

Direct Dial: 0203 263 2728

Email: graeme.barton@ofgem.gov.uk

Date: 30 November 2022

Decision on the RII0-ED1 Stakeholder Engagement and Consumer Vulnerability Incentive 2021-22

This letter sets out our decision on the Distribution Network Operator ("DNO") Stakeholder Engagement and Consumer Vulnerability ("SECV") Incentive for the 2021-22 regulatory year.

This incentive encourages DNOs to address consumer vulnerability issues and to perform beyond Business-as-Usual ("BAU") standards, as part of the Broad Measure of Customer Service within the Electricity Distribution ("ED") licence. The key aim of the SECV Incentive is to encourage DNOs to engage proactively with stakeholders, in order to anticipate their needs, and to deliver a consumer focused, socially responsible, and sustainable energy service. Additionally, proactive stakeholder engagement is necessary for good business practice.

The SECV Incentive is designed to financially reward DNOs for high-quality activities undertaken beyond BAU standards, and for the outcomes these activities delivered. The incentive provides for an annual reward for each DNO¹ and is based on an assessment of the DNOs' stakeholder engagement consumer vulnerability-related 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 Profile of the 2021-22 Panel can be found here: <https://www.ofgem.gov.uk/publications/stakeholder-engagement-panel-2021-22>

The assessment process

The standard assessment process for the SECV Incentive is set out in the Guidance.⁴ This year, the Panel sought to meet in person for sessions with DNOs. Four of the DNOs presented to the Panel in person. Unfortunately, due to the challenges presented by the COVID-19 pandemic and other logistical issues, two DNOs were unable to attend in person and conducted their session with the Panel via MS Teams.

Minimum requirements checks and Panel assessment

In May 2022, we received three submissions from all six DNOs (split into Parts 1-3). Ofgem assessed each submission (Part 1) against the minimum requirements set out in the Guidance. All the DNO submissions met the minimum requirements and were progressed for the Panel assessment of their Part 2 and 3 submissions.

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.⁵ This experience included stakeholder engagement across the public, private and charity sectors. The Panel members were:

- Stuart Borland, Deputy Director, Offshore Network Regulation (Chair)
- Ashleyle Gunn, consumer policy consultant
- Angela Love, energy consultant
- Claire Whyley, social research and policy consultant
- Mark Copley, energy policy and regulation consultant

On 12 July 2022, the Panel discussed its assessments of the quality of the DNOs' stakeholder engagement and agreed overall scores.⁶

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

⁵ 2021-22 Stakeholder Engagement and Consumer Vulnerability Incentive Panel:

<https://www.ofgem.gov/publications/stakeholder-engagement-panel-2021-22>

⁶ See page 18 of the Panel Report, which sets out the: <https://www.ofgem.gov.uk/publications/2021-22-stakeholder-engagement-and-consumer-vulnerability-incentive-panel-report>

Panel feedback

Following the Panel sessions, its members provided general and detailed feedback to each DNO, to explain the overall Panel score received, highlight best practice, and key areas for improvement. The Panel report was published on 30 September 2022.⁷

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 DNOs (the scores quoted below are rounded to two decimal places). Applying the methodology specified in the Guidance⁸, the financial reward for each DNO, based on the converted overall Panel score is shown below (in 2021-22 prices):⁹

• Electricity North West Limited ("ENWL")	4.31 (£0.13m)
• Northern Powergrid ("NPg")	3.70 (£0.00m)
• Scottish and Southern Electricity Networks ("SSEN")	5.88 (£1.48m)
• SP Energy Networks ("SPEN")	5.29 (£1.08m)
• UK Power Networks ("UKPN")	8.54 (£6.23m)
• National Grid Electricity Distribution ("NGED") ¹⁰	5.35 (£2.16m)

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.¹¹ 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 summer 2023, which will assess the DNOs' performances during the 2022-23 reporting year (the last year of RIIO-ED1).

⁷ [2021-22 Stakeholder Engagement and Consumer Vulnerability Incentives Panel Report: https://www.ofgem.gov.uk/publications/2021-22-stakeholder-engagement-and-consumer-vulnerability-incentive-panel-report](https://www.ofgem.gov.uk/publications/2021-22-stakeholder-engagement-and-consumer-vulnerability-incentive-panel-report)

⁸ See Chapter 6 of the Guidance for details of how the Overall Panel Score is converted into a financial reward.

⁹ The Panel scores and financial rewards quoted in the Panel report, this decision letter and directions are rounded to two decimal places. However, unrounded figures are used within the model for calculating the financial reward awarded to DNOs.

¹⁰ National Grid Electricity Distribution ("NGED"), formerly known as Western Power Distribution "WPD", as reported in the 2021-22 SECV Incentive Report.

¹¹ Charge Restriction Condition 2C (Broad Measure of Customer Service Adjustment) of the Electricity Distribution Licence.

If you have any queries about this letter, please contact Graeme Barton
(Graeme.barton@ofgem.gov.uk).

Yours faithfully,

Graeme Barton

**Head of Price Control Operations – Small & Medium Sized Projects, Onshore
Networks**