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8th May 2014

Stakeholder Engagement Incentive Reward Consultation

Dear James,

Wales & West Utilities Limited (WWU) is a licensed Gas Distribution Network (GDN) providing Gas Transportation services for all major shippers in the UK. We cover 1/6th of the UK land mass and transport gas to over 2.4 million supply points.

We welcome the opportunity to comment on the modified stakeholder engagement consultation document issued on 27th March 2014, we have reviewed the three options laid out and our responses to the questions raised are as follows;

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?

We agree with the principle of not rewarding poor performing companies purely for meeting the Part 1 submission minimum criteria. We also agree that moving the incentive rate above zero to an agreed minimum score which then attracts an incentive is acceptable providing there is some recognition that achieving the maximum score, particularly in the early years of the incentive, will be unlikely. Out of the three options our preference would be Option B, this symmetrical proposal best represents the principles outlined above and would achieve both moving the minimum level above zero and bringing the ability to maximise the available reward into the reach of the GDN's.

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?

As stated in our response to question 1, our preference would be to adopt Option B so that companies achieving a panel score of over 8 would achieve maximum reward. This score would be awarded by an independent panel of experts and as such they would be well positioned to deem whether the companies are performing at 'Best Practice' levels for Stakeholder Engagement.

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

Ideally Option B where a score of 2 attracts 20% of the incentive with companies able to achieve maximum reward with a score over 8. A variant of this (which avoids a cliff edge) could be to set the threshold score at zero with a similar incentive glide path with the maximum reward set at a score of 8. This proposal almost parallels Option C with the minimum threshold score set at zero in both cases, the only difference being the thresholds to achieve maximum reward. This would confirm that companies are clearly undertaking the activities that Ofgem are expecting and company behaviours are consistent and in line with expectations.

We note your support for Option C and feel that whilst your proposal avoids the cliff edge scenario, the 0% percentage reward for achieving a score of 4 and passing the Part 1 Assessment is unreasonably low. For this to be more evenly balanced (if Option B is not acceptable) we would suggest a variant to Option C where the line is changed so that if a company achieves a score of 4 they receive 40% with incremental improvements to a maximum reward score of 9.

Your recent decision on Stakeholder Engagement guidance states 'our assessment of minimum criteria will take into account changes over time' so we see no reason why any proposed changes to the minimum and maximum scores cannot be locked in for the RIIO (2013-2021) price controls.

Please give me a call if you want to discuss any of these responses in further detail.

Yours sincerely,



Mark Oliver
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