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Dear Lia

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

Thank you for the opportunity to comment on your proposed process for assessing stakeholder engagement undertaken by distribution network operators (DNOs).

Whilst we will respond to each of Ofgem's specific consultation questions in turn, I would like to outline some additional points that we feel are important considerations for Ofgem and DNOs in setting out the scope and expectations of the stakeholder engagement strategies and what can realistically be achieved in the short term and then developed in to a longer-term enduring framework.

First, let me assure you that we wholeheartedly support Ofgem's drive to ensure that DNOs effectively engage with all stakeholders and deliver outcomes that our stakeholders value. We have a strategy in place that will ensure that our deliberate and targeted engagement programme continues to be a pivotal input in to our business planning process and informs our process improvement plans; and ultimately that engaging effectively with stakeholders at every opportunity becomes an integral and natural part of our culture.

It is our experience that focus on particular areas of opportunity or areas that need improvement deliver the most effective changes for stakeholders, rather than trying to make changes in all areas of the business. Therefore, although we think effective engagement starts out with a very broad scope that stakeholders can influence this should then direct focus of the next phase of stakeholder review and input. As an example, our six-monthly seminars, which are targeted at regular connections customers, independent connection providers, and independent network operators, continue to prove most popular since inception in 2010. They are vital in informing our process improvement plans and have ensured the delivery of numerous improvements in our connections process and services, some small (although important in the day-to-day service that we offer to our stakeholders) and some are significant industry-leading changes.

We have reservations regarding an assessment process that may require a business to have gained accreditation of its stakeholder engagement strategy and activities in order to achieve a positive outcome/ rating. There are independent experts that can help businesses deliver good stakeholder engagement. However, we are concerned about the extent to which there are appropriately nationally recognised accreditation schemes for stakeholder engagement. We recognise that the AccountAbility AA1000 standard is perhaps one option to consider. However, if Ofgem is aware of other appropriate arrangements, we would be pleased to look at them. We feel that if an accreditation system is employed that it must take into account all stakeholders with appropriate

weighting given to stakeholder groups, for example whether their concerns may include aspects of environmental, social, economic or sustainability.

We naturally feel strongly that customers are a very important group amongst many groups that our business impacts upon, and whom collectively are our stakeholders. Accreditation for aspects of customer service have their place, however customers only represent one group of the overarching stakeholder community. The views of other stakeholder groups are vital in developing a well-rounded business plan and strategy.

We will now respond to each of Ofgem's consultation questions in turn:

*1. What other approaches to providing assurance should be considered appropriate?*

*a. Whether evidence submitted by DNOs should be subject to a common evaluation or independent audit administered by Ofgem.*

A common independent evaluation will ensure an unbiased approach to assessing each DNO in a consistent manner. This may be best served by engaging an independent body who is well versed in dealing with proven methods for establishing effective stakeholder engagement strategies such as an appropriate expert. This will ensure that the evaluation takes all stakeholders into account and appropriate weighting is applied to stakeholder groups.

We would advocate that an independent assessment administered by Ofgem is the most appropriate method of assessing the evidence submitted by the DNOs. We feel that it is important that the range of inputs that inform a DNO's business planning process and process improvement plans; and the DNO's responsiveness to the inputs is recognised in the assessment.

*b. Whether there is a case for proposing a common assurance approach across all companies - for example a common accreditation standard or survey.*

We would always favour a common assurance approach across all companies and contend that standardisation is the only fair and credible way to proceed in evaluating companies and that different approaches would lead to inconsistencies in assessment outcomes and allocation of rewards. We are concerned that currently there is not sufficient clarity of information available for us to understand what will be required to proceed to the second phase of assessment or the weighting that will be applied to different approaches of implementing outcomes.

*2. Your views on our approach to allocating the financial reward.*

*a. Do you think this is a fair and proportionate approach?*

Ofgem's approach to limiting a financial reward to those DNOs that reach the panel assessment is appropriate and is the fairest way to achieve value for money for customers. Ofgem's approach seems to be flexible in recognising innovation and rewarding DNOs financially for the initiatives that they have adopted.

We would be pleased to receive further developed guidance to help us to understand what Ofgem's thoughts are with respect to the differentiating factors that a DNO must demonstrate to influence the range of outcomes up to the maximum reward.

*b. Can you suggest any other approaches and why do you think they are appropriate?*

We are in favour of an approach that is in keeping with that which was developed for the Discretionary Reward Scheme. An important component of this scheme and one

that we are keen to see adopted into the stakeholder engagement assessment is the focus on recognising specific projects and initiatives.

*3. What factors the panel should take into account for the assessment of outcomes of engagement.*

We believe the following should be taken in to account in assessing engagement:

- The extent to which a DNO has taken an holistic view of the needs of its stakeholders and translated them into a balanced set of outcomes;
- The prioritisation a DNO gives to the outcomes and the plan for ongoing effective management to deliver necessary outcomes;
- The extent to which a DNO has met the demands of its stakeholders and how clearly the DNO has communicated the outcomes and the enduring plan;
- There needs to be recognition of stakeholders' willingness to pay. This requires differentiation between the stakeholders who will ultimately pay for the outcomes and those that will not;
- Where a DNO is unable to fully meet the demands of stakeholder representatives (most likely due to the willingness to pay aspect mentioned above), how effective and transparent the DNO has been in communicating this to its stakeholders;
- In addition, and as mentioned in response to question 2.a., we feel that the financial reward should include appropriate weighting to the DNO's effectiveness of its stakeholder engagement programme over and above the minimum requirements, rather than exclusively being focussed on the outcomes.

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

Notwithstanding our earlier comments with regard to nationally recognised standards and accreditation, AccountAbility's AA1000 standard and studies such as Cranfield University's study: A roadmap to meaningful engagement for guidance may provide helpful pointers to the assessment process.

*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 always favour a consistent approach applied across industries where practicable, and particularly where stakeholders may have similar views and experiences of different industry sectors. Businesses may differ in their strategies for engaging with stakeholders, and stakeholder groups may differ across industry but all industry serves and impacts upon its stakeholders and should seek to engage those groups as a matter of good business sense and awareness.

*6. Any concerns or further suggestions about our proposals.*

We have nothing more to suggest at this stage in the process.

We pride ourselves on being responsive to all of our stakeholders. Whilst we have been undertaking stakeholder engagement in various forms and regarding particular areas of our business, looking ahead we are not just planning on making incremental builds on what we have done in the past.

We welcome Ofgem introducing a formal and structured assessment and we welcome Ofgem's openness to rolling out a process that values and builds on what our stakeholders want to see implemented.

Yours sincerely

A handwritten signature in black ink, consisting of a stylized 'S' and 'B' followed by a long, wavy horizontal line.

**SIOBHAN BARTON**

**Communications Manager**