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Dear Geoff,

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

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group, excluding Centrica Storage.

We support the revocation of the November 2015 decision¹. We consider this consultation and the revised proposals to be a positive development in protecting customers' best interests. In particular, we support:

- **Approaches that were agreed at RIIO-T1 Final Proposals such as single value baselines.**
- **Evidence-based approaches to the calibration of incentive mechanisms.**
- **The greater degree of transparency relating to the derivation of the incentive parameters.**

It is not ideal that baselines are only now being proposed. Nevertheless, our preference is for the use of single value baselines that have been derived from evidence applied across the price control (as shown in **Error! Reference source not found.**). We agree this approach maintains consistency with the original intent of the incentive and RIIO-T1 Final Proposals (FP). Further, the following were made clear at FP:

- The Stakeholder Engagement Incentive would represent a portion of the overall stakeholder satisfaction incentive.
- Evidence-based targets would be set after the start of the price control.
- These targets would be applied across the entire price control.

¹ Decision on values within the stakeholder satisfaction output arrangements (electricity transmission licence special condition 3D and gas transporter licence special condition 2C)
(https://www.ofgem.gov.uk/sites/default/files/docs/2015/11/decision_on_values_within_the_stakeholder_satisfaction_output_arrangements_0.pdf)

Table 1 - Preferred Baseline Values

Parameter	Values
Baseline value for the stakeholder satisfaction survey	A baseline of 7.4 for the whole price control for all TOs
Baseline values for Key Performance Indicators	A baseline of 89 for SHE Transmission and 69 for SP Transmission for the whole price control.

Though TOs may not have had sight of actual baselines for the first three years of the price control, the TOs accepted FP in the knowledge that baselines would be set during the RIIO-T1 and have operated under the expectation that the incentive scheme would apply across the entire price control. Therefore, we believe it is appropriate to reward those companies that have achieved good performance and penalise those that have not.

Whilst we understand the consideration of 'switching off' the relevant incentives for the first three years of the price control by applying a 100:0 weighting in favour of the Customer Satisfaction element, we agree this alternative is not aligned with the original intent of the incentive. As such, the general approach of 'switching off' would not be our preference because it represents a departure from our expectations of what was agreed at FP. Further, we have identified that 'switching off' the Stakeholder Satisfaction element of the incentive using weightings has the unintended effect of increasing the rewards to National Grid TOs under the Customer Satisfaction element of the incentive by £1.4m (see Tables 2 and 3).

Table 2 - NGET Customer Satisfaction Rewards with different weightings (£m)

	2013/14	2014/15	Total
90% weighting	4.44	4.92	9.35
100% weighting	4.93	5.46	10.39
Increase	0.49	0.55	1.04

Table 3 - NGGT Customer Satisfaction Rewards with different weightings (£m)

	2013/14	2014/15	Total
90% weighting	1.06	2.61	3.67
100% weighting	1.17	2.90	4.08
Increase	0.12	0.29	0.41

This is because, by changing the proposed weighting to 100:0 under Option 2, the potential reward/penalty is transferred to the Customer Satisfaction element of the incentive scheme. If the incentive is 'switched off' then the reward/penalty should be foregone. So, we do support the specific proposals regarding 'switching off'.

In our response to the June consultation we supported the use of targets with an improvement factor. In principle, we believe the use of 'flat' baselines can result in TOs being rewarded for static performance. However, we accept that the use of single value baselines

was agreed at RIIO-T1 Final Proposals. We recommend this approach is kept under review for the next round of price controls.

Answers to the consultation question are included in the attached appendix. We hope you find our comments helpful. Please do not hesitate to contact me if you have any questions.

Yours sincerely

Andy Manning
Head of Network Regulation, Forecasting and Settlements

Appendix – Responses to the consultation questions

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

Yes.

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

Option 1 (apply the proposed baseline for all years of the price control) is preferred. We believe this is consistent with the original intent of the incentive and RIIO-T1 Final Proposals.

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

Yes.

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

Option 1 (apply the proposed baseline for all years of the price control) is preferred. We believe this is consistent with the original intent of the incentive and RIIO-T1 Final Proposals.

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?

We do not agree that weightings should be used to ‘switch off’ the incentive because this approach is not consistent with the original intent of the incentive and RIIO-T1 Final Proposals.

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

We believe the use of ‘flat’ baselines can result in TOs being rewarded for static performance. However, we accept that the use of single value baselines was agreed at RIIO-T1 Final Proposals. We recommend this approach is kept under review for the next round of price controls.

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

We believe the use of ‘flat’ baselines can result in TOs being rewarded for static performance. However, we accept that the use of single value baselines was agreed at RIIO-T1 Final Proposals. We recommend this approach is kept under review for the next round of price controls.