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(By email to: lia.santis@ofgem.gov.uk)

27 April 2012

Dear Andy

Consultation on Ofgem's Approach to assessing Stakeholder Engagement and Guidance Notes (Reference 24/12)

Thank you for the opportunity to participate in Ofgem's consultation regarding Distribution Network Operators' (DNOs) stakeholder engagement activities. Engaging with stakeholders, and more importantly utilizing stakeholder feedback to develop our policies, procedures, business plans and other activities, is extremely important to us. Please find below our views and responses to Ofgem's current consultation on stakeholder engagement:

(1) What other approaches to providing assurance should be considered appropriate?

We believe that it is important that stakeholder engagement activity is measured against an industry recognised standard and audited by an independent third party. The AccountAbility AA1000 Stakeholder Engagement Standard (AA1000SES) provides a principle based framework for quality stakeholder engagement. This standard can also be used as a mechanism to achieve the stakeholder requirements of GRI G3 which we currently report against (from a CSR perspective). Meeting the AA1000 standard and being audited against it by an independent and recognised third party will demonstrate to our stakeholders that our reported engagement activity is robust, accurate and thorough. Using one industry standard for all DNOs would ensure consistent comparison across all DNOs.

(2) Your views on our approach to allocating the financial reward?

We agree with Ofgem that DNOs should not be rewarded for simply meeting 'minimum' requirements. However, accreditation against the AA1000SES Standard is far from meeting a 'minimum' standard. Working to meet AA1000SES would incur considerable effort and cost and, alongside an external audit, would clearly demonstrate how thorough and robust a stakeholder engagement strategy is. Having discussed external auditing with Deloitte, we have been informed that companies would not simply 'pass' or 'fail' an audit, but would be clearly measured against the framework.

This would allow Ofgem to judge effectiveness and success amongst DNOs compliant with this standard for part one of the process. A discretionary reward (say 25%) for this accreditation could then be awarded. The remainder of the award could then be allocated depending on DNOs' ability to effectively demonstrate outcomes from stakeholder engagement (part two).

We believe that the two part process would work well. Part one would confirm the legitimacy of stakeholder engagement carried out (against a recognized framework) and part two would allow DNOs to demonstrate outcomes from the engagement.

(3) Factors the panel should take into account for the assessment of outcomes of engagement.

Whilst it is important for Ofgem to compare performance against other DNOs, we also believe that, when taking into account outcomes from the engagement that Ofgem considers the individual progress achieved by DNOs.

When identifying our stakeholder matrix, we worked hard to balance the views of a wide variety of different stakeholder groups. We believe it is important that Ofgem recognises not only the outcomes and business changes adopted by DNOs, but takes into account the spread of stakeholder views canvassed and the processes used to prioritise and compare conflicting views from different stakeholder groups.

(4) Any additional information or ideas on how the DNOs should be assessed for the purposes of this incentive.

Third party recognition is extremely important to stakeholder engagement. We believe that including external endorsement as part of our submission should be recognised as powerful demonstration of good stakeholder engagement in action – e.g. engaging with a specific stakeholder group; reacting to feedback and changing practice; asking and getting approval/endorsement from the stakeholder that this change meets their requirement.

(5) Whether this approach to assessment should be applied to stakeholder engagement incentive schemes in other industries , i.e. Gas Distribution, Gas or Electricity Transmission.

We can see no reason why the principles of stakeholder engagement determining the approach in electricity distribution are any different for other energy networks.

If you require any further assistance or details regarding our comments, please do not hesitate in contacting me directly.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'PB', with a stylized flourish at the end.

Paul Bircham
Regulation Director