



3rd Floor North
200 Aldersgate Street
London EC1A 4HD
Tel: 03000 231 231

citizensadvice.org.uk

08 June 2016

Dear Geoff,

Citizens Advice are pleased to respond to Ofgem's consultation on the values within the stakeholder satisfaction output arrangements. The customer and stakeholder satisfaction incentives allow for an increase of up to 1% in revenues to transmission network companies. This incentive puts up to roughly £190 million of consumers' money at stake over the next eight years.

Your decision to use the mean of actual outturn data across TOs to set a robust baseline is sensible. We welcome Ofgem's commendable willingness to revisit this issue, to make sure that you get the right decision for consumers. The unusual history of the stakeholder satisfaction output arrangements has had the positive consequence of providing a reasonably robust dataset of what constitutes average performance. Given the existence of this data, it would plainly be inappropriate and counter to consumers' interests to stick to the original, placeholder baseline of 5 for any year of this price control. This is underlined by the fact that the networks did not have a legitimate expectation that 5 would be used as the baseline for any of the price control years. We therefore endorse your decision to use the average stakeholder satisfaction survey score of 7.4 and the individual KPI averages of SP Transmission and SHE Transmission of 69 and 89 respectively.

We would prefer to see some element of ratcheting or increase in the baseline score, over the course of the price control. We recognise that stakeholder engagement can link to specific, discrete projects, leading to a 'lumpy' engagement portfolio (though this may be mitigated to some extent, insofar as the stakeholder satisfaction survey's sample partly comprises a consistent set of stakeholders). We also acknowledge that increased engagement may lead to increased expectation on the part of stakeholders, making it more difficult to maintain good scores. However, as we requested in our previous consultation response, we would expect to see greater evidence to underpin this assumption rather than have it treated as an unchallenged basis for rejecting a ratcheted baseline score.

Equally, we would expect to see countervailing, inflationary pressures on the score. Firstly, stakeholders unaccustomed to being engaged by networks may offer flattering scores simply in virtue of being engaged. Secondly, warmer relationships between networks and stakeholders may develop, leading to steadily increasing scores over time. Thirdly, networks' capacity and skill in engaging stakeholders may increase,



3rd Floor North
200 Aldersgate Street
London EC1A 4HD
Tel: 03000 231 231

citizensadvice.org.uk

leading to increasing scores over time. Each of these developments is to be welcomed; but incentives should be designed to stretch networks' performance over time, rather than reward them for what becomes business as usual. We would therefore recommend revisiting your decision to treat the baseline value statically.

We have a preference for the option 2 approach of turning off the incentive for years 1-3 and only applying it for years 4-8 of the price control. While networks may have had an expectation that some incentivisation would be in effect, the absence of knowledge of what the target was, and any caps and collars around it, will have made it hard for them to effectively respond to the signal. Indeed, without knowing what scores would fall within the sharing factors bounded by the cap and collar, networks would not even have had a clear understanding of whether incremental changes in their performance would have been rewarded or penalised at all. Further, as a general principle, it seems inadvisable to set a precedent of the retrospective applications of incentives and penalties as it may reward or punish behaviour that cannot be changed.

Given the sums of money at stake, clear reporting is also essential. In the past, companies did not report stakeholder satisfaction in a consistent manner. While three of the the four covered organisations (NGGT, NGET, SHETL) reported survey averages in 2013-14, as covered by the proposals for the baseline and cap and collar, Scottish Power Transmission instead provided the percentage of respondents who graded them 8 or higher. Now that this incentive is fully underway, we would expect Ofgem to encourage all companies to communicate scores in their public-facing reporting in a consistent manner.

If you have any questions about this consultation response, or would like to discuss any of the issues raised, please do not hesitate to contact me.

Yours sincerely,

Morgan Wild
Senior Policy Researcher
Citizens Advice