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Dear Anna

### **Open letter consultation: how we report on electricity distribution company performance**

During the RIIO-ED1 period, DNOs will report significant amounts of information under a range of different licence requirements, some targeted at specific issues<sup>1</sup> and some covering a much broader overview.<sup>2</sup> We understand that Ofgem will publish an annual report, setting out summary information on all DNOs in a single convenient place.

In light of the already complex landscape, additional requirements should be simple and targeted closely at the needs of specific stakeholders. This will help avoid increasing costs associated with reporting, while allowing new approaches to be developed over time.

We believe this can be achieved with careful adaptations to the existing RIIO framework:

- DNOs should have freedom to develop innovative ways to present performance information in their annual business plan performance report in a way that is valued by their stakeholders, and responding to customer and stakeholder engagement incentives.
- DNO RIIO accounts should provide information on incentive and financial performance information for expert stakeholders.
- Ofgem should publish the mid-level information that many national stakeholders want, as part of its annual report, in tables that collate comparative information on all DNOs; which is more user-friendly than six different sets of DNO group tables.

This framework recognises that Ofgem is best placed to publish information in a single place, on a consistent basis, to aid national stakeholders, and that DNOs are best placed to understand and respond to the needs of all their stakeholders. It also ensures that innovation in reporting for the benefit of customers and stakeholders is not stifled in any way.

During the price control review it became clear that the fast-tracked DNO had been funded to a level that was disproportionate to other licensees and would enable it to widen the performance gap between itself and the slow-track licensees. This funding gap needs to be

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<sup>1</sup> Such as the Environmental and ICE reports

<sup>2</sup> Such as the report on performance against business plan commitments (SLC50), and RIIO accounts.

acknowledged in Ofgem's report on DNOs' performance and we look forward to Ofgem quantifying this funding gap - which is much greater than £250m that Ofgem has recognised to date - and reflecting it in any assessment of comparative DNO performance.

Our responses to the individual questions are set out in the annex below; however the responses to specific questions must be considered in the context of the higher-level comments set out above.

Yours sincerely

A handwritten signature in black ink that reads "John France". The signature is written in a cursive style with a large initial 'J' and 'F'.

John France  
Regulation Director

## ANNEX - RESPONSES TO QUESTIONS

The answers to the questions below, and the covering letter above, are the response from Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) Plc to Ofgem's consultation entitled *Open letter consultation: how we report on electricity distribution company performance*.

### ***Q1: Do you have any comments on the scope and purpose of this consultation?***

It is appropriate that Ofgem is consulting on performance reporting by DNOs and Ofgem simultaneously. This should help avoid any unnecessary duplication of reporting whilst ensuring full coverage of the information required by stakeholders.

### ***Q2: What do you think about the information we suggest including in an infographic-style report included in Table 1?***

We believe an infographic report with mandatory categories of information like those listed in table 1 may not meet the needs of a DNO's local stakeholders. Stipulating the information, and how it is presented, could also stifle innovation by DNOs.

DNOs should instead have freedom to develop infographics and other reporting that suit the needs of their stakeholders, including those that are local to them. DNOs have an incentive to meet these needs via the customer satisfaction and stakeholder engagement incentives. This would also ensure Ofgem has good visibility of proactive and meaningful DNO stakeholder engagement in response to these incentives.

We do however understand many national stakeholders have asked for information of the type listed in tables 1 and 2 - along with the level 1 to 3 information suggested by Electricity North West.

DNOs could of course publish this type of summary information in a standard format for their own licensees. But it is likely to be more useable for stakeholders seeking a national picture if information for all companies is presented side by side, on a basis that is guaranteed to be consistent. Ofgem is best placed to lead on this.<sup>3</sup> By taking the lead in publishing 'comparative' summary information, Ofgem would also ensure DNOs are able to continue innovating in how they present information for all their stakeholders.

We also note that Citizens Advice (and Citizens Advice Scotland) has a statutory duty to secure the publication of such data on DNO performance and complaints that it considers appropriate.<sup>4</sup> We are not clear of the route by which this duty is currently being met. However, provided either Ofgem or DNOs publish the relevant complaints information on an annual basis, to the level of detail that Citizens Advice considers satisfies its statutory remit, as an outcome of this

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<sup>3</sup> Even in the supposedly consistent one page summaries, published alongside RIIO-ED1 business plans, some companies interpreted requirements differently and so the summaries were in fact not truly comparable. This was despite considerable effort by both Ofgem and various DNOs to develop a set of clear guidelines.

