

BY E-MAIL

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Your ref

Our Ref

Date

27 April 2012

Contact / Extension

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Dear Lia

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

I am writing on behalf of SP Energy Networks in response to the open letter issued on 28 February 2012. We welcome the opportunity to comment on the issues raised.

We support the proposed two stage approach in principle, and we will participate in the second year of the trial this summer.

We think, however, that there could be a clearer distinction between the submission in stage 1 ('minimum requirements') and that in stage 2 ('outcomes and outputs'). The stage 2 submission should be able to take as read the evidence concerning the process and range of stakeholder engagement described in stage 1, and focus on the quality and results of such engagement. We recognise that the DPCR5 Final Proposals specify that the panel should consider performance against the 'reward criteria', and that these are also the 'minimum requirements' that should be met before a licensee can be considered for a reward. However, we think that there is scope to minimise the degree of duplication in the submissions between the two stages.

We also note that the panel is expected to identify leading performers and best practice. While we support this objective, we believe that companies not identified as leading performers should nevertheless be considered for a reward if they have exceeded the

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minimum requirements. We believe that this is entirely consistent with the Final Proposals.

With this as background our comments on the specific questions set out is as follows.

*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.*

We do not think that there is a need for a common evaluation or audit, given that companies are likely to adopt different types of evidence in support of their submissions. Companies should be able to show that their evidence is robust and verifiable, but retain flexibility in how they demonstrate that that is the case.

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

We think that companies should be encouraged to seek or maintain appropriate accreditation to support their evidence, but this should not be a formal requirement.

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

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

We think that companies that meet the minimum requirements should be considered for a reward without necessarily being identified as 'best practice'. Each company that can show that its engagement processes lead to measurable positive outcomes for stakeholders should be eligible.

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

The paper says that the panel will look for best practice and leading performers against outcomes or action plans resulting from stakeholder engagement. We think that all companies that meet the minimum requirements should be considered for a reward. We note that the maximum reward for each licensee is set out in its licence, and in that sense the incentive is not a competitive one.

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

Even if the company cannot show actual changes in policy as a result of stakeholder engagement, there should be evidence that feedback from stakeholders has been properly considered. It may be in some cases that the main positive outcome is improved communications (for example changes to connection application forms to make them more user friendly), and such changes should be taken into account in the assessment.

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

Please see our responses to questions 2 and 3 above.

*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 think that this approach could be adapted to the other sectors mentioned after making allowances for differences in the type of stakeholder concerned and the main areas of interest to them. It is also important to bear in mind the role of Transmission Owners as distinct from the System Operator, as it is the latter that has a contractual relationship with users and is responsible for operation of the national Transmission System.

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

Please see our responses to questions 2 and 3 above.

I hope that this is helpful but please contact me if you would like to discuss any of the points made.

Yours sincerely



Jeremy Blackford

**SP Energy Networks**