

RIIO-T1: Consultation on values within the stakeholder satisfaction output arrangements

Consultation

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Overview:

This consultation considers available options and consults on the values to be determined within the RIIO-T1 stakeholder satisfaction output arrangements. The consultation also presents the impact on licence drafting of the proposed options.

Context

As part of the RIIO-T1 price control, a stakeholder satisfaction output applies to electricity transmission and gas transporter licensees. The aim of this output is to encourage the transmission owners (TOs) to be more outwardly focused and responsive to changing stakeholder needs. For RIIO-T1 we introduced an incentive to cover stakeholder engagement as part of the output. The outputs/incentives include various elements – the ones covered in this consultation are the stakeholder satisfaction survey, and additionally for the Scottish TOs, the stakeholder key performance indicators and the External Assurance.

We published a consultation (June 2015) and a decision (November 2015) to set values for the baselines and component weightings within the stakeholder satisfaction output arrangements, as well as any relevant scoring caps and collars. However, following further review, we decided to revoke this decision (January 2016). We are now issuing a new consultation which reconsiders the available options and re-consults on all the values to be determined. This consultation also presents the impact on licence drafting of the proposed options.

Associated documents

[Consultation on values within the stakeholder satisfaction output arrangements \(June 2015\)](#)

[Decision on values within the stakeholder satisfaction output arrangements \(November 2015\)](#)

[Revocation of decision on values within the stakeholder satisfaction output arrangements \(January 2016\)](#)

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Executive Summary

As part of the RIIO-T1 price control, a stakeholder satisfaction output applies to electricity transmission and gas transporter licensees. The aim of this output is to encourage the transmission owners (TOs) to be more outwardly focused and responsive to changing stakeholder needs. For RIIO-T1 we introduced an incentive to cover customer and stakeholder engagement as part of the output. The outputs/incentives include various elements which reward/penalise the companies based on their performance in this area.

We published a consultation (June 2015) and a decision (November 2015) to set values for the baselines and component weightings within the stakeholder satisfaction output arrangements, as well as any relevant scoring caps and collars. However, following further review, we decided to revoke this decision (January 2016) in its entirety.

This consultation reconsiders the available options and re-consults on all the values to be determined. This consultation also presents the impact on licence drafting of the proposed options.

The options considered in this consultation are different to the ones considered in previous documents. When considering values for the TOs to use in their annual reporting, we agreed with the companies that they could use a placeholder of 5, as this was based on the companies' original proposals¹. This use was agreed as a suitable interim solution for reporting, however it was always caveated as not representing any final decision process. We no longer consider it necessary or appropriate to keep the baseline at a lower level for the early years of the incentive because of the caveats we included around the use of these lower baseline figures for reporting purposes.

In this consultation we propose to move away from this placeholder position to scores that we consider best protect the interests of consumers and are consistent with the objective of the incentive. We think the incentive should only reward "good" levels of stakeholder satisfaction. We consider the best way to measure "good" performance is on a comparative basis. We therefore propose to set the baselines at the average scores of the outturn performance. We think this is appropriate given the small number of years' data available. In setting the baseline at this level, we are mindful that stakeholder engagement challenges may not be constant over time and that stakeholder expectations might increase in response to improved engagement.

¹ National Grid had proposed 5.5 but as there was no clear rationale for using inconsistent numbers across the companies we suggested the use of 5 as a placeholder for all companies.

However, we are also aware that we are setting these baselines during the fourth year of the price control. Because the companies are unable to respond to any baseline we set for the first 3 years, we think there is a case for considering “switching off” the relevant components of the incentive for these years so that the companies neither receive a reward nor a penalty for these years. We therefore present 2 leading options in this consultation:

- Option 1: Applying our proposed baselines for the duration of the price control.
- Option 2: Switching off the relevant components of the incentive for years 1-3 and only applying our proposed baselines to years 4-8 of RIIO T1.

Our new proposals reflect this view and are summarised in Table 1 below. The main body of the document explains the different components of the incentive and the full rationale behind our proposals. Since there are different KPIs for the two Scottish TOs we are proposing to set each baseline at the average for that company.

Table 1: Summary of proposals in this consultation

Component	NG	SP Transmission	SHE Transmission
Option 1 – values apply for all years of the price control			
Baseline stakeholder satisfaction survey	7.4	7.4	7.4
Baseline KPI	N/A	69	89
Cap and collar stakeholder satisfaction survey	+/-1.6	+/-1.6	+/-1.6
Cap and collar KPI	N/A	+/-16	+/-11
Weightings Years 1-3²			
Customer satisfaction : Stakeholder satisfaction for NG	90:10	30:60:10	30:60:10
Stakeholder satisfaction : KPIs : EA for SP and SHE			
Weightings Years 4-8	70:30	60:30:10	60:30:10
Option 2 – incentive switched off for years 1-3			
Weightings Years 1-3	100:0	0:0:0	0:0:0
Weightings Years 4-8	70:30	60:30:10	60:30:10

² For National Grid, weightings are presented as customer satisfaction : stakeholder satisfaction, so 90:10 would mean a weight of 90% for customer satisfaction compared to 10% for stakeholder satisfaction. The weightings for the Scottish TOs are presented as stakeholder satisfaction : KPIs : EA, so 30:60:10 would mean a weight of 30% for stakeholder satisfaction compared to 60% for KPIs and 10% for external assurance.

1. Background

Chapter Summary

This Chapter sets out the background to the stakeholder satisfaction output, how the output is designed and previous publications on it.

The stakeholder satisfaction output

- 1.1. As part of the RIIO-T1 price control, a stakeholder satisfaction output applies to electricity transmission and gas transporter licensees. The aim of this output is to encourage the transmission owners (TOs) to be more outwardly focused and responsive to changing stakeholder needs. For RIIO-T1 we introduced an incentive to cover customer and stakeholder engagement as part of the output. The outputs/incentives include various elements which reward/penalise the companies based on their performance in this area.

The components

- 1.2. The stakeholder satisfaction output licence conditions include multiple components:
 1. *The stakeholder engagement reward*: This is a discretionary reward scheme, across the electricity and gas network companies, which may reward up to 0.5% of base revenue depending on the quality of the company's stakeholder engagement. This decision is based on an assessment and recommendation by an independent panel.
 2. *The customer satisfaction survey*: This provides a reward/penalty based on survey score performance against a baseline set by Ofgem. This baseline has already been set.
 3. *The stakeholder satisfaction survey*: This provides a reward/penalty based on survey score performance against a baseline set by Ofgem.
 4. *The stakeholder key performance indicators (KPIs)*: This provides a reward/penalty based on KPI score performance against a baseline set by Ofgem.
 5. *External Assurance (EA)*: This provides a reward/penalty based on an assessment of compliance with the TO's stakeholder strategy.