<sup>4</sup> Section 42AA of the Electricity Act 1989 confers on Citizens Advice and Citizens Advice Scotland a duty to publish statistical information relating to DNOs' (and suppliers') performance against applicable guaranteed standards; against any carbon-emissions reduction targets that may be imposed by the Secretary of State under Section 41A of the Electricity Act; and in respect of DNOs' (and suppliers') handling of complaints.

consultation, then it would simplify the steps Citizens Advice must take in order to meet its duty.

We comment on the traffic light aspect of table 1 in response to Q15.

***Q3: Are there any other metrics you would wish to see included in an infographic-style report and why? You will find more information on data collected in the RIGs on our website.***

At a generic level, total expenditure is suggested in the templates included as annexes 1 and 2, but omitted from table 1.

There are also a number of areas of performance missing from the infographic style report that local, or non-expert, DNO stakeholders may find interesting and informative. For example, the number of people the DNO employs (directly and indirectly), the number of new apprentices being trained, the amount being invested in network schemes in particular geographic areas, the amount of proactive work in the community to raise awareness of safety around the electricity network and so on.

This is why, as per our in response to question 2, we believe DNOs should be able to innovate and develop information that suits all their stakeholders without being constrained by mandatory requirements and a set format. DNOs have incentives to develop information that suits their stakeholders and these incentives should be allowed to act.

But we do recognise national stakeholders want this sort of information on a consistent and comparable basis. This is where Ofgem has a significant comparative advantage over DNOs in being able to present the information in a single, user-friendly, publication covering every company.

***Q4: Do you have any comments on the sample infographic-style report included in Annex 1 and the suggested content for an infographic-style report included in Annex 2?***

The general points made in response to question 2 also apply to the suggestions in annexes 1 and 2.

Specifically in relation to annex 1, the simplicity may be helpful, but it leads to a number of practical questions:

- Finance - would the example used be a problem if phasing was different year-on-year throughout the period?
- Finance - how would return on equity be measured?
- Customer Satisfaction - can a composite metric be produced for complaints, surveys and engagement?
- Connections - how would the average across different types of connection be calculated, given that smaller connections were deliberately set shorter target timeframes?
- Reliability - is this just the CI and CML metrics?

In terms of the suggested DNO rankings, we provide our general views on such measures in response to Q15. In general, however, we believe these will often be uninformative.

However, we believe that the bonus or penalty per customer seems useful since it helps to place individual incentive schemes in context. Overall, this aspect of the report may also benefit from the total annual bill figure for comparison, including what the bill would have been had the DNO delivered 'baseline' performance.

Specifically in relation to the level 1 information included in annex 2, this omits some of the metrics included in annex 1, which would also be interesting.

***Q5: Should an infographic provide information at DNO or DNO group level?***

With regard to mid-level data that we recommend Ofgem publishes as part of its annual report comparing the DNOs, we believe that representing the analysis at both the licensee level and the DNO group level is sensible. The DNO groups in this industry each have a single senior management team that drive their strategic direction. Group level figures may therefore help provide insights into the different strategic directions of these organisations. However, the different licensees can still have significantly different characteristics and, at the extreme, can be at opposite ends of the country. Therefore, it seems sensible to set out the individual DNO figures as well as the collective group.

As set out in response to question 2, we believe DNOs are best placed to decide how to present information for their stakeholders, which can differ in needs and emphasis from company to company. This means DNOs should be free in their own reporting to stakeholders to use a group basis, licensee basis, or both, depending on which they judge is likely to best suit their specific stakeholders.

***Q6: Are there any metrics included in Table 2 which you do not think are relevant or important? Why?***

Much of the information risks duplication of other reports.

DNOs already have an obligation to report against their business plan commitments, which are likely to include many or all of these items. Other items will be included in other published DNO reports such as RIIO accounts, which will include financial performance. These reports, which are already mandated, could also be supplemented by Ofgem's publication of summary mid-level data tables as part of, or alongside, its annual report, if a stakeholder demand for this information were confirmed by this consultation.

