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All interested parties

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Dear stakeholders,

Decision on values within the stakeholder satisfaction output arrangements (electricity transmission licence special condition 3D and gas transporter licence special condition 2C)

As part of the RIIO-T1 price control, a customer and stakeholder satisfaction output¹ applies to electricity transmission and gas transporter licensees, namely:

- National Grid Electricity Transmission
- National Grid Gas
- Scottish Hydro Electric Transmission (SHE Transmission)
- SP Transmission

The aim of this output is to encourage these transmission owners (TOs) to be more outwardly focused and responsive to changing stakeholder needs. The arrangements include an incentive for customer and stakeholder engagement. Depending on a TO's performance, it can receive a financial penalty or reward of up to -/+1% of its annual revenue.²

The stakeholder satisfaction output involves multiple components, including a stakeholder satisfaction survey for all the TOs, and stakeholder key performance indicators for the Scottish TOs only. The licence condition defines how the incentive is calculated based on annual performance scores in these and other areas compared to a baseline target value.³ To calculate a reward/penalty we must set values for the relevant baselines, component weightings, as well as any relevant scoring caps and collars, which are all denoted in the licence condition by a series of letters.

In January 2016 we revoked our November 2015 decision on all the values for the baselines, component weightings and caps and collars. We re-consulted in April 2016 on proposals to set these values as well as an option to switch off some components of the incentive for the first three years of the price control period.⁴

¹ Denoted as the 'Stakeholder Satisfaction Survey' term in the licences of National Grid Electricity Transmission and National Grid Gas and as the 'Stakeholder Satisfaction Incentive' term in the licences of SHE Transmission and SP Transmission.

² In 2014-15 the maximum value of the reward or penalty under the incentive is approximately £29m in total across all of the TOs.

³ In addition, the stakeholder satisfaction output arrangements also include a stakeholder engagement reward, a customer satisfaction survey (National Grid only) and an external assurance element (Scottish TOs only).

⁴ https://www.ofgem.gov.uk/system/files/docs/2016/04/si_consultation_apr_16_final.pdf

The April 2016 consultation gives more background on the customer and stakeholder satisfaction incentive and explains our proposals for setting all the relevant values. In Appendix 1 we outline how we have considered the responses to that consultation and the basis for our decision.

Our decision

Having considered stakeholder responses, we have now reached a decision. We have decided to adopt most of the values proposed in our April 2016 consultation, and to apply the stakeholder satisfaction survey and the key performance indicators in the incentive for years 4-8 of the price control (option 2 in the consultation). In response to stakeholder views, we are changing the weightings that apply in years 1-3 to some components of the output arrangements that are not affected by our decision on the baseline values.

Table 1: Summary of values determined for stakeholder satisfaction output arrangements

Component	NG	SP Transmission	SHE Transmission
Values apply for years 4-8 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
Modified Weightings Years 1-3 (values in the April 2016 consultation)			
Customer satisfaction : Stakeholder satisfaction for NG	70:0 (100:0)	0:0:10 (0:0:0)	0:0:10 (0:0:0)
Stakeholder satisfaction : Key Performance Indicators : External Assurance for SP and SHE			
Weightings Years 4-8	70:30	60:30:10	60:30:10

The values for the stakeholder satisfaction survey and KPI baselines, the caps and collars, and weightings for years 4-8 are the same as we proposed in the April 2016 consultation. Having considered the views of stakeholders, we think these values best achieve the objective of providing a fair and effective incentive for the TOs to improve stakeholder engagement.

In response to stakeholder views, we've decided to modify the weightings which apply to National Grid's customer satisfaction survey and to the external assurance element of SP Transmission's and SHE Transmission's output arrangements in years 1-3. The baseline for the customer survey, and the external assurance requirements were set at the start of the price control period. Therefore, we think it is appropriate that both these elements function in the incentive in years 1-3 (in our consultation only National Grid's customer survey was turned on in option 2). However, we've decided that each element should operate in the first three years at the same weight as it will operate in years 4-8. This will ensure that the relative impacts on revenue from good/poor performance in these components are preserved over the price control. It also eliminates potential windfall gains/losses under the option 2 weightings in the April 2016 consultation.