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- 1.3. A combination of the components 2-5 in this list gives a reward or penalty with a materiality of up to $\pm 1\%$ of annual revenue. There are specified caps/collars or algebra in the licence to ensure that the range of potential reward/penalty stays in this range.
- 1.4. The components listed above do not apply to all of the companies. We have set out the differences in Table 2.

The scope of this consultation

- 1.5. The stakeholder satisfaction survey, the stakeholder KPIs and the EA components are the focus of this consultation, shown in Table 2. There are values for each of the components which need to be determined. Table 3 describes the values we are consulting on, which relate to all years of the RIIO-T1 price control.

Table 2: Components – application to TOs and scope of consultation

Component	NG	Scottish TOs	In scope of consultation
Stakeholder engagement reward	Yes	Yes	No
Customer satisfaction survey	Yes	No	Yes (weightings only)
Stakeholder satisfaction survey	Yes	Yes	Yes
Stakeholder key performance indicators	No	Yes	Yes
External assurance	No	Yes	Yes (weightings only)

Table 3: Values being consulted on – applicable to all years of the incentive

Component	Baseline ³	Cap ⁴	Collar	Weighting ⁵
Stakeholder satisfaction survey	Yes for NGGT and NGET and Scottish TOs	Yes	Yes	Yes – for NG the weighting relates to the stakeholder survey compared to the customer satisfaction survey
Stakeholder key performance indicators (KPIs)	Yes for Scottish TOs only	Yes	Yes	Yes, for the Scottish TOs the weightings apply for the KPIs, external assurance and stakeholder survey
External assurance (EA)	No value to be determined	No	No	

³ Baseline based on which the reward/penalty is calculated.

⁴ The cap and collar are the maximum and minimum levels that provide for the full increase or decrease in revenue to apply without requiring a score at the extremes of the survey range.

⁵ Relative weightings of the components of the incentive.

Developments in setting the values

At the start of RIIO-T1

- 1.6. We did not have sufficient information to define all the parameters of the incentive, such as baselines, scoring caps and collars, and component weightings. Instead, these were defined in the licence conditions using algebraic values, with a provision for us to determine the values subsequently.

Over the first two years of RIIO-T1

- 1.7. We asked the TOs to submit proposed values. We received these submissions in April 2013. We delayed our consultation and decision on the values to obtain further evidence.
- 1.8. Between 2013 and 2015 we gathered further evidence from the TOs from their annual reporting, including the scores they received in their surveys, KPIs and EA. The annual reporting also required inclusion of baseline values. These inputs were required to feed in to the annual iteration of the revenue models used to define the allowed revenues of the TOs. As such, we agreed with the companies to insert mid-point values into their annual reporting as a placeholder, ahead of making our determination on the final values.

Consultation and revoked decision

- 1.9. We consulted in June 2015 and came to a decision in November 2015 on setting the values for the baselines and component weightings, as well as any relevant caps and collars.
- 1.10. However, following further review, we decided to revoke this decision. As a consequence we have not determined any of the values.
- 1.11. We revoked the decision because we believe the process we used for determining the relevant values was flawed. The mechanism for determining the values permits only a single value to be determined per algebraic term in the licence, whereas our decision purported to determine two values. In order for it to be possible to determine more than one value per algebraic term, the licence conditions would need to be modified pursuant to the formal statutory procedure.

This consultation

- 1.12. We are now issuing a new consultation which reconsiders the available options and consults again on the values, weightings and caps and collars to be determined. This consultation also presents the impact on licence drafting of the proposed options.

Next steps

The consultation period ends on 8 June 2016. We welcome views on our proposals. We will consider any responses received ahead of making our decision. Annex 1 summarises the questions we have asked stakeholders on the various issues.

Following this consultation, if we decide to proceed with modifying the TOs' licences, we will issue a statutory consultation.

2. Baseline value for the stakeholder satisfaction survey

Chapter Summary

This Chapter sets out our proposals for the baseline value for the stakeholder satisfaction component.

Question box

Question 1: Do you agree with our proposal to use the mean of the outturn data across TOs to set a robust baseline?

Question 2: Which of our two lead options for setting the survey baseline do you prefer?

Question 3: Are there any other policy proposals for setting the survey baseline that you think are more appropriate?

Our proposals

2.1. We propose, for all TOs, either:

- Option 1: a baseline of 7.4 for the whole price control, or;
- Option 2: switching off the incentive for Years 1-3, then setting the baseline at 7.4 for Years 4-8.

2.2. At this stage we do not have a preference for one option over the other. We welcome views on their respective merits.

How we propose to set the baseline value

Baseline based on average past performance

2.3. As set out in our previous decision, we remain convinced that setting a baseline that is the mean average of previous survey scores is a robust approach.

Table 4: Past performance of TOs in the Stakeholder Satisfaction Survey

TO	12/13 (trial year)	13/14	14/15	Average
NGET	7.1	7.5	7.7	7.4
NGG	7.1	7.8	7.9	
SHE Transmission	7.2	6.5	7.7	
SP Transmission	7.3	7.4	7.1	

2.4. A baseline based on average outturn data, gives us a realistic benchmark from which to reward good performance (better than average) or penalise bad performance (worse than average). We therefore ensure that only 'good' performance, measured comparatively, is rewarded. We think this is consistent with our duty to protect consumers and the intent of the incentive when it was set.

2.5. Previous survey scores are presented in Table 4 above. Data has been relatively stable and so provides a sound basis for measuring future performance. We have taken into account all relevant evidence from the first two years of RIIO-T1, when setting a value.

2.6. Some responses to our previous consultation supported the use of this value.

Baseline should be set the same across all TOs

2.7. We maintain our view, set out in our original consultation and decision, that it is appropriate to set a common baseline for this component of the incentive across TOs.

2.8. Some respondents to our last consultation noted that differences in stakeholder contexts may mean that a common baseline across TOs is not appropriate. However, we see TOs as carrying out similar activities with similar stakeholders. There is also consistency in the format and questions in the survey. We believe these similarities support the use of a comparative mean across all the TOs.

Question 1: Do you agree with our proposal to use the mean of outturn data across TOs to set a robust baseline?

Whether the incentive should apply for entirety of RIIO T1

2.9. Our two proposed options represent differences in timing for the application of the incentive, either to set the value for the duration of the price control, or part of the price control. We did not propose switching off the incentive in our previous consultation.

2.10. Option 1 would apply the proposed baseline for all years of the price control. The benefit of this option is that it would allow companies to get rewards/face penalties for all years of the RIIO price control period. This would therefore maintain consistency with the original intent of the incentive and RIIO-T1 Final Proposals.

2.11. We are however aware of the fact that the value for the baseline is only being set three years into the price control. As such, we have also included a second proposed option to 'switch off' the incentive for the years of the price control which have passed, ie those in which the TOs do not have a clear baseline to incentivise that year's activities and engagement.

