on behalf of Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc, Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc.

WPD is generally supportive of the approaches proposed by Ofgem, which we consider to be a sensible solution. We agree with Ofgem's concerns that the incentive should not reward the lowest scoring companies, whilst the achievement of a perfect score of 10 out of 10 may also be unrealistic.

Below you will find WPD's response to the specific questions Ofgem posed:

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?

WPD agree that a minimum threshold should be applied before rewards can be achieved. Whilst the part one assessment rightly ensures that certain minimum requirements must be met before a company can be considered for a reward, we agree that a low score in the part two assessment, for instance of 1 or 2 out of 10, is not of sufficient difference to warrant a reward. We therefore support Ofgem's proposal for a minimum reward threshold of 4 out of 10.

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?

WPD agree that the qualitative nature of the awarding decision means that achieving a score of 10 out of 10 is unlikely. We would therefore support the introduction of an upper threshold that when met, would allow a company to achieve their maximum reward. This should remain a stretching target. Performance in the first two years of the incentive

(dry run in 2011/12 and live in 2012/13) indicates that a target of 9 out of 10 would be sufficiently challenging for all DNOs to strive towards. WPD therefore support this threshold.

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

WPD support an incentive rate that is a straight line between 4 and 9 out of 10, as proposed in Ofgem's option C. This remains simple to calculate and avoids 'cliff edges' (as would occur in option B), which result in a sharp increase in reward for only surpassing the minimum reward threshold by a small amount.

WPD's supportive response to the three questions above is conditional on the awarding panel applying a consistent approach to scoring the companies. This would be helped by as much consistency in the Panel membership as possible, with tenures of at least 3 years. It is also very important that the Panel focuses solely on agreeing a score out of 10 for each company, and not on what monetary amounts these scores convert to. It is also vital that the Panel make their decision based on a fair balance of the two factors:

- a. The overall standards of engagement achieved (or maintained) by the DNO
- b. The level of improvement achieved from the previous year.

Whilst it is of course right that the incentive should drive continual improvement, this should not be the sole factor. The maintenance of excellent overall performance, or of significant best practice initiatives, should not be overlooked. It was noted that WPD's score reduced from 8.6 in 2011/12 to 8.4 in 2012/13, despite acknowledgement that overall our performance had improved year-on-year. At the same time other DNOs scored significantly higher than the previous year, as an acknowledgement of the great strides made, but from a significantly lower starting point.

Finally, with regards to Ofgem's request for **views on whether the incentive reward amounts should be inflated by RPI:**

WPD strongly agree that the reward amounts should be inflated using RPI. This will enable consistency with other incentives, and avoids eroding the value of the incentive over time. The licence refers to the incentive in 2007/08 prices and it does not therefore seem appropriate that these values should apply to an incentive that will run until the regulatory year 2022/23.

If there are any aspects of this letter that you would like to discuss further then please contact Alex Wilkes at awilkes@westernpower.co.uk or on 01332 827647.

Yours sincerely,



ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager