

Direct Dial: 0141 354 5416

Email: Steven.McMahon@ofgem.gov.uk

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Decision on the RIIO-ED1 Stakeholder Engagement and Consumer Vulnerability Incentive 2020-21

This letter sets out our decision on the Distribution Network Operator ("DNO") Stakeholder Engagement and Consumer Vulnerability ("SECV") Incentive in respect of the 2020-21 regulatory year.

Under the previous price control period ("DPCR5"), the DNOs were incentivised to become more outward facing and responsive to the needs of their stakeholders. The incentive has continued in RIIO-ED1 as part of the Broad Measure of Customer Service incentive, and has been updated to drive DNOs to address consumer vulnerability issues. The key aim of the SECV Incentive is to encourage DNOs to engage proactively with stakeholders in order to anticipate their needs and deliver a consumer focused, socially responsible and sustainable energy service.

The incentive is designed to financially reward DNOs for high-quality activities undertaken beyond Business As Usual standards, and the outcomes these activities deliver. The incentive provides for an annual reward for each DNO¹ and is based on an assessment of the DNOs' stakeholder engagement activities against the criteria set out in the SECV Incentive Guidance ("the Guidance")² by a panel of independent experts, chaired by Ofgem ("the Panel")³.

¹ This is determined under Part G of Charge Restriction Condition 2C (Broad Measure of Customer Service Adjustment) of the Electricity Distribution Licence. The value of the award can be no more than the value set out in Table 16 of Appendix 1 to CRC 2C.

² The SECV incentive guidance can be found here:
https://www.ofgem.gov.uk/system/files/docs/2018/12/secv_incentive_guidance.pdf

³ Details of the 2020-21 Panel can be found here:
<https://www.ofgem.gov.uk/publications/stakeholder-engagement-panel-2020-21>

The assessment process

The standard assessment process for the incentive is set out in the Guidance⁴. This year, due to the challenges presented by the COVID-19 pandemic, all elements of the incentive process were undertaken remotely, including the Panel sessions.

Minimum requirements checks and Panel assessment

In May 2021, we received submissions from all 6 DNO groups. We assessed each submission, with the exception of WPD, against the minimum requirements set out in the Guidance. All of those submissions met these requirements.

We decided it was appropriate to defer the minimum requirements assessment for WPD in light of the opening of an enforcement investigation into its compliance with obligations relating to the Priority Services Register ("PSR")⁵. The Panel Report sets out details of our treatment of WPD's submission⁶.

The Panel was comprised of four scoring members and a non-scoring chair (who is an Ofgem employee). The Panel was made up of experts from a range of backgrounds, chosen for their skills and expertise in corporate governance, understanding business relationships, stakeholder engagement, and consumer vulnerability issues. This experience included stakeholder engagement across the public, private and charity sectors. The Panel members were:

- Charles Hargreaves, Deputy Director of Enforcement, Ofgem (Chair)
- Ashleye Gunn, consumer policy consultant
- Angela Love, energy consultant
- Claire Whyley, social research and policy consultant
- Mark Copley, energy policy and regulation consultant

⁴ See Chapter 4 of the Guidance, which includes details of the minimum requirements assessment.

⁵ Ofgem announcement of enforcement investigation into WPD's compliance with obligations relating to its PSR: <https://www.ofgem.gov.uk/publications-and-updates/investigation-western-power-distribution-plc-and-its-compliance-obligations-relating-priority-services-register>

⁶ See page 7 of the 2020-21 Stakeholder Engagement (and Consumer Vulnerability) Incentives Panel Report: <https://www.ofgem.gov.uk/sites/default/files/2021-09/2020-21%20Stakeholder%20Engagement%20%28and%20Consumer%20Vulnerability%29%20Incentives%20Panel%20Report.pdf>

On 21 July 2021, the Panel discussed their assessments of the quality of the DNOs' stakeholder engagement and agreed overall scores⁷.

Panel feedback

Following the Panel Sessions, we have provided detailed feedback to each network company on behalf of the Panel to explain the Overall Panel Score received, highlight best practice and identify key areas for improvement. This Panel Report covers both the SECV Incentive and the performance of the GDNs and TOs under the 2020-21 Stakeholder Engagement Incentive. The Panel Report was published on 29 September 2021⁸.

Panel scores and Ofgem decision on financial rewards for the DNOs

The Panel awarded the following Overall Panel Scores out of 10 for each of the DNO groups (rounded to 2 decimal places). Applying the stakeholder engagement methodology⁹, the financial reward for each DNO group is (shown in 2020-21 prices):

• UK Power Networks (UKPN)	8.05 (£5.26m)
• Electricity North West Limited (ENWL)	6.61 (£1.01m)
• SP Energy Networks (SPEN)	7.08 (£2.44m)
• Northern Powergrid (NPG)	5.01 (£0.66m)
• Scottish and Southern Electricity Networks (SSEN)	6.20 (£1.64m)

The financial reward to each of the DNOs under this incentive forms part of the Broad Measure of Customer Service Adjustment term in the licence. The purpose of this term is to reflect the licensee's performance in relation to customer satisfaction, customer complaints, and the extent to which it effectively engages with its stakeholders. This adjustment will be applied to the 2022-23 revenues.

Next steps

The next SECV Incentive assessment is expected to take place in July 2022, which will assess the DNOs' performances during the 2021-22 reporting year.

⁷ See page 18 of the Panel Report, which sets out the results.

⁸ [2020-21 Stakeholder Engagement \(and Consumer Vulnerability\) Incentives Panel Report](#)

⁹ See Chapter 6 of the Guidance for details of how the Overall Panel Score is converted into a financial reward.

If you have any queries about this letter please contact Rachel Franks at Rachel.Franks@ofgem.gov.uk or on 0203 263 9840.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Steven McMahon', with a stylized, cursive script.

Steven McMahon

**Deputy Director, Electricity Distribution and Cross Sector Policy,
Networks**