2.12. We think that Option 2 may also strike a good balance between the interests of consumers and the companies. Like Option 1, it would ensure that only good performance⁶ is rewarded, but would nullify the incentive component for the years already completed as a target had not been set.

2.13. We do note however, that this proposal is not aligned with the original intent of the incentive, which was intended to be switched on for the full price control period. We propose that this switching off would occur for Years 1-3 of the price control (2013-14, 2014-15, 2015-16), i.e. those years which have already finished. The consequence of this option would be to remove any rewards/penalties for performance in these years for this part of the incentive.

2.14. We expect that we would switch off National Grid's stakeholder satisfaction survey element off for Years 1-3, while keeping the customer satisfaction survey element switched on in these years, as the baseline, cap and collar for this were defined as part of our RIIO-T1 Final Proposals. For the Scottish TOs, we would switch off the stakeholder satisfaction survey, the KPIs and the external assurance. Options for how to implement this are discussed later in this document (Chapter 5).

Question 2: Which of our two lead options for setting the survey baseline do you prefer?

Other options considered

2.15. We have considered different options with regards to how to set the baseline values for the duration of the price control, across the TOs.⁷ These are in Table 5.

⁶ Using the average means only companies doing better than "good" get rewarded as it is comparatively-measured.

⁷ This includes both options within the current framework described in the licence conditions, but also options which would require a modification to the licence conditions.

Table 5: Options for setting the baseline values for the stakeholder satisfaction survey

Option	Sub-options
1. Single value across the price control	<ul style="list-style-type: none"> a. Mid-point or similar, 5 b. Mean value, across TOs, 7.4 c. Other (Examples for another value could be 5.5 (see National Grid’s original proposal) or a higher baseline (eg upper quartile))
2. Multiple values across the price control	<ul style="list-style-type: none"> a. 5 for Years 1-3, then 7.4 for Years 4-8 b. Increasing/ratcheting baseline c. Other
3. ‘Switch off’ incentive in early years, single value after	<ul style="list-style-type: none"> a. ‘Switch off’ for Years 1-3, 7.4 for Years 4-8 b. Other value for Years 4-8

Multiple values across the price control

2.16. We no longer see a clear and well-justified rationale for setting multiple values across the price control for the stakeholder survey baseline. The original intent of the mechanism was to define one value across the price control.

2.17. When we suggested multiple values in our last consultation, responses were split on the issue, with some in favour and others suggesting the incentive was intended to set one value across the whole period, which is the view we now also hold.

5 for Years 1-3, then 7.4 for Years 4-8

2.18. Whilst our previous decision incorporated multiple values, this is because we considered at the time that this would reflect expectations of these values. It is now our view that this approach was not well justified and, when considered in the round, setting a baseline at this level for the early years of the price control does not best protect consumers.

2.19. When considering values for the TOs to use in their annual reporting, we agreed with the companies that they could use a placeholder of 5, as this was based on the companies’ original proposals⁸. This use was agreed as a suitable interim solution for company reporting for those years. However, it was always caveated as

⁸ National Grid had proposed 5.5 but as there was no clear rationale for using inconsistent numbers across the companies we suggested the use of 5 as a placeholder for all companies.

not representing any final decision process as the relevant baseline value was still subject to consultation and no decision had been taken or direction made to set a value under the licence.

Increasing/ratcheting baseline and other multiple option values

2.20. We also considered setting an increasing/ratcheting baseline or other multiple option values, given the general improvement of scores identified in outturn data. However we do not consider this is in line with the original intent of the mechanism. The intent in the licence drafting was for an absolute baseline of 'neutral' performance, across the whole period, rewarding/penalising good/bad performance about this point. We also consider that the sample size of survey data may not be large enough to robustly define such an improvement curve.

2.21. We consider that transmission stakeholder engagement links to specific, discrete projects, and as such, engagement challenges may be 'lumpy'. We do not think an increasing baseline would be appropriate as the stakeholder engagement challenges are not constant over time. There may also be an element of stakeholder expectations being raised over time in response to better engagement. This would mean that it would be harder to outperform these improved expectations through the surveys over time. We believe that a constant baseline might already require improved performance over time in order to continue to achieve it.

Single value across the price control

Mid-point or similar, 5

2.22. The companies' original proposals for baseline values for the stakeholder satisfaction survey were provided to us in April 2013. SP Transmission and SHE Transmission proposed 5 and National Grid proposed 5.5.

2.23. Whilst we have considered these proposals, it is our view that they have been superseded by the actual data we now have access to from several years of running the surveys themselves.⁹ Although SHE Transmission in particular provided more detailed analysis to justify its original proposal, we do not consider that these values could now be justified, in comparison to the use of outturn data. We recognise that a value of 5 was used in the TOs' annual reporting as a placeholder, however there is no clear basis for these values, given that we now have outturn data on which to more robustly base our proposals. We do not consider that it would be in consumers' interests to set a baseline at this level.

2.24. Moreover, we want to ensure that only "good" performance is rewarded. The only way that we can currently measure this is by making a comparative judgement.

⁹ This data is presented in Table 4.

A baseline based on average outturn data, gives us a realistic benchmark from which to reward good performance (better than average) or penalise bad performance (worse than average). We think that setting the baseline at 5 would set the “good” benchmark too low and would not be in consumer interests.

Other (options 1c, 3b)

2.25. We have considered but ultimately disregarded other ways to set the baseline values, such as:

- *Mean of data, with exclusions* – we have considered whether we should exclude any of the outturn data set before calculating the mean (eg trial year, outliers), however we consider that the data set appears consistent and stable, and that given the small sample size, excluding data points would reduce the robustness of the calculation. In addition, stakeholder engagement challenges are not constant so using an average across all the data points gives us the best measure of baseline performance available.
- *Higher baseline, eg upper quartile value* – for the same reasons outlined in our consideration of setting an increasing baseline, we do not consider it appropriate to set a higher/more stretching baseline than the mean. The intent in the licence drafting was for an absolute baseline of ‘neutral’ performance, across the whole period, rewarding/penalising good/bad performance about this point.
- *Other basis, eg other similar precedent or basis proposed in academia* – we are not aware of any such precedents or recommendations which would relate to the specific circumstances of this situation. We think that the outturn data available is the base source of evidence available on which to base our decision.
- *Linking National Grid’s stakeholder and customer satisfaction survey baselines* – responses to our last consultation highlighted concerns around raising the baseline above National Grid’s customer satisfaction survey. We do not see any strong justification for linking to the customer satisfaction survey baseline.

Question 3: Are there any other policy proposals for setting the survey baseline that you think are more appropriate?

3. Baseline values for Key Performance Indicators

Chapter Summary

This Chapter outlines the policy options regarding the baselines for the Key Performance Indicators for the Scottish TOs.

Question box

Question 4: Do you agree with our rationale for setting the baselines for the KPI component of the stakeholder satisfaction output arrangements?

Question 5: Which of our two lead options for setting the KPI baselines do you prefer?

