

By E-mail

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Date

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Contact / Extension

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Dear Kersti,

Consultation on Arrangements for Stakeholder Satisfaction Outputs

This response is from SP Transmission plc (SPT) the onshore Transmission Owner (TO) for the South of Scotland. As a TO we ensure that we develop an economic, efficient and coordinated onshore transmission system for the benefit of GB consumers. Thank you for the opportunity to comment on Ofgem's consultation on arrangements for Stakeholder Satisfaction Outputs.

We fully support Ofgem's decision to review the current incentive to ensure that it continues to deliver benefits to all stakeholders; however, we believe that the background of this incentive should be re-visited. We would be happy to meet with Ofgem to provide further detail and work together to agree an appropriate baseline and incentive weighting which will be fair to all parties.

1. Background

Our RIIO-T1 price control submission in 2012 was built around stakeholder engagement. Under this new type of price control, Ofgem wished to establish a different type of contract with transmission licence owners that would meet stakeholder needs. It was in that context Ofgem decided to commit 1% of our allowed revenues as a symmetric incentive for our Stakeholder satisfaction outputs. This was consistent with the increasing significance and interest in the development of transmission infrastructure to assist the transition to a low carbon electricity system. It also reflected the scale of investment required by the onshore TO's to meet the associated low carbon targets.

The British Electricity Trading Arrangements regulations require that communication between the TO and a customer must be via the National Grid, the System Operator (SO) and not directly between the TO and the customer. These processes form part of the System Operator Transmission Owner Code (STC).

The industry framework established to achieve these obligations is enshrined in the STC. This code puts the SO as the intermediate party between the transmission owners and all parties connected to or seeking to connect to the electricity system. Our RIIO-T1 stakeholder satisfaction output mechanism was established to reflect these relationships but facilitate the increasing stakeholder interest in our activities.

At the outset of T1, we agreed principles for measuring our performance with Ofgem in relation to our stakeholder satisfaction outputs. The agreed principles recognised the limitations of engagement opportunities with stakeholders within the current regulatory framework and the SO TO Code and that the SO owns the customer relationship with these stakeholders through the bilateral commercial contracts they have in place. Accordingly, we developed the concept of a stakeholder survey rather than a customer survey to avoid diluting the engagement required to fulfil the STC. Key Performance indicators (KPI's) were identified that focused on processes which deliver services from the TO to the SO which in turn supports their customer facing outputs. The KPI's developed for SPT have been balanced across all our stakeholder groups and weighted towards our activities particularly around the process to develop connection offers for new generation applications (to reflect the volume and significance of this area anticipated during the RIIO-T1 period). These measures were brought in to reduce timescales of delivery and drive quality within the process which delivers outputs to the end customers, and goes beyond our statutory obligations.

2. Current Consultation

The content of this consultation suggests that Ofgem wish to move away from the original proposals. We would welcome further discussion to ensure that the incentive will deliver benefits for stakeholders whilst continuing to be a well-rounded incentive for companies. Stakeholder numbers for Transmission in Scotland are significantly less than the volume seen in England or electricity distribution in Scotland; 100's rather than millions. We believe that it is therefore more difficult to establish a statistically relevant mechanism for measuring performance. An incentive that is based predominantly on a satisfaction survey runs the risk of volatile year-on-year performance.

The level of engagement with our stakeholders and the development of improved processes and reporting driven by our KPI's is beyond the 'business as usual' required to meet our licence obligations. The majority of our KPI's target defined procedures in the STC to improve our service provision to the SO, and allowing them to improve their service to customers. The KPI targets are set to deliver a reward if we do better than the service levels set in the STC. Other KPI's highlight areas we believe are of interest or significance to different stakeholder groups.