We've also decided to align the licence algebra in SHE Transmission's and SP Transmission's licences for the incentive cap and collar mechanism with those for National Grid. This involves incorporating an explicit cap and collar for both the stakeholder satisfaction survey and the KPIs. It is necessary to amend the cap and collar mechanism in

the Scottish TOs' licences for the baseline values in table 1, in order that SP Transmission and SHE Transmission are able to obtain the full potential upside of the incentive, whilst maintaining the full potential downside.

Next steps

Amending the electricity transmission and gas transporter licences

We are consulting on modifying SHE Transmission's and SP Transmission's licences to implement our decision on the values in table 1, and also to amend the licence algebra in order that the Scottish TOs can achieve the full range of the incentive for the baseline values in table 1.

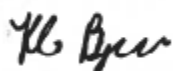
We're also consulting on modifying National Grid's gas transporter and electricity transmission licences to implement our decision on the values in table 1. For National Grid Electricity Transmission we are also consulting on an associated housekeeping amendment to its licence. The housekeeping amendment is necessary because the incentive operates with a 2 year lag to determine financial revenues due to the TO for its performance under the incentive. At two points in the licence, there are erroneous references to year 't' instead of 't-2' which the housekeeping amendment will correct.

We have published notices under section 11A(2) of the Electricity Act 1989 and under section 23(2) of the Gas Act 1986, as well as the proposed modifications alongside this letter. Please send responses to those consultations to anna.kulhavy@ofgem.gov.uk by 1 September 2016.

Updating companies' allowed revenues

Subject to our final decision on the licence modifications, we will use the values in table 1 to calculate rewards and penalties that are due to the TOs under the stakeholder satisfaction output arrangements for all years of the price control. Revenue adjustments for years 1-3 that arise from implementing our decision will be updated in the TOs' price control revenue models later this year. It is likely that these revenue adjustments will be included in the forecasts that the TOs submit to National Grid later in the year for the purpose of calculating the 2017/18 Transmission System Use of System charges.

Yours faithfully,



Kersti Berge
Partner, Networks

Appendix 1 – Our consideration of consultation responses

We received responses to our consultation from:

- British Gas
- Citizens Advice
- National Grid (electricity and gas transmission)
- SHE Transmission
- SP Transmission

All responses are non-confidential and available on our website.⁵ We have considered all responses in developing our policy conclusions.

Baseline value for the stakeholder satisfaction survey and implementation options

Consultation proposals

We proposed a value of 7.4 for all companies based on an average of all the TOs' survey scores over three years 2012-2014.

We consulted on two options for implementation: 1) the baseline value is applied in the incentive for all years in the price control, or 2) the baseline value is only applied for years 4-8 of the price control.

Stakeholders' views

British Gas, Citizens Advice and National Grid support the proposed baseline value of 7.4. These respondents agree that setting the baseline value on the mean average of the past three years' survey scores for all TOs is a robust approach because it is evidence based on actual performance. Citizens Advice and National Grid consider it is a sound principle because it ensures that a realistic benchmark is set from which to reward/penalise good/poor performance.

Citizens Advice and National Grid both support option 2 to apply the baseline value in the incentive only in years 4-8 of the price control. Both thought that retrospective applications should be avoided as it will only reward or punish behaviour that cannot be changed. Citizens Advice and National Grid also consider that transparency on the targets that TOs should strive to meet ahead of the applicability period will help achieve the best outcome for consumers.

British Gas supports option 1 to apply the baseline value in all the years in the price control as it considers this is consistent with original intent of the incentive and RIIIO-T1 Final Proposals. It notes that the TOs accepted that the baselines would be set after the start of the price control and apply over the full period.

SHE Transmission and SP Transmission do not support the proposed baseline.

Although SP Transmission considers using the mean outturn data across TOs is a reasonable approach it doesn't agree to applying these to years 1-3. It notes that it thought the baseline values would be fixed for the first 2 years of the price control with the proposed values it had submitted. Therefore, should the proposed baselines be adopted, SP Transmission considers that these should only be applied for future years, not retrospectively. Its preferred approach overall to setting and implementing the baseline values in the incentive is to reinstate the set of parameters in our November 2015 decision (which we revoked in January 2016).