Question 6: Are there any other policy proposals for setting the KPI baselines that you think are more appropriate?

Our proposal

3.1. We propose either:

- a baseline of 89 for SHE Transmission and 69 for SP Transmission for the whole price control
- switching off the incentive for Years 1-3, then setting the baseline at 89 for SHE Transmission and 69 for SP Transmission for Years 4-8.

3.2. At this stage we do not have a preference for one option over the other. We welcome views on their respective merits.

How we propose to set the baseline value

Baseline based on average past performance

3.3. The KPI component is relevant only to the two Scottish TOs. The KPIs are evaluated out of 100. We now have two years of results for the KPIs (no dry run was carried out). The KPIs achieved by the companies in the first two years of the incentive are detailed in Table 6. These values are updated from those included in our last consultation, following updated quality assurance by the companies.

Table 6: KPI scores achieved by the companies during the first two years of the incentive

TO	13/14	14/15	Average
SHE Transmission	91	86	89
SP Transmission	68	69	69

3.4. As set out in our previous decision, we remain convinced that setting a baseline that is the mean average of previous KPI scores is a robust approach. This mirrors our proposed approach for the stakeholder satisfaction survey (see Chapter 2), the rationale for which can be extended here. An average based on outturn data provides a realistic benchmark from which to assess performance as good or bad. We think this is consistent with our duty to protect consumers and the intent of the incentive when it was set.

3.5. Although the sample size for calculating these means is small (two years of data for each TO), we consider this to be the best available basis for setting these values.

Baselines should be different for the TOs

3.6. In contrast to our proposal on the stakeholder satisfaction survey baseline, we propose that a baseline specific to each TO is appropriate, based on its own performance. This is in line with our previous proposals.

3.7. The two companies have materially different sets of KPIs. As such, we think it appropriate only to take account of their own KPIs for the two years rather than the performance against the KPIs of both companies. We continue to consider this to be appropriate.

Question 4: Do you agree with our rationale for setting the baselines for the KPI component of the stakeholder satisfaction output arrangements?

Whether the incentive should apply for entirety of RIIO T1

3.8. As with our proposal for the stakeholder satisfaction survey baseline, we are proposing two options with different timings for the application of the incentive. Option 1 is to set the value for the duration of the price control. Option 2 is to “switch off” the incentive for years 1-3 and then set the baselines for years 4-8.

3.9. Our reasoning for considering both options that we outlined in Chapter 2 extends fully here to the setting of KPI baselines.

3.10. For the Scottish TOs, the option to switch off the KPI incentive involves the switching off of multiple components - the stakeholder satisfaction survey, the KPIs

and the external assurance. Options for how to implement this are discussed later in this document (Chapter 5).

Question 5: Which of our two lead options for setting the KPI baselines do you prefer?

Other options

Table 7: Options considered for setting the baseline values for the KPIs

Option	Sub-options	Comments
1. Single value across the price control	a. Mid-point, 50 b. Mean value, for each TO, 89 for SHE Transmission and 69 for SP Transmission c. Other	Examples for another value could be a higher baseline (eg upper quartile)
2. Multiple values across the price control	a. 50 for Years 1-3, then 89 and 69 for Years 4-8 b. Increasing/ratcheting baseline c. Other	n/a
3. Switch off incentive in early years, single value after	a. Switch off for Years 1-3, 89 and 69 for Years 4-8 b. Other value for Years 4-8	n/a

Multiple values

3.11. As with the baseline values for the stakeholder survey we do not think it is appropriate to set multiple values across the price control. Our reasoning in Chapter 2 extends here to KPIs.

Single value across the price control

Mid-point, 50

3.12. The companies proposed a baseline value of 50 for the KPIs in April 2013.

3.13. We think that choosing a value of 50 is not a justifiable position for any years of the price control, even under a single value approach across the price control. We do not consider that setting at the mid-point has a clear basis, given that we now have better evidence available, nor do we think this value would best represent consumers’ interests.

Other values (1c, 3b)

3.14. Similarly to the stakeholder satisfaction survey, we have considered other potential values for the KPI baselines, eg the mean of the data with some exclusions, a higher baseline than the mean, or another basis. However, as for the stakeholder satisfaction survey, we have not identified a clear rationale for using any of these values. We continue to take the view that outturn data provides the best available evidence for setting the baselines.

Question 6: Are there any other policy proposals for setting the KPI baselines that you think are more appropriate?

4. Achieving the full range of the incentive

Chapter Summary

This Chapter outlines our proposals to amend the Scottish TOs' licences to allow the full range of the incentive to be achieved should the baseline proposals set out in Chapters 2 and 3 be implemented. It also outlines an amendment to National Grid Electricity Transmission's licence to correct a typographical error.

Question box

Question 7: Do you agree with our proposal to amend the licence algebra for the Scottish TOs should we implement baselines for the KPIs and the stakeholder satisfaction survey above 60 & 6 or below 40 & 4?

Question 8: Do you agree with our proposal to modify National Grid Electricity Transmission's licence to correct a typographical error?

Our proposal to amend the Scottish TOs' licences

4.1. We propose to align the licence algebra for SHE Transmission and SP Transmission with those for National Grid. This would involve incorporating an explicit cap and collar for both the stakeholder satisfaction survey and the KPIs for the Scottish TOs.

4.2. This proposal is contingent on our decision on the survey and KPI baselines and would only need to be implemented if our decision leads to baselines being determined which are above 6 & 60 or below 4 & 40, therefore allowing the full reward/penalties to be achieved.

Background

4.3. The stakeholder satisfaction survey incentive licence algebra for National Grid is different as compared to that for SHE Transmission and SP Transmission. The algebra used for the Scottish TOs' stakeholder KPIs matches that used for the Scottish TOs' stakeholder satisfaction survey incentive.

4.4. The current licence arrangements can be found in electricity transmission licence special condition 3D and gas transporter licence special condition 2C, on our

electronic public register.¹⁰ The combined results for the various components of the incentive provide scope for rewards/penalties of $\pm 1\%$ of the relevant year's revenue for each TO. Given how the algebra is currently set out for the Scottish TOs, if the values for the baselines discussed in Chapters 2 and 3 are set above 6 (or 60 for the KPIs) or below 4 (or 40 for the KPIs), this would not allow the full $\pm 1\%$ reward/penalty of the revenue incentive to be achieved. This issue is applicable to both the stakeholder satisfaction survey and KPI algebra design for the Scottish TOs' licences.

4.5. We set out in our previous decision our intention to engage with the TOs, to consider how the licence might be changed to make it possible for the full incentive to be attainable.

4.6. Hence, were we to decide on an option for both the stakeholder survey and/or the KPIs which determined the baseline above 6&60 or below 4&40, we would need to amend the Scottish TOs' relevant licence conditions to manage this. Given our preferred options in Chapters 2 and 3 for each involve baselines above 6, we set out our views on any potential amendments that would be required here.

Current licence arrangements

4.7. National Grid's algebra is defined by a baseline term, above and below which the annual score feeds in to a reward or penalty of up to $\pm 1\%$. There are defined terms (the cap and collar) in the licences which set where the maximum reward/penalty can be achieved. The caps and collars for NGET and NGGT are yet to be determined and are also part of this consultation (see Chapter 6 for proposals).

4.8. The Scottish TOs' algebra is also defined by a baseline term. Whilst no explicit caps or collars are defined in the licence, another term in the licence (the "gradient") creates an 'implicit cap and collar'. The algebra is symmetric above and below the baseline.

4.9. Due to the design of the Scottish TOs' algebra, our preferred options for the baselines, with the pre-defined gradient, would result in the implicit cap moving outside of the achievable range of scores.

Reasons for our proposal

4.10. We think it is appropriate that the Scottish TOs can attain the full range of the incentive to incentivise behaviour as intended. This proposal is contingent on our decision on the survey and KPI baselines and would only need to be implemented if our decision leads to baselines being determined which are above 6 (60 for the KPIs) or below 4 (40 for the KPIs).

¹⁰ <https://epr.ofgem.gov.uk/Document>

4.11. We consider this solution, of aligning the algebra across the TOs, to be the most appropriate method of resolving the limitations on the full upside of the incentive that would otherwise occur if the algebra remained unchanged. Our approach would create consistency across the TOs in the way the incentive operated.

Question 7: Do you agree with our proposal to amend the licence algebra for the Scottish TOs should we implement baselines for the KPIs and the stakeholder satisfaction survey above 60 & 6 or below 40 & 4?

Other options we considered

4.12. The other options we considered were as follows:

- Do nothing.
- Change the factors in the current drafting which set the implicit caps and collars of the incentive scoring range.

4.13. Not making any changes would not resolve the issue identified. The Scottish TOs would as a result not be able to access the full upside of the incentive, were the baselines to be set above 6 (60 for the KPIs). As such we do not think it is consistent with the intent of the incentive which was agreed to as part of RIIO-T1.

4.14. We also considered changing the term in the licence (the gradient) that sets an implicit cap and collar but considered it would be more transparent and consistent to use National Grid's licence drafting instead.


Licence amendments to Scottish TOs' licences

4.15. In order to implement these changes, we would need to modify the TOs' licences. Appendix 2 sets out the licence changes we are proposing. These are applicable to special condition 3D of both SHE Transmission's and SP Transmission's licences.

Housekeeping amendment to National Grid Electricity Transmission's licence

4.16. In addition, we are also proposing an associated housekeeping amendment to special condition 3D of National Grid Electricity Transmission's licence. Our proposed licence amendments are set out in Appendix 3.

4.17. The incentive operates with a 2 year lag to determine revenues to be recovered – this is in line with other RIIO incentives. At two points in the licence drafting, there are references to the year 't' instead of 't-2'. This amendment corrects these erroneous subscripts in the licence drafting. This error has not been transposed to the revenue return model, which records the financial incentive itself. As such, this



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change is purely typographical. There is also no equivalent error in National Grid Gas Transmission's licence.

Question 8: Do you agree with our proposal to modify National Grid Electricity Transmission's licence to correct a typographical error?

5. Weightings for different components and implementation of options

Chapter Summary

This Chapter sets out our proposals for the weights of the different components of the stakeholder satisfaction arrangements. Different weighting options are described for NG and the Scottish TOs given the different components that apply across companies.

Question box

Question 9: Do you agree with our proposals for the weightings for the component parts of the incentive for National Grid and the Scottish TOs? If you consider there to be an alternative and well-justified basis for setting the weightings, we welcome views on this.

Question 10: Do you agree with our suggestion to use the weightings to effectively switch off the incentive should Option 2 be the preferred option?

Our proposals

5.1. The various components of the incentive have defined weightings in the licence arrangements, which set out their proportions relative to one another.

5.2. For National Grid there are two components: the customer satisfaction survey and the stakeholder satisfaction survey.¹¹ For the Scottish TOs there are three components to the incentive: the stakeholder satisfaction survey, the KPIs and the external assurance. As such there are three weights to be set.¹²

5.3. Our proposals for the weightings are outlined in Table 8 below. They differ depending on the option considered for the baseline. For Option 2, where the incentive is switched off for the first three years, we propose to use the weightings to implement this option if needed.

¹¹ For National Grid, weightings are presented as customer satisfaction:stakeholder satisfaction, so 90:10 would mean a weight of 90% for customer satisfaction compared to 10% for stakeholder satisfaction.

¹² The weightings for the Scottish TOs are presented as stakeholder satisfaction:KPIs:EA, so 30:60:10 would mean a weight of 30% for stakeholder satisfaction compared to 60% for KPIs and 10% for external assurance.

Table 8: Proposals for the component weightings under the different options

Option	Option 1 One value for the baseline for each of the years of the price control	Option 2 Switch off the incentive for the first three years
NG Years 1-3		
Customer satisfaction:	90:10	100:0
Stakeholder satisfaction		
NG Years 4-8		
Customer satisfaction:	70:30	70:30
Stakeholder satisfaction		
Scottish TOs Years 1-3		
Stakeholder satisfaction:KPIs:EA	30:60:10	0:0:0
Scottish TOs Years 4-8		
Stakeholder satisfaction:KPIs:EA	60:30:10	60:30:10

Reasons for our proposals

5.4. For National Grid, given we are setting the baseline for the stakeholder satisfaction survey three years into the price control, we think it is appropriate to have a lower weighting for that component for those years. This is because we think it is appropriate to place more weight on the customer survey element which had a set baseline at the start of the price control that the companies could have responded to. For the remaining years we are proposing having a higher weighting for the stakeholder satisfaction survey. Given we have now seen the outturn data we now have more confidence that the stakeholder survey results are stable, so we do not think that a low weighting for the entirety of the price control is warranted on these grounds.

5.5. We consider that our proposals for National Grid are in line with our intention at the start of RIIO-T1 to move towards a more even weighting between the two surveys.¹³ The proposal to have different values for different years is also in line with the original intention of the incentive – the licence drafting in this case allows for such differences across years (unlike for the survey baselines).

¹³ RIIO-T1: Final Proposals for National Grid Electricity Transmission and National Grid Gas – Outputs, incentives and innovation Supporting Document, paragraph 2.48:
https://www.ofgem.gov.uk/sites/default/files/docs/2012/12/2_riiot1_fp_outputsincentives_dec12.pdf

5.6. We continue to take the view that surveys can provide a robust and independent assessment of stakeholder satisfaction, despite the possible influence of wider circumstances. We consider 30% to be an appropriate weight that in our view reflects its relative importance to the customer survey.

