



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

citizensadvice.org.uk

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Dear Kersti,

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

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The customer and stakeholder satisfaction incentives allow for an increase of up to 1% in revenues to covered companies. This incentive puts up to roughly £190 million of consumers' money at stake over the next eight years. The purpose of the incentive must be to reward networks for going beyond merely adequate performance, to deliver services and build relationships in a manner that is best practice. The challenge is for the incentive to be sufficiently calibrated to avoid networks being rewarded for run of the mill stakeholder engagement.

It is, as Ofgem acknowledges, undesirable that key details of the price control should still be being finalised more than 2 ½ years after the publication of the Final Determination. A consequence of this appears to have been that baselines for the first years of the price control period for these incentives have been set - and kept - at a distinctly unchallenging level, as Ofgem recounted in the first RIIO-T1 Annual Report¹. While we accept that firms had been instructed that these would be the baselines, and that retroactive changes would be undesirable, the easy money that firms have been able to acquire from consumers over the first two years of the incentive (£12.2 million for 2015-16) should be taken into account when considering the plans for the remainder of its duration. In the case of the Scottish networks, applying a lower weighting to the survey relative to KPIs for the

¹ https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/riio_transmission_annual_report_2014_final_1.pdf, p. 21

first two years, but emphasising the survey in future, is a sensible response to what are evidently weakly calibrated survey baselines

We note that the baselines, as is inevitable when taken from an industry-wide average, mean that the currently best-performing companies can receive rewards even if performance declines. We would prefer to see Ofgem pressing the networks for continuous improvement when it comes to customer and stakeholder satisfaction. The choice of a fixed baseline for the remainder of the price control period works against that. If Ofgem has expectations that this will drive improvement (for example if you believe stakeholders will adapt their scoring to reflect previously exceptional service becoming commonplace) it would be helpful to see analysis that underpins that expectation. While we welcome the higher baseline (and associated cap and collar for the National Grid companies) for the remaining years of the price control, we ask Ofgem to consider whether a steadily increasing baseline would be more appropriate over the remaining six years than a fixed, flat baseline (for example, beginning with 7.4 in year three of the price control and then rising incrementally in subsequent years).

Given the sums of money at stake, clear reporting is also essential. While we recognise that so far the stakeholder incentives have not been fully specified, we note that in the 2013-14 round of annual reporting, companies did not report stakeholder satisfaction in a consistent manner. While three of the the four covered organisations (NGGT, NGET, SHETL) reported survey averages, 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. Once this incentive is fully underway, we would expect all companies to communicate in the public-facing reporting, as well as that which is provided directly to Ofgem, the metrics against which cash incentives are being measured.

Weak communication of performance may also make it difficult for stakeholders to provide full feedback on their interaction with networks. While stakeholders' direct experience of encounters with the network are valuable data points, in some cases they will be having to comment on the basis of partial information. Stakeholders do not know what they do not know. A deal that looks good at the time may appear differently in the context of wider network performance - and if that wider performance is not well communicated a stakeholder may be unable to assess how their experience compares with others.

Finally, we agree with the Ofgem's willingness to review the incentive during a potential mid-term review. The survey-based method of feedback may fail to

capture what happens to stakeholder responses to the networks. We would welcome evidence from the networks that feedback is being received, considered, and acted upon in business plans, rather than simply contributing to the survey average at the end of the year.

Citizens Advice has direct experience of participating in stakeholder engagement sessions organised by one of the transmission networks. It is still at the early stages of moving toward a genuinely stakeholder-oriented approach to its business plans, although it appears enthusiastic to improve. However, these sessions can lapse into broadcast mode - it is not always evident that the network is looking for genuine feedback, or that it would act on any received. Any review of the incentive should encompass not just the narrow parameters covered by this consultation, but broader questions of whether the incentive is successfully motivating the kinds of behaviour implied in a truly stakeholder- and customer-oriented business. This should include demonstrating clear evidence of how stakeholder feedback affects the evolution of business practices and planning.

Yours sincerely

Simon Moore