The proposal to move the weighting of the KPI's to the survey for Scottish TO's suggests the change in position that the KPI's are less reflective of our performance in regard to stakeholder engagement. This is a change from the original proposal agreed with Ofgem which recognised the strength of KPI's particularly in light of the constraints of the BETTA framework. For example, our Connection offer KPI's focus on the processes and procedures required to deliver tangible outputs to National Grid that materially affect the timing and quality of our input to the bilateral connection agreements the SO develop with their customers. These are processes and procedures that we can directly influence and work to improve. Our survey however, reflects the general engagement we have with stakeholders which can be significantly influenced by circumstances beyond our control; such as the general perception of energy companies and particular views on the increase in renewable generation. Customer perception can also be greatly influenced by the performance of the SO in the provision of their bilateral agreements and relationship with the customer which is beyond the scope of our involvement and influence.

We believe that stakeholders will benefit from tangible improvements, particularly around increased performance as measured via KPIs as opposed to the perception of the company which is very difficult to influence when we don't have a direct relationship with the customer.

3. Survey Baseline Scores

As there was no evidence to support a particular value when the survey and KPI baselines were set, we agree wholly with Ofgem that these should be reviewed. However, we believe that the proposal to set 7.4 for the survey as our baseline is, at this time, unrealistic. This value of 7.4 is based on the survey results of all three TO's and the SO and as we have different stakeholder groups, different relationships and provide different services we feel that applying a blanket baseline will not be representative of each of the parties.

There is no clear basis for calculating a single value using results from all the companies. The value of 7.4 is higher than we have been able to achieve in any of our three annual surveys. And if this value were applied then it would not reflect the improvement we have made in respect of stakeholder engagement.

4. KPI to Survey Weighting

Ofgem has proposed that the proportion split between survey and KPI's be amended to 0.6:0.3.

We would suggest that a more appropriate change to the process would be to revisit the KPI's and their definition and focus rather than on their baseline. Our KPI's were intended to be adjusted throughout the RIIO-T1 period to reflect changes in our processes and procedures that might influence stakeholder satisfaction to a greater degree and therefore require a higher priority. Where we achieve an increasing level of performance in a KPI it would be appropriate to identify a new KPI for a new area. For example, in transmission connection offers, we have improved the level of performance in the time it takes to respond to a system briefing note from National grid. We have embedded processes and reporting to support this on an enduring basis. Rather than set a new baseline on a fixed set of KPI's, we would recommend a review and identification of refreshed KPI's in order to drive increased performance for stakeholders. KPI's are key to this incentive for TO's. The proposed proportion split between survey and KPI's (0.6:0.3) will not be reflective of any TO's performance.

We do not believe that this consultation reflects on the improvements the incentive has driven so far. Since the start of the RIIO-T1 price control period we have built on the stakeholder engagement that informed our price control submission. In addition to this mechanism, we have established a dedicated stakeholder engagement manager and team within the licence. This core team is supplemented by senior management and key delivery staff being given specific roles and responsibilities for stakeholder engagement throughout our business. We have also developed bespoke forums to engage with our supply chain, and connection developer communities, that have been well received by our stakeholders and seek to improve these based on their feedback year on year.

We have worked closely with the SO and other TO's to identify areas of best practice and remove inconsistencies where possible through our informal 'Working Better Together' and Network Access Policy working groups. Engagement with stakeholders has helped us develop and roll out new innovate ways of connecting renewable generation, develop new technologies to enhance our existing network capacity through major investments including the Western HVDC link and series compensation projects and improve our delivery approach in areas such as land agreements.

The external assurance element of the stakeholder satisfaction outputs has provided robust and objective evidence that the processes and procedures we have implemented to measure our performance and delivery of our stakeholder strategy is strong.

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We welcome the current review of the incentive and would emphasise our desire to develop our business to meet, and indeed exceed, our stakeholders needs and expectations. We believe that the current proposal does not reflect the good progress made or the unique stakeholder/Customer relationships we have within the transmission environment due to BETTA.

Therefore, we look forward to working with Ofgem to achieve a balanced outcome which is fair and proportionate for all parties involved.

Kind regards



Alan Kelly
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SP Energy Networks