5.7. For the Scottish TOs, our rationale is similar to that for National Grid. The KPI baselines have been set using each company's own scores so a higher weight on this component in the earlier years reduces the importance of the stakeholder survey in these years which is set by comparative data and could not have been responded to. Additionally for the Scottish TOs, while the KPIs are still useful indicators of performance, given our increased confidence in the stakeholder survey, we propose to set the relative proportions of the survey, the KPIs and the TOs' external assurance to the new proposed values. In our view the KPIs seem less directly related to stakeholder engagement and satisfaction than the surveys so we are proposing to give them a lower relative weight.

5.8. Responses to our previous consultation were mixed, with some respondents raising concerns about setting a higher weighting for the stakeholder satisfaction survey (eg concern about influence of wider factors on survey results), whilst others agreeing that more emphasis should be placed on the survey. National Grid had originally proposed weightings of 90% customer satisfaction survey and 10% stakeholder satisfaction survey. The Scottish TOs, originally proposed weightings of: 30% stakeholder satisfaction survey, 60% KPIs, 10% external assurance.

5.9. We consider that picking the appropriate weights is ultimately a matter of judgment and we are not aware of a reliable empirical basis upon which to choose the weights. We have therefore proposed weights that we consider reflect the timing of our decision and our view of the relative importance of the components to the overall stakeholder satisfaction output to consumers. We are however open to views on alternatives and a well-justified basis for setting the weights.

Question 9: Do you agree with our proposals for the weightings for the component parts of the incentive for National Grid and the Scottish TOs? If you consider there to be an alternative and well-justified basis for setting the weightings, we welcome views on this.

5.10. Under Option 2 we would turn off the relevant components of the incentive for years 1-3. One option of doing this is through the weights. This is discussed below.

Implementation of options

Option 1

5.11. If we decide to go for Option 1, we would determine a single value for the survey and KPI baselines, and set values for National Grid's caps and collars, and the incentive component weightings across all TOs. This would be carried out under the process set out in the licence.

5.12. In the case of Option 1, which involves setting a baseline above 6 (60 for the KPIs) for the Scottish TOs, we would also need to modify the relevant licence conditions, to enable the TOs to achieve the full upside of the incentive. This would require undertaking the formal statutory process for licence modification. Proposed licence changes for this are included in Appendix 2.

Option 2

5.13. If we decide to implement Option 2 (switch off the incentive for the early years of the price control), this can be implemented in one of two ways:

- Licence modification – amend the licence by including a provision that specifies the start date of the incentive as Year 4 of the price control.
- Use the weightings to effectively “switch off the incentive”.

5.14. If we were to use the weightings to switch off the incentive we could do this as set out in Table 8:

- Setting the weightings for the relevant incentive components at 0 for Years 1-3 of the price control for the Scottish TOs (stakeholder survey, KPIs and external assurance).
- Setting the weightings at 100% for the customer satisfaction component for National Grid – effectively switching off the stakeholder survey component.


5.15. Our current preference should we implement Option 2 would be to use the weightings to effectively switch it off. This is in our view the simpler of the two implementation possibilities and requires no additional amendments to the licence (beyond those proposed to amend the Scottish TOs licence arrangements).

Question 10: Do you agree with our suggestion to use the weightings to effectively switch off the incentive should Option 2 be the preferred option?

Revenue model

5.16. The financial reward and penalty for this incentive is recorded in revenue models for each TO. The incentive incorporates a two-year lag such that the TOs receive any changes to their allowed revenue for a given price control year two years later.

5.17. Currently two years of the price control have been included in the model. Figures have been included as placeholders in the model pending a decision on this consultation.



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5.18. We will need to ensure that the decision on the incentive values/framework is included in the next model update.

5.19. In addition, for those years which have already passed through the model, a re-adjustment will need to be included in the model to re-align appropriate allowed revenues with those calculated using the final determined values. There is already a re-adjustment mechanism within the revenue model to facilitate such occurrences.

6. Caps and collars

Chapter Summary

This Chapter focuses on our proposals for the values to be set for the caps and collars for National Grid Electricity Transmission and National Grid Gas Transmission. It also outlines our views on potential caps and collars for the Scottish TOs should we have to change the licence as set out in Chapter 5.

Question box

Question 11: Do you agree with our proposals to set the caps and collars for NG's and the Scottish TOs' stakeholder satisfaction survey at +/-1.6 around the baseline?

Question 12: Do you agree with our proposals to set the caps and collars for SHE Transmission's KPI at +/-11 around its baseline (ie 100 and 78 respectively)?

Question 13: Do you agree with our proposals to set the caps and collars for SP Transmission's KPI at +/-16 around its baseline (ie 85 and 53 respectively)?

We welcome views on any alternative and well-justified basis for setting all these caps and collars.

Stakeholder satisfaction survey – cap and collar

Our proposals

6.1. We are proposing to set the cap and collar for the stakeholder satisfaction survey for both National Grid and the Scottish TOs at +/- 1.6 around the baseline. This is in line with the symmetric caps and collars used on the customer satisfaction survey. These caps and collars would only apply for years 3-8 of the price control should Option 2 (switching off the incentive be implemented).

Background – caps and collars in the incentive

6.2. National Grid has a cap and collar in its stakeholder satisfaction survey incentives to enable the full revenue impact (positive or negative) to be recovered/incurred without needing to score at the extremes of the survey scores.

6.3. Currently, the caps and collars of the Scottish TOs are implicitly built in to the licence drafting. They set a maximum and minimum on the scoring range of the stakeholder satisfaction survey incentive at +/- 4 around the baseline, and on the KPI scoring range at +/- 40. This is a static range, and as such, if the baseline is set above 6 (60 for the KPIs), or below 4 (40 for the KPIs), the cap or collar will fall outside of the scoring range.

6.4. As set out in Chapter 4, it is likely that, if we determine the survey baseline for the Scottish TOs above 6 we will need to amend the drafting in their licence conditions. We propose that this updated drafting would include an explicit cap and collar as well, in line with the drafting in National Grid's electricity and gas transmission licences. As such should we decide to set a survey baseline above the mid-point, we will need to also set caps and collars for the stakeholder satisfaction survey and the KPIs. This was not included in our previous consultation. Our proposals for the caps and collar for the KPIs are set out below.

Reasons for our proposals

6.5. When setting caps and collars around these incentive components we are mindful of certain considerations. In this case, we see merit in having symmetric caps and collars around the baselines, so that the rates of reward and penalty for the incentive are symmetric.

6.6. Our proposals take into account the principles described and the current circumstances. However we do not consider them to be exhaustive and, where appropriate, we will be guided by consultation responses in our decision on this point. In terms of the values themselves, we do not have a default method for calculating caps and collars for incentives.

6.7. National Grid's customer satisfaction survey uses a baseline of 6.9 with symmetric caps and collars of +/- 1.6 around the baseline. This baseline and associated caps and collars were set at the start of the price control. The cap and collar for the customer satisfaction survey has been in place for 3 years and there do not seem to have been any issues with it.