Moreover, as highlighted in response to question 2, expert and national stakeholders are likely to prefer to see mid-level summary information on all companies in a single place, which would suggest inclusion in the Ofgem annual report, rather than piecemeal reporting by individual DNOs.

***Q7: Are there any other metrics not included in Table 2 which you would also like to see reported in a mid-level report? Why? You can find more information on data collected in the RIGs on our website.***

As per our response to question 6, we believe the content should simply be included in the Ofgem annual report.

In terms of missing metrics, we note that Annex 2 includes a metric on pension deficit. If information on pension deficit were to be included in table 2, it should be expressed as a pounds per customer figure as this is more likely to be meaningful to stakeholders.

We would also welcome further work to develop the RORE measure, in particular since to date it has failed to take into account the actual cost of debt of companies, despite this being one of the largest cost categories faced by the companies.

We also note that the type and number of low carbon technologies would be interesting to many stakeholders. However, reliable information on the full range of technologies is held across a number of different sources (for example, feed in tariff information is likely to be more accurate than DNO records for small solar installations). A joint project to collate the relevant data may be helpful. Neither Ofgem, DECC nor DNOs can solve this data gap individually, though Ofgem may be well placed to lead a project drawing together the relevant information into a single source over the medium term.

***Q8: Would you like information and/or data published to reflect in-year performance or are you also interested in performance up to date and/or forecast or cumulative data? If so, why?***

We would question the need for forecast data in this analysis as it has already been published as part of the Well Justified Business Plans and since performance against these business plans will be covered in the Business Plan Commitments report (SLC50).

Visibility of cumulative data would be useful as this would show the trajectory of each DNO in the relevant areas, including any improvements or variance relative to forecasts or targets.

***Q9: Do you have any comments on the templates provided by stakeholders in annexes 2 and 3?***

Our views on annex 2 and 3 are below.

### ***Annex 2***

We have previously provided some comments on the template attached at annex 2, which we have attached to this response.

A more general comment is that the third tier is *in places* very detailed. Further, we would suggest that Ofgem seeks to provide qualitative assessment rather than purely quantitative. For instance, rather than presenting simple count metrics such as the number of worst-served customers, we would suggest the number of PSR customers impacted as a percentage of the number of worst-served customers.

We have also previously commented on a number of metrics where further details are needed on how the metric would be constructed before full comment can be given, as it is unclear from the title what is proposed. We would be happy to work further on definitions of these metrics if Ofgem wishes to include them.

### ***Annex 3***

This template contains information at varying levels of detail. In places it is too granular to be useful to stakeholders. The presentation of the data is also confusing as it moves between

expenditure (at a variety of levels), performance, allowances and volumes with no consistent approach throughout.

On some of the categories, the information is not currently collected, and it is questionable what value the additional data would give even if it were collected.

Moreover, in many places the suggested performance ranking would not be possible to implement meaningfully.

***Q10: Would you be interested in the bill impact of each individual incentive or is overall bill impact a more useful measure?***

We believe the bill impact per output area (plus expenditure) is likely to be a sensible level of granularity. The headline level is of course interesting as a summary, but may conceal significant averaging out across different categories.

***Q11: What additional data or information submitted in the RIGs would you like to see made publicly available and why? You will find more information on data collected in the RIGs on our website.***

We think that a summary of the information submitted in the RIGs, in spreadsheet format, may be useful for some expert stakeholders. This could take the form of a spreadsheet published alongside the Ofgem annual report, duplicating the data tables contained within it.

Very detailed information could be unhelpful due to the volume of information in the RIGs so any summary would need to be selective. No data should be published that could contain commercially sensitive or confidential material.

We note that the RIGs overview document states that future versions of the RIGs may require DNOs to publish certain data from the RIGs. Should Ofgem wish to effect this in future, a licence modification would be required, since such a purpose for the RIGs would be beyond their permitted scope (as defined in the current SLC46). This of course does not place any limitation on the data DNOs or Ofgem can decide to publish.

***Q12: Do you have any preferences on the way data and information is presented?***

We believe that any such detailed information that is published should be provided in spreadsheet format, so that stakeholders can easily perform their own analyses of the information. We therefore suggest Microsoft Excel would be a suitable format.

