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Kersti Berge
Partner, Electricity Transmission
Ofgem
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Dear Kersti,

Re: responses to the July 2015 consultation on the stakeholder satisfaction output arrangements

I refer to the recent teleconference with members of your RIIO team, and the publication on 21 October 2015 of responses to the earlier consultation on the values within the stakeholder satisfaction output arrangements. There are a number of points, within three key areas, that Scottish Hydro Electricity Transmission plc (SHE Transmission) would like to draw to your attention as you seek to reach a decision on this matter:

- Evidence provided by SHE Transmission to Ofgem
- Improvements from business-as-usual
- Time taken by Ofgem to resolve this issue

Evidence provided to Ofgem

As part of our April 2013 submission, we provided a number of appendices. The first of these was a technical report from our survey provider, setting out their views on what SHE Transmission should seek to target for its performance, both in terms of challenging our own expectations and also in terms of setting the incentive baseline for the survey. As set out in this submission, our survey provider recommended a baseline between 5 and 6 which supported our proposal. No further clarification of this has ever been sought by Ofgem and we have not received any requests to expand upon this evidence. As such, we believe that Ofgem has sufficient information to determine on this matter appropriately. We therefore challenge the contention made by some respondents that the proposals for the initial years of RIIO-T1 were not evidence based.

Improvements from business-as-usual (BAU)

Since the introduction of the RIIO-T1 period, SHE Transmission has worked very hard to deliver improved levels of stakeholder satisfaction, and has been successful in doing so. We understand that Ofgem intends this incentive to drive up industry wide standards of service to stakeholders, and we are pleased to be able

to show that the incentives are effective in achieving this. We have made a number of improvements in how we conduct, monitor and feedback on stakeholder engagement. These have been driven in part by the stakeholder survey and key performance indicators (KPIs), but also reflect a desire to improve in these areas, providing a better service to those impacted by our activities. As such, our survey and KPI scores for years one and two do include an element of improvements from BAU at the time of setting the price control. This is the intended consequence of an incentive mechanism of this nature. It should be particularly noted that we have proactively sought to drive improvements through our KPIs, reflected in the scores seen. Action we have taken to date to improve our stakeholder satisfaction score includes:

- Analysing scores provided by stakeholder groups each year and a focus on improving the service provided to the lowest scoring group. For example, the average score from Developers (of generation) in year 1 was 4.9. Extensive improvement work was undertaken, resulting in a year 2 satisfaction score from this group of 6.7.
- Delivering in 2014/15 Stakeholder Service Training to 90% of our staff, with an output of 20 service improvements. Resultant action plans will be monitored over the next eighteen months to ensure they are completed.
- Direct action on key issues identified by the survey, such as introducing a high quality interactive newsletter in response to 96% of stakeholders telling us they wanted one.
- Stakeholder engagement initiatives via industry events, including gathering views on key issues such as the connections process and our low carbon strategy.

All of these improvements are new since 2013. They are driven by the incentive which has allowed robust business cases to be developed for activities that improve stakeholder satisfaction.

We find it most disappointing that Ofgem proposes to penalise us for delivering immediate and substantial improvements under incentive conditions. Such an approach devalues the incentives and, we believe, encourages a 'game playing' mentality. If a precedent is set for re-baselining incentives on an ad-hoc basis, this will have the unintended consequence of driving participants to underperform in the early years and deliver higher performance in later years against a low baseline as asset bases increase and greater reward becomes available.

Time taken to resolve this issue

Since the introduction of the RIIO-T1 price control, we have acted in good faith on the basis of our submission on the proposed values and other aspects of the incentive to Ofgem. We have continued to engage with your team over the last two and a half years, and despite the lack of regulatory certainty on this matter, we have sought to deliver real and meaningful improvements in our performance during this time, and implement effective business decisions against challenging circumstances.

The values we proposed were consulted upon by Ofgem in the second informal licence consultation for RIIO-T1, (published in October 2012). We should not be penalised for Ofgem's delay in resolving this matter. Additionally, a further two months have now passed since the July 2015 consultation closed which places us in the latter half of year three. As such, we do not believe a retrospective adjustment to the mechanism should be made for this year, 2015/16.

We are keen to resolve this promptly and would urge Ofgem to finalise its decision by the end of this calendar year to allow us an opportunity to respond when setting our plans for the year 2016/17. Our plans for improvements for the current year have already been made and we will continue to deliver

towards them. However, we would remind Ofgem that these have been set against the background of our April 2013 submission, and in the absence of any alternative proposal from Ofgem in the intervening period, we urge that this be taken into consideration when reviewing how the current year is treated.

We accept the criticism from some respondents that reporting on our stakeholder engagement could be improved as part of our Annual Transmission Performance Report. We had always intended to publish an annual report on our performance against the KPIs but have been waiting for this matter to be concluded to avoid creating a situation where we published something that conflicted with Ofgem's position. We are keen to increase the transparency available to stakeholders and will look to address this concern following the outcome of Ofgem's decision on the incentive.

Proposed next Steps

The recent teleconference was intended to discuss the potential adjustments to the licence for this incentive. However, without a clear understanding of Ofgem's intended decision, it is hard to proactively contribute to a discussion of this nature. As mentioned on that call, we suggest a further publication from Ofgem setting out its minded-to position. This would be beneficial in facilitating a full and frank discussion regarding potential licence modifications, and allow Ofgem to issue its final Decision alongside appropriate licence modifications in due course.

We are keen to continue to engagement with the team on this matter. Therefore, if you would like to discuss further our concerns raised in this letter, including next steps, please do not hesitate to contact me.

Yours sincerely,

Andrew Wright

Networks Regulation