⁵ <https://www.ofgem.gov.uk/publications-and-updates/consultation-values-within-stakeholder-satisfaction-output-arrangements>

SHE Transmission considers there are several issues with the proposed baseline value. First, it thinks that there is insufficient justification for the methodology used to set the proposed baseline values, in particular why the average of actual performance is an appropriate reference point for 'neutral performance'. It also thinks that the absence of third party evidence and reliance on a small data set without any adjustments for outliers are potential methodological weaknesses. It also notes that the methodology used to calculate the proposed baseline value appears to run counter to previous decisions taken by Ofgem, for example, the customer satisfaction survey in the RIIO-ED1 price control.

Second, SHE Transmission thinks that using outturn data to set the baseline value after the incentive has been implemented introduces hindsight bias, and introduces regulatory risk for the company.

Third, SHE Transmission thinks that option 2 to turn off the incentive for the early years of the price control is at odds with the intent to apply the incentive over the entire price control period and poses regulatory risk. Therefore it thinks that option 1 should be implemented so that the baseline values are applied in all years of price control, consistent with policy under the price control.

Ultimately SHE Transmission considers that adopting the proposed baseline will set worrying precedents for regulated businesses if implemented. SHE Transmission thinks that Ofgem should revisit the basis for its proposed baseline proposals.

Our consideration of responses

We welcome the full support from Citizens Advice, British Gas and National Grid for using the mean average of past survey scores to set the baseline values for the stakeholder satisfaction survey. We also note that SP Transmission think this is a reasonable approach for years 4-8.

We note SP Transmission considers that the baseline values in the first two years should be fixed with the values it proposed in 2013. As explained in our January 2016 revocation letter, this isn't currently possible as the mechanism for determining the relevant values set out in the licence permits only a single value to be determined per the algebraic term in the licence. We think it is appropriate to retain the mechanism agreed at the start of the price control as we think it is consumers' longer-term interests to maintain regulatory confidence.

In response to the concerns raised by SHE Transmission about the proposed baselines and the process of setting these, we acknowledge that it is not ideal to set the incentive baseline value in year 3 of the price control. We've not been able to make a decision earlier in the price control because of a significant risk that it wouldn't be reliable or robust, which might lead to a poor outcome for consumers.

The relationship between a TO and its stakeholders is uncommon, and is different to the relationships businesses have with direct customers. There is a lack of literature or third party evidence that is relevant to stakeholder satisfaction surveys. Consequently, we are not aware of any relevant external benchmark measures that we can use in setting baseline values for the stakeholder satisfaction survey. The responses to the consultation haven't suggested any external benchmarks that are suited for this purpose.

The original intention of the incentive is for a baseline of 'neutral' performance in order that good/poor performance above/below this point is rewarded or penalised. However, it's not been possible, due to the lack of evidence, to determine an objective neutral point for comparing the TOs' performance in engaging stakeholders.

Given this challenge, the next best alternative to operate the incentive is to set the baseline value as a reference point to which future performance can be compared. This reference

point must be effective and fair for the companies and consumers alike in order to achieve the policy intent of the output arrangements. In our view, a baseline value is effective and fair if it is achievable for the companies but only if they respond proactively to improving stakeholder engagement.

In the absence of objective external evidence to inform what a fair and effective reference point might be, we think there are two options available. The first is to set an arbitrary reference point within the 10 point scale (which stakeholders are asked to score a TO's performance). The second option is to look at outturn data to take a view on stakeholder engagement ratings that merit reward or should otherwise be penalised.

The first option is the approach proposed by the TOs in 2013. Both of the Scottish TOs proposed the mid-point of the scale, ie a score of 5, and National Grid proposed a baseline value of 5.5.

We have considered the evidence provided by SHE Transmission (it was the only TO to provide additional information) to support its proposal that the baseline is set at 5. The information SHE Transmission provided is based on a trial of a stakeholder satisfaction survey it carried out in 2012. In the survey, 40 respondents are asked to rate their satisfaction with the engagement they had with SHE Transmission using a 10 point scale, with 1 being low levels of satisfaction and 10 representing a high level. The average score for the survey was 7.2, significantly above the mid-point of the scale. Statistical inference from the survey sample indicates there is 99% confidence that the actual engagement rating for the whole population of SHE Transmission's stakeholders is within an interval of 6.5 and 7.8. Given this interval, the report notes that it is unlikely that subsequent surveys would result in a mean score as low as 5 and that such a change is much more extreme than is regularly seen. At the same time, the report highlights that variability estimates in small samples can be misleading and that future performance could change more dramatically, although this variation could work in both ways. The report concludes that the evidence from the trial survey to increase the baseline value in the stakeholder satisfaction survey from 5 to 6 is potentially less dependable.

