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Date:
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Dear Anna

Notice of statutory consultation on a proposal to modify the special conditions of the electricity transmission licences held by the licensees

This response is from SP Transmission plc (SPT) the onshore Transmission Owner (TO) for the South of Scotland. Thank you for the opportunity to respond to the above statutory consultation to modify our licence special condition 3D.

SP Transmission is committed to improving stakeholder satisfaction and this has been reflected in our high achievement in Ofgem's recent panel assessment of our discretionary stakeholder engagement. However, the decision by Ofgem in regard to our stakeholder satisfaction licence condition 3D, to switch off the incentive for the first three years of the RIIO-T1 period does not reflect the extent of our progress in this area and is not consistent with our RIIO-T1 agreement.

The decision by Ofgem as laid out in its decision letter of 4th of August 2016, is the culmination of over three years of delay following the submission of our stakeholder satisfaction proposal in April 2013¹. Ofgem did provide a response to this in May 2013² in which we were told not to implement our proposal but that this only applied to our key performance indicators (KPI's). The external assurance proposal was accepted and the values for our annual survey were described as being still under review by Ofgem. We responded to this Direction in September 2013³ and amended our KPI's accordingly.

Since September 2013, we have implemented our stakeholder satisfaction methodology faithfully conducting three annual surveys, developed and embedded our KPI's and conducted three external assurance reviews of these activities. We have also populated our financial model and calculated forecast revenues based with the values in our methodology. This has been transparent in our regulatory reporting and endorsed by Ofgem as the approach to take. At no point during this period has Ofgem suggested that the baseline values in our methodology were inappropriate or were likely to change retrospectively. For example, the June 2015 Consultation on values within the stakeholder satisfaction output arrangements (electricity transmission licence, special condition 3D and gas transporter licence, and special condition 2C) states:

¹ SP Transmission Stakeholder Satisfaction Incentive Methodology 30th April 2013

² https://www.ofgem.gov.uk/sites/default/files/docs/2013/05/spt_kpis_0.pdf

³ Letter to Iain Morgan from Alan Kelly 4th Sept 2013

“Given years 1 and 2 of RIIO-T1 are now complete, we do not propose to direct values away from their expectations in this area for the first two years of RIIO-T1. These were the values the companies used as part of their annual reporting.”

Ofgem has explained that the decision to revoke its November 2015 decision and retrospectively switch off the mechanism for years one to three of the RIIO-T1 period is based on the variables in the licence condition being unable to have more than one value applied. However, their current decision specifies more than one value for the weightings, which appears to be inconsistent with its November decision.

Setting the incentive to zero for the previous three years reduces the overall value of the potential reward or penalty that was established within the RIIO-T1 settlement. This is a deviation from the principles established in our initial and final proposals that the incentive should provide for reward/penalty of up to +/-1% of base revenue. This decision changes that position by reducing the overall incentive to +/-0.625% of base revenue for the RIIO-T1 period overall by switching off the incentive for years 1 to 3.

This latest decision undermines Ofgem’s stated aspiration to promote regulatory confidence and adhere to the RIIO principles of a transparent and ex-ante price framework. We therefore ask Ofgem to revisit this decision and reinstate the mechanism for years 1-3 as per the values stated in the 6th November 2015 decision. For the avoidance of doubt these values are 50 and 5 for our baseline targets for our KPI’s and survey. The weightings for the satisfaction survey, KPI’s and external assurance are 30:60:10.

Notwithstanding these issues we have reviewed the proposed licence changes and accept the proposals for years 4-8. It would have been helpful if Ofgem had clarified the basis for the calculation of the range in our KPI’s values as suggested in our consultation response in the informal consultation response⁴ but overall we agree the proposed licence changes reflect Ofgem’s decision dated 4th August 2016.

Yours sincerely,



Alan Kelly

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SP Transmission

⁴ https://www.ofgem.gov.uk/system/files/docs/2016/08/scottish_power_transmission_response.pdf