6.8. In the absence of a clear alternative basis for setting the numerical values, we proposed in our last consultation to align the stakeholder survey cap and collar with those used on the customer satisfaction survey, +/- 1.6 around the baseline.

6.9. We have not identified any justification for moving away from this proposal. We do not consider there is an obvious rationale for asymmetry, nor an alternative basis for setting the numbers. In line with setting the same baseline across the companies, we propose to set the same caps and collars. Therefore we are proposing to set the caps and collars for National Grid's and the Scottish TOs' stakeholder satisfaction survey at +/- 1.6 around the baseline (9 and 5.8 respectively if the baseline is 7.4).

Question 11: Do you agree with our proposals to set the caps and collars for NG's and the Scottish TOs' stakeholder satisfaction survey at +/-1.6 around the baseline? We welcome views on any alternative and well-justified basis for setting these caps and collars.

Scottish TOs – KPI caps and collars

Our proposals

6.10. If we set a baseline value for the KPIs below 40 or above 60 we will need to amend the algebra for the Scottish TOs to allow the full upside of the incentive to be achieved. With the algebra we have proposed in Chapter 5, we will need to specify caps and collars for the KPIs.

6.11. We are proposing to set caps and collars for the KPIs as follows:

- SHE Transmission's KPI cap and collar at +/- 11 around its baseline (100 and 78 respectively)
- SP Transmission's KPI cap and collar at +/- 16 around its baseline (85 and 53 respectively).

Reasons for our proposals

6.12. As described above, the caps and collars of the Scottish TOs are implicitly built in to the licence drafting. On the KPIs the scoring range is +/-40. If the KPI baseline is set above 60 or below 40, the cap and collar fall out of the scoring range. As with the stakeholder satisfaction survey, if we make amendments to the licence arrangements we will need to set out specific caps and collars for this aspect of the incentive.

6.13. For the KPIs, we do not have the same precedent for consistency as with the stakeholder satisfaction survey. There is no existing incentive cap and collar that we can use as a benchmark.

6.14. We have used the same principles for the approach to setting it that we used for the stakeholder survey caps and collars. With these principles in mind, our initial thought was to base the caps and collars on those we are proposing for the stakeholder satisfaction survey, scaled up to the KPI scoring range, ie +/- 16. This would be symmetric, and based on the previous precedent of the customer satisfaction survey.

6.15. This is what we have done for SP Transmission's KPI cap and collar and we are proposing to use +/-16 around its baseline (85 and 53 if the baseline was 69).

6.16. However, given the baseline we are proposing for SHE Transmission (89), we are unable to use +/- 16 for SHE Transmission as the cap would be outside the scoring range.

6.17. We consider that the most appropriate cap for SHE Transmission would be the maximum of the scoring range, +11. We believe that setting symmetric caps and collars is fair to both consumers and the companies. As such we are proposing that

the collar be -11 to reflect this. We are aware that a narrow range can be more volatile (small changes in performance can result in a big change in the reward/penalty). However, too wide a range makes the full reward/penalty less likely to be unattainable. As such we welcome views on an alternative and well justified basis for setting the caps and collars. Given the different circumstances of the Scottish TOs in this area (different KPIs and performance to date, proposed different baselines) we think it is appropriate to set different cap and collar ranges in this case.

Question 12: Do you agree with our proposals to set the caps and collars for SHE Transmission's KPI at +/-11 around its baseline (ie 100 and 78 respectively)? If you consider there to be an alternative and well-justified basis for setting these caps and collars, we welcome views on this.

Question 13: Do you agree with our proposals to set the caps and collars for SP Transmission's KPI at +/-16 around its baseline (ie 85 and 53 respectively)? If you consider there to be an alternative and well-justified basis for setting these caps and collars, we welcome views on this.

Next steps

6.18. This consultation will run for 6 weeks and close on 8 June. We will then review consultation responses and intend to issue a decision in July. Should our decision require any licence changes we will proceed with the licence modification process at that point in time.

6.19. The companies will report this year's survey and KPI results through the Regulatory Reporting Packs (RRPs) by the 31st July 2016. We will not be able to confirm the baseline values to be included in the RRP until we publish our decision. We are aiming to publish a decision by mid-July which would allow the companies to include the correct values for each of the variables in their RRP submission. Should we not have published a decision in time for RRP submissions, we will be in touch with the companies for instructions on how to proceed.

Appendices

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Appendix 1 - Consultation Response and Questions

1.1. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document.

1.2. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter heading and which are replicated below.

1.3. Responses should be received by 8 June and should be sent to:

Geoff Randall
Head of Electricity Transmission RIIO
9 Millbank London SW1P 3GE
0207 901 7000
geoffrey.randall@ofgem.gov.uk

1.4. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

1.6. Next steps: Having considered the responses to this consultation, Ofgem intends to issue a decision in early summer. Any questions on this document should, in the first instance, be directed to:

Geoff Randall
Head of Electricity Transmission RIIO
9 Millbank London SW1P 3GE
0207 901 7000
geoffrey.randall@ofgem.gov.uk

CHAPTER: Two

Question 1: Do you agree with our proposal to use the mean of the outturn data across TOs to set a robust baseline?

Question 2: Which of our two lead options for setting the survey baseline do you prefer?

Question 3: Are there any other policy proposals for setting the survey baseline that you think are more appropriate?

CHAPTER: Three

Question 4: Do you agree with our rationale for setting the baselines for the KPI component of the stakeholder satisfaction output arrangements?

Question 5: Which of our two lead options for setting the KPI baselines do you prefer?

Question 6: Are there any other policy proposals for setting the KPI baselines that you think are more appropriate?

CHAPTER: Four

Question 7: Do you agree with our proposal to amend the licence algebra for the Scottish TOs should we implement baselines for the KPIs and the stakeholder satisfaction survey above 60 & 6 or below 40 & 4?

Question 8: Do you agree with our proposal to modify National Grid Electricity Transmission's licence to correct a typographical error?

CHAPTER: Five

Question 9: Do you agree with our proposals for the weightings for the component parts of the incentive for National Grid and the Scottish TOs? If you consider there to be an alternative and well-justified basis for setting the weightings, we welcome views on this.

Question 10: Do you agree with our suggestion to use the weightings to effectively switch off the incentive should Option 2 be the preferred option?

CHAPTER: Six

Question 11: Do you agree with our proposals to set the caps and collars for NG's and the Scottish TOs' stakeholder satisfaction survey at +/-1.6 around the baseline?

Question 12: Do you agree with our proposals to set the caps and collars for SHE Transmission's KPI at +/-11 around its baseline (ie 100 and 78 respectively)?

Question 13: Do you agree with our proposals to set the caps and collars for SP Transmission's KPI at +/-16 around its baseline (ie 85 and 53 respectively)?