In our view, the information from SHE Transmission doesn't provide an empirical justification for a neutral reference point on which future surveys scores are to be compared. Instead, we consider it suggests that if a baseline is set at 5, SHE Transmission is almost guaranteed that its future survey outturn will be greater than the mid-point of the 10 point scale. This leads us to conclude that a baseline of 5 is too conservative in favour of the company. Therefore, we are not convinced that a baseline value of 5 is a fair and effective baseline value to both the TOs and to consumers.

Given the lack of third party evidence, we consider that the only practical and reliable option to set a fair and effective baseline value for the survey is to look at the outturn data and take a view on stakeholder satisfaction levels and the level of performance that might indicate improved performance. We note SHE Transmission's concerns that there might be some issues from using this methodology in the third year of the price control. One possible way to test whether using survey scores from year 1 and year 2 of the price control has had any undue impact is to sense check this by using only the outturn data from the trial stakeholder satisfaction survey in 2012/13.

The mean average and median survey score across all the TOs in the trial year survey was 7.2. As the trial survey was carried out prior to the start of the price control we think the average score is a measure of the starting position for the TOs stakeholder engagement ratings. Accordingly, we think it would be inappropriate to set the survey baseline equal to the starting position as it wouldn't stretch the companies to improve stakeholder engagement ratings compared to what these were before the price control started. Therefore, we think it would be necessary to include an adjustment in order to set a baseline value that ensures only companies who make a genuine improvement in stakeholder engagement are rewarded.

The trial year data gives little information to inform the size of adjustment that might reasonably be expected to indicate a genuine improvement in performance, as compared to the starting position in 2012/13. Given the lack of information, this is a matter of judgement. In our view, an adjustment of between 0.1 and 0.5 is a cautious estimate of a change in survey scores that might represent a shift in engagement ratings.

Adding this to the average score for all TOs in the trial year survey gives a range of potential baseline values between 7.3 and 7.7, which encompasses the proposed 7.4 baseline value. This exercise of setting the baseline using only the data from the trial year suggests to us that a survey baseline value of 7.4 is not unduly influenced by using the full data set of survey scores.

Our decision on the stakeholder satisfaction baseline value and the implementation option

Having considered stakeholders' views, reconsidered the TOs proposals, and undertaken a sense check of the potential baseline values using the trial survey scores, we remain convinced that setting a baseline based on the mean average of all the outturn survey scores is a robust approach. We think a value of 7.4 is a fair and effective baseline and will help to drive good stakeholder engagement from the TOs and value for money for consumers.

We note stakeholders' mixed views on the two implementation options set out in the consultation. Overall, three out of five respondents (National Grid, Citizens Advice and SP Transmission) prefer option 2, to apply the baseline values in the incentive in years 4-8 of the price control only. Both SHE Transmission and British Gas share concerns that option 2 isn't consistent with the policy intent of Final Proposals and will contribute to regulatory uncertainty. While we acknowledge this potential issue, we consider consumers' longer term interests are better served by promoting regulatory confidence that the price control adheres to the RIIO principles of a transparent and ex-ante price framework that allows the TOs to plan and respond, and to which they will be held to account.

There is a precedent for turning off a price control incentive, when it could potentially undermine regulatory confidence and be detrimental to consumers' long-term interests eg the distribution losses incentive in the 5th distribution price control.

Baseline value for the Key Performance Indicators for the Scottish TOs

Consultation proposals

We proposed a KPI baseline of 89 for SHE Transmission and 69 for SP Transmission.

Stakeholders' views

British Gas supports the proposed KPI baselines for the two Scottish TOs and the rationale used to calculate this. SHE Transmission has similar concerns about the methodology and the proposed KPI baseline value to those it expressed on the survey baseline value eg more rationale needed to justify the proposed baseline is a neutral value. SP Transmission also reiterates its earlier concerns about the proposed baseline value and its overall preference to reinstate the values outlined in the November 2015 decision. National Grid and Citizens Advice didn't respond directly on this aspect of the consultation.