***Q13: What data should the DNOs publish?***

DNOs are already obliged to publish:

- Their annual report against business plan commitments;
- RIIO accounts setting financial performance in a RIIO context;
- Other reports as required by individual output areas (such as ICE report, and environmental report); and
- Tariff component forecasts for energy suppliers as part of the DCUSA process.

In addition, we believe DNOs should also publish information tailored to the requirements of their stakeholders, including any requirements specific to their local stakeholders. Such

publications should be developed by the DNO in response to the customer satisfaction and stakeholder engagement incentives.

***Q14: What are your views on what data Ofgem should publish?***

Ofgem has a comparative advantage, compared with DNOs, that it can collate data on specific items (such as total expenditure and incentive performance) into a single table for multiple DNOs with relative ease.

We believe this type of presentation is likely to be particularly helpful to national and expert stakeholders, since it can provide a single source of ‘mid-level information’ on all DNOs, without the need to trawl reports for 6 or 14 individual reporting entities.

***Q15: Based on the examples in annexes 1 and 4, and in tables 1 and 2 above, what do you think about using ranking and/or traffic lights? What are the advantages and disadvantages? Are there any alternative systems?***

In relation to traffic lights, it is not clear that a red/amber/green classification can sensibly be applied to some or all of the output metrics, even at the headline level listed in table 1.

- It is frequently far from clear what good or bad performance is. For example, a company experiencing higher numbers of interruptions than its target would reduce its charges appropriately thanks to the action of the incentive scheme. If the same company had seen fewer customers being interrupted, it would have charged its customers more money. Both outcomes are balanced and, since the incentive rates are assumed to be based on customer willingness to pay, neither is obviously preferable.
- The limits between the different traffic light categories can be arbitrary. For example, an amber traffic light could encompass a company that falls just short of a green along with a company which is almost in the red category.
- With fixed categories it may be difficult to take into account explanatory factors or relative weighting of the different characteristics of the DNOs (geography, demand mix, customer numbers).

Ranking may also be uninformative, since performance may not be comparable in this way on some metrics, and good (or poor) performance by all companies could not be accurately reflected. Moreover DNOs may not hold information on other companies.

It would instead be sensible to develop a metrics dashboard that collates absolute performance, performance compared to allowances and business plan targets, and then compare the results of this variance analysis.

While the desire to present the information in a clear and digestible format is to be commended, this analysis must be rigorous and accompanied by appropriate justification otherwise it becomes meaningless. Infographics are a very useful medium in interactive media as supporting information can be accessed by clicking on the graphic, however, this is not the case with printed media and as such a more thorough representation of the data is required to avoid misinterpretation of the analysis presented. It may prove more beneficial to the reader to use well formatted graphs and charts rather than traffic lights.



***Q16: Are there any particular aspects of DNO performance that you are interested in and think are well-suited to ranking and/or traffic lights?***

As set out in relation to Q15, we believe there are significant problems with ranking and traffic light systems, and do not believe they are a suitable format for presenting this type of information.

***Q17: What information or data would you like us to publish on our website?***

As noted in response to Q14, Ofgem has a comparative advantage over DNOs in relation to any information where stakeholders are likely to wish to see information ‘side by side’ for multiple companies. Ofgem can save such stakeholders significant amounts of time by presenting the information in this way. And where Ofgem publishes the information, it can avoid increasing the reporting burden placed on six individual companies, thereby improving reporting efficiency. We expect this to be mid-level information of the type Ofgem typically includes in its annual report.

***Q18: Keeping in mind the reporting requirements and timings set out in Annex 5, is there any specific data or information which you would like to see reported on more than an annual basis? If so, why?***

Since most information is used on an annual basis, it is sensible to publish it on that basis.

However, we cannot rule out exceptions. For example, Northern Powergrid publishes its customer satisfaction results in a simple chart accessible directly from its homepage. This easily allows stakeholders to see the information and judge whether they think it is good or bad, whether accessing the website from a PC, tablet or mobile device. We publish this information on a quarterly basis.

While we do not think this type of more frequent reporting should be mandated, it is another illustration of why DNOs should be able to innovate in the information they provide to all their stakeholders, including local stakeholders, in response to customer satisfaction and stakeholder engagement incentives. This should not be constrained by mandatory approaches to publication, or set report formats that mean stakeholders must be presented with the information in a particular way.