We welcome views on any alternative and well-justified basis for setting all these caps and collars.

Appendix 2 – Scottish TOs' licence condition changes

Changes marked in red

SHE Transmission's and SP Transmission's electricity transmission licences, Special Condition 3D

3D.11 The value of the SSI_{t-2} term (relating to the Stakeholder Satisfaction Incentive) is derived in accordance with the following formula:

$$SSI_{t-2} = ((\text{XSSPRO}_{t-2} * SS_{t-2}) + (\text{YKPIPRO}_{t-2} * SKPI_{t-2}) + (\text{ZSEAPRO}_{t-2} * SEA_{t-2})) * (BR_{t-2} + TIRG_{t-2}) * 0.01$$

where:

SS_{t-2} means the adjustment factor in respect of the licensee's performance in Relevant Year t-2 in the Stakeholder Satisfaction Survey as provided for in Part E of this condition. The value of SS_{t-2} will be determined by the formula:

$$SS_{t-2} = \max(\min((SSC_{t-2} - AA) \times 0.25, 1), -1)$$

If $SSC_{t-2} > SST$:

$$SS_{t-2} = \min\left(SSUPA, SSUPA \times \left[\frac{SSC_{t-2} - SST}{SSCAP - SST}\right]\right)$$

If $SSC_{t-2} < SST$:

$$SS_{t-2} = \max\left(SSDPA, SSDPA \times \left[\frac{SST - SSC_{t-2}}{SST - SSCOL}\right]\right)$$

Otherwise:

$$SS_{t-2} = 0$$

where

~~SSC_{t-2} means the licensee's Stakeholder Satisfaction Score in respect of Relevant Year t-2, being a value between 1 and 10 inclusive, based on responses to the question in relation to overall stakeholder satisfaction specified in paragraph 3D.15 of this condition.~~

~~SST is the Stakeholder Satisfaction Survey target, and will have the value U.~~

SSCAP is the Stakeholder Satisfaction Survey cap and will have the value V.
 SSUPA is the stakeholder satisfaction maximum upside percentage point adjustment and will have the value 1.
 SSCOL is the Stakeholder Satisfaction Survey collar and will have the value W.
 SSDPA is the stakeholder satisfaction maximum downside percentage point adjustment, and will have the value -1.
 SSC_{t-2} is the licensee’s Stakeholder Satisfaction Score in respect of Relevant Year t-2, being a value between 1 and 10 inclusive, based on responses to the question in relation to overall stakeholder satisfaction specified in paragraph 3D.15 of this condition.

min(A,B) means the value equal to the lesser of A and B; and
 max(A,B) means the value equal to the greater of A and B.

SSPRO_{t-2} is the proportion of the Stakeholder Satisfaction Incentive which will be based on the Stakeholder Satisfaction Survey in respect of Relevant Year t-2, which has the value as specified in the following table:

Relevant year t	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
SSPRO _t	AA	BB	CC	DD	EE	FF	GG	HH

SKPI_{t-2} means the adjustment factor in respect of the licensee’s performance in Relevant Year t-2 against the Key Performance Indicators as provided for in Part F of this condition. The value of SKPI will be determined by the formula:

$$SKPI_{t-2} = \max(\min((KPI_{t-2} - BB) \times 0.025), 1), -1)$$

If SKPIC_{t-2} > SKPIT:

$$SKPI_{t-2} = \min\left(SKPIUPA, SKPIUPA \times \left[\frac{SKPIC_{t-2} - SKPIT}{SKPICAP - SKPIT}\right]\right)$$

If SKPIC_{t-2} < SKPIT:

$$SKPI_{t-2} = \max\left(SKPIDPA, SKPIDPA \times \left[\frac{SKPIT - SKPIC_{t-2}}{SKPIT - SKPICOL}\right]\right)$$

Otherwise:
 SKPI_{t-2} = 0

where

~~KPI_{t-2} means the licensee's measured score against its Key Performance Indicators, being a value between 0 and 100 inclusive.~~

where

SKPIT is the Key Performance Indicators target, and will have the value X.

SKPICAP is the Key Performance Indicators cap and will have the value Y.

SKPIUPA is the Key Performance Indicators maximum upside percentage point adjustment and will have the value 1.

SKPICOL is the Key Performance Indicators collar and will have the value Z.

SKPIDPA is the Key Performance Indicators maximum downside percentage point adjustment, and will have the value -1.

SKPIC_{t-2} is the licensee's measured score against its Key Performance Indicators, being a value between 0 and 100 inclusive.

min(A,B) means the value equal to the lesser of A and B; and

max(A,B) means the value equal to the greater of A and B.

SKPIPRO_{t-2} is the proportion of the Stakeholder Satisfaction Incentive which will be based on the Key Performance Indicators in respect of Relevant Year t-2, which has the value as specified in the following table:

Relevant year t	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
SKPIPRO _t	II	JJ	KK	LL	MM	NN	OO	PP

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SEA_{t-2} means the adjustment in respect of the licensee’s performance in Relevant Year t-2 in its External Assurance of its Stakeholder Engagement as provided for in Part G of this condition. The value of SEA will be determined by the banding table below:

SEA Band	SEA_{t-2} value
Non-Compliant with stakeholder strategy	-1.0
Compliant with stakeholder Strategy	0.5
Exceeding stakeholder strategy	1.0

$SEAPRO_{t-2}$ is the proportion of the Stakeholder Satisfaction Incentive which will be based on the stakeholder external assurance in respect of Relevant Year t-2, which has the value as specified in the following table:

Relevant year t	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
$SEAPRO_t$	QQ	RR	SS	TT	UU	VV	WW	XX

BR_{t-2} means the Base Transmission Revenue in Relevant Year t-2 and will be calculated in accordance with Part C of Special Condition 3A for that year.

$TIRG_{t-2}$ means the value of Transmission Investment for Renewable Generation in Relevant Year t-2, calculated in accordance with Special Condition 3J (Transmission Investment for Renewable Generation)

Appendix 3 – Proposed correction to NGET’s licence condition

Amendments in red

$SSSAF_{t-2}$ is the revenue adjustment factor based on the licensee’s performance against the stakeholder satisfaction survey as described in Part E in the Relevant Year t-2, and is derived from the following formula:

If $SSSP_{t-2} > SSST$:

$$SSSAF_{t-2} = \min \left(SSSUPA, SSSUPA \times \left[\frac{SSSP_{t-2} - SSST}{SSSCAP - SSST} \right] \right)$$

If $SSSP_{t-2} < SSST$:

$$SSSAF_{t-2} = \max \left(SSSDPA, SSSDPA \times \left[\frac{SSST - SSSP_{t-2}}{SSST - SSSCOL} \right] \right)$$

Otherwise:

$$SSSAF_{t-2} = 0$$

Appendix 4 - Feedback Questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

1.2. Please send your comments to:

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London
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andrew.macfaul@ofgem.gov.uk