Our consideration of responses and our decision on baseline values for stakeholder key performance indicators

For many of the same reasons explained in the previous section we remain convinced that setting a KPI baseline equal to the mean average of each company's historical performance for the first two years of RIIO-T1 is the only reliable and justifiable approach. We think a KPI baseline value of 89 for SHE Transmission and 69 for SP Transmission will help to stretch the two TOs to deliver good performance, as the incentive is intended to do.

We have also decided to implement the KPI baseline value in the incentive arrangements in years 4-8 of the price control only. Our reasoning behind our decision to implement option 2 in the above section extends fully here to the KPI baselines.

Achieving the full range of the incentive for the Scottish TOs

Consultation proposals

We proposed to align the licence algebra for SHE Transmission and SP Transmission with those for National Grid. The modification will introduce an explicit cap and collar for both the survey and KPIs into the Scottish TOs' licences.

Stakeholders' views

SP Transmission agrees with the proposed modification if the proposed baseline values are implemented. We didn't receive any other responses on the proposal to amend the licence algebra for the Scottish TOs.

Our consideration of responses and our decision on achieving the full range of the incentive

A licence modification is needed if we determine baseline values for the survey and KPIs which are above 6 and 60 or below 4 and 40, to allow the full reward/penalties to be achieved. As we remain convinced that the proposed baselines for the survey and KPI will best achieve the aims of the incentive, we have decided to proceed with the modification to Special condition 3D of SHE Transmission's and SP Transmission's licences we consulted on.

Weightings for different components

Consultation proposals

We proposed weightings on the different components as shown below:

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

Stakeholders' views

National Grid supports the weighting under option 2 with a weighting of 100:0 for the customer and stakeholder elements for years 1-3. For 2016/17, National Grid considers that a weighting of 80:20 would be more appropriate if the stakeholder satisfaction survey baseline value is 7.4.

SHE Transmission queries the rationale behind the unequal weighting on National Grid's components as it understood the original policy intent was for these to have an equal weighting. SHE Transmission notes that proposed weightings on its components reflect the importance that Ofgem places on the stakeholder satisfaction survey. It sees no reason to object to the proposed weightings but thinks Ofgem should be clearer on its considerations in reaching its proposals. Additionally, SHE Transmission also suggested in a bilateral discussion that the 10% weighting on its external assurance component should be retained if option 2 is taken forward, as requirements on this component were accepted by Ofgem at the start of the price control.

SP queries whether the use of variable weighting values in different years can be accommodated in the current licence condition. SP Transmission doesn't agree with the lesser weighting on the KPI component. It thinks this should be 60%. It also thinks that the stakeholder satisfaction survey is less reflective of its stakeholder engagement performance than the KPIs. This is because under the industry arrangements it has indirect interactions with stakeholder via the System Operator. It also has concerns that putting a high weight on the survey may lead to more fluctuations in overall performance from year to year.

British Gas highlighted that under option 2 National Grid will financially benefit from approximately £1.4m if a 100% weight is implemented on the customer satisfaction survey.

Citizens Advice did not respond specifically on the proposed weightings for different components.

Our consideration of responses

Our intention, as set out in Final Proposals, is to move towards a more even weighting between the two surveys, but we do not think it is appropriate to equalise the weighting on National Grid's customer satisfaction survey and stakeholder satisfaction survey. We think that a higher proportion of potential revenue under the incentive should be exposed to the customer survey. This is because we are trying to replicate the pressures of a competitive environment, in which companies would stand to gain/lose customers, with consequent impacts on revenue if the service it provides is good/poor.

Despite the possible influence of wider circumstances, the stakeholder satisfaction survey provides an independent assessment of the TOs' stakeholder engagement ratings. We consider that a 30% weighting for National Grid and the 60% weighting for the Scottish TOs is warranted because of the relative importance of this aspect to wider stakeholders. The flipside of this is that the KPIs are not a direct measure of stakeholder engagement and satisfaction, therefore we've decided to put a lesser but still reasonable weighting on this element for the Scottish TOs.

It is correct, as SP Transmission point out, that the licence condition for the Scottish TOs will currently only allow the Authority to determine a single weighting value for each of the components over the price control. However, one of the consequences of aligning the Scottish licence algebra with those for National Grid to incorporate explicit caps and collars for the survey and KPIs is that this also introduces time-varying weighting terms.

