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Decision on the RII0-T1 and GD1 Stakeholder Engagement Incentive 2020-21

This letter sets out our decision on the gas and electricity Transmission Operators ("TOs") and Gas Distribution Networks ("GDNs") Stakeholder Engagement Incentive ("SEI") in respect of the 2020-21 regulatory year, the final year of this RII0-1 incentive.

Under RII01, the TOs and GDNs were incentivised to become more outward facing and responsive to the needs of their stakeholders. The key aim of the SEI was to encourage the network companies to identify and engage with their stakeholders and use this to inform how they run and plan their businesses. The incentive was designed to financially reward companies for high-quality activities undertaken beyond Business As Usual standards, and the outcomes these activities deliver. The RII01 price control came to an end on 31st March 2021 and was replaced by the RII02 price control. The RII02 Licence provides in the legacy provisions for the close out of the SEI, by providing for the final two years of reward to be determined in accordance with the RII01 Licence provisions.

The incentive provides for an annual reward to the TOs and GDNs¹ based on assessment of stakeholder engagement activities against the criteria set out in the SEI Guidance ("The Guidance")² by a panel of independent experts, chaired by Ofgem ("the Panel")³.

¹ For electricity transmission, this is determined in accordance with Part A of Special Condition 7.6 of the Licence, and Part B of Special Condition 3D of the Licence as in force on 31 March 2021. For gas transmission, this is determined in accordance with Part A of Special Condition 7.8 of the Licence and Part B of Special Condition 2C of the Licence as in force on 31 March 2021. For gas distribution, this is determined in accordance with Part A of Special Condition 7.9 of the Licence, and Part B and Part E of Special Condition 1E of the Licence as in force on 31 March 2021. The value of the reward for the gas TO and GDNs is up to 0.5% of their base revenues, and for the electricity TOs is up to 0.5% of the sum of base revenue and the Transmission Investment for Renewable Generation adjustment.

² The SEI Guidance can be found here:

https://www.ofgem.gov.uk/sites/default/files/docs/2018/12/sei_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 SEI Guidance (“the Guidance”)⁴. 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 June 2021, we received submissions from all 8 TOs and GDNs. We assessed each submission against the minimum requirements set out in the Guidance. All submissions met these requirements.

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

On 22 and 23 July 2021, the Panel discussed their assessments of the quality of the TOs’ and GDNs’ stakeholder engagement and agreed overall scores⁵.

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 of improvement. This Panel Report covers both the SEI and the performance

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

⁵ See page 18 of the 2020-21 Stakeholder Engagement (and Consumer Vulnerability) Incentives Panel Report, which sets out the results <https://www.ofgem.gov.uk/sites/default/files/2021-09/2020-21%20Stakeholder%20Engagement%20%28and%20Consumer%20Vulnerability%29%20Incentives%20Panel%20Report.pdf>

of the DNOs under the 2020-21 Stakeholder Engagement and Consumer Vulnerability Incentive. The Panel report was published on 29 September 2021⁶.

Panel scores and Ofgem decision on financial rewards for the TOs and GDNs

The Panel awarded the following Overall Panel Scores out of 10 for each of the TOs and GDNs (rounded to 2 decimal places) . Applying the stakeholder engagement methodology⁷, the financial reward for each company is (shown in 2020-21 prices):

• Cadent	6.78 (£5.19m)
• Northern Gas Networks (NGN)	7.20 (£1.38m)
• Wales and West Utilities (WWU)	4.85 (£0.36m)
• SGN	6.21 (£2.42m)
• Scottish Power Transmission (SPT)	6.46 (£0.93m)
• National Grid Electricity Transmission (NGET)	5.46 (£2.40m)
• National Grid Gas Transmission (NGGT)	4.81 (£0.62m)
• Scottish Hydro Electric Transmission plc (SHET)	6.34 (£0.87m)

For the GDNs, the financial reward under this incentive forms part of the RII01 Broad Measure of Customer Satisfaction term in the gas distribution Licence as in force on 31 March 2021; for the TOs, it forms part of the RII01 Stakeholder Satisfaction Output term in the gas and electricity transmission Licences as in force on 31 March 2021. The purpose of these terms is to reflect the licensee's performance in relation to customer satisfaction, and the extent to which it effectively engages with its stakeholders. This adjustment will be applied to the 2022-23 revenues.

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,



Steven McMahon

**Deputy Director, Electricity Distribution and Cross Sector Policy
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⁶ [2020-21 Stakeholder Engagement \(and Consumer Vulnerability\) Incentives Panel Report](#)

⁷ See Chapter 6 of the Guidance for details of how the Overall Panel Score is converted into a financial reward.