Our decision on component weightings

Having considered the views of stakeholders, we have decided to adopt the weightings on the components for years 4-8 that were set out under option 2 in the April 2016 consultation.

In response to stakeholder views, we've decided to modify the weightings which will apply to National Grid's customer satisfaction survey and to the external assurance element of SP Transmission's and SHE Transmission's output arrangements in years 1-3. The baseline for the customer survey, and the external assurance requirements were set at the start of the price control period. Therefore, we think it is appropriate that both these elements function

in the incentive in years 1-3 (in our consultation only National Grid's customer survey was turned on in option 2). However, we've decided that each element should operate in the first three years at the same weight as it will operate in years 4-8. This will ensure that the relative impacts on revenue from good/poor performance in these elements are preserved over the price control. It also eliminates potential windfall gains/losses under option 2 as proposed in the April 2016 consultation.

The component weightings we've decided for the output incentive arrangements are summarised below:

Application in price control	Our decision on component weighting	Weightings in the April consultation for Option 2
NG Years 1-3		
Customer satisfaction:	70:0	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	0:0:10	0:0:0
Scottish TOs Years 4-8		
Stakeholder satisfaction:KPIs:EA	60:30:10	60:30:10

Caps and collars

Consultation proposals

We proposed symmetric caps and collars for all TOs' stakeholder satisfaction survey, specifically a collar of 5.8 and a cap of 9.

We also proposed to set caps and collars for each of the Scottish TOs 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)

Stakeholders' views

SHE Transmission says that the proposed cap and collar values on both the survey and the KPI component are not adequately justified.

SP Transmission agrees with the proposed survey cap and collar on the basis that this is consistent with the existing licence condition. It also thinks that the proposed cap and collar for the KPI element are reasonable.

National Grid thinks that the cap and collar for the stakeholder satisfaction survey should be set at -/+1.1 so that this gives the same cap of 8.5 for its customer and stakeholder satisfaction surveys. National Grid notes this will increase the impact on incentive revenues and help to ensure that the cap is achievable, as attaining a score of 9 or 10 is rare under a 10 point scale.

British Gas and Citizens Advice did not respond specifically on this aspect of the consultation.

Our consideration of responses

The stakeholder satisfaction output is important to stakeholders and consumers and this is reflected by the size of the potential achievable incentive at $\pm 1\%$ of annual base revenue. We have also taken this into account when setting the caps and collars on both components as these parameters also impact on the power of the incentive ie a small range between the cap and collar will increase the value of reward/penalty for a given difference between an outturn score and the baseline value.

In coming to a decision about the survey cap and collar we have to balance competing considerations. First, it is important that the full upside of the incentive is achievable only for very good performance in stakeholder engagement so as to drive real behaviour change for the benefit of consumers. In a 10 point scale we think that a score of 9 or above indicates high levels of stakeholder satisfaction.

Second, we think it is important the incentive is appropriately powered so that rewards/penalties calculated under the incentive are triggered by genuine changes in a TO's performance. As the engagement ratings are survey-based we recognise that there could be an element of sampling variability in scores from one year to the next. Therefore, it is important that the cap and collar are set so as to avoid the incentive over-reacting to variability in survey scores that are simply due to differences in sampling. We think a cap and collar close to ± 1 would be at greater risk of doing this.

We see no strong argument for the stakeholder satisfaction survey cap to align with that of the customer satisfaction survey.

Our decision on the values for the scoring caps and collars

Having considered the views of stakeholders, and the additional considerations above, we consider that the cap and collar values we proposed in the April 2016 consultation are appropriate values to apply in the survey and KPI components of the incentive.

Other points from respondents

Citizens Advice thinks that there should be an element of ratcheting in the baseline values over the course of the price control. It considers this would help counter some 'inflationary' pressures on the TOs' scores. As noted earlier, the licence condition makes provision for Ofgem to determine a single set of parameter values to operate the incentive only one time during the price control period. We think retaining this mechanism is appropriate to promote regulatory confidence which is in consumers' longer-term interests. We note that British Gas suggests that this approach is reviewed for the next round of price controls.

Citizens Advice also makes a broader point about the need for more uniformity in the way that the companies communicate scores to the public. While this is out of scope of this particular consultation, we expect the TOs to respond to this feedback in order to improve the quality of stakeholder engagement on their annual reporting of their performance under the price control.