

Lia Santis
Ofgem
9 Millbank
London
SW1P 3GE

By email to: Lia.Santis@ofgem.gov.uk

27 April 2012

Dear Lia

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

Thank you for the opportunity to provide views on Ofgem's proposed approach to the assessment of Stakeholder Engagement under the Broad Measure of Customer Satisfaction.

This response should be regarded as a consolidated response on behalf of UK Power Networks' four electricity distribution licence holding companies – Eastern Power Networks plc, London Power Networks plc, South Eastern Power Networks plc, and UK Power Networks (IDNO) Limited.

I can confirm that this response is non-confidential and can be published via the Ofgem website.

The consultation letter identifies a very important principle, namely that engagement needs to have consequences. Hence the fundamental purpose of all stakeholder engagement should be to identify improvements to process, service levels, products etc which deliver tangible and valued benefits to customers or stakeholders.

On the basis of that, we are very supportive of Ofgem's desire that DNOs should place a strong emphasis on outcomes, and that the assessment framework, as part of the Broad Measure of Customer Satisfaction, should reflect this. However, this does not mean that process is not important.

It would not be beneficial to create a reward scheme which promotes change for changes sake, or encourages DNOs to focus their efforts on areas which may generate a good case study. The quality of a company's engagement process must be an important consideration in the allocation of any reward, and many of the benefits of those processes will be small and only observed through a long-term improvement in stakeholder perceptions of our industry.

The consultation seeks views on the structure and operation of the assessment framework, through a number of specific questions, which we would like to address in the remainder of this response.

Firstly, UK Power Networks supports the two-stage assessment process which is embodied in the proposed structure. However, we do question Ofgem's proposal that the deployment of good process should effectively be seen as a mere pre-requisite to qualify for consideration for a reward.

Implementing a set of stakeholder engagement processes which are comprehensive, permeate the whole organisation, are well-integrated within the decision-making and operating processes, and are fully embedded in the culture is not a trivial exercise. From our perspective, we have made a range of organisational changes, as well as enhancing systems and processes so as to address not only the capture of stakeholder views but ensure that these are disseminated, considered and actioned. When those processes are working effectively, much of the value that will be obtained will be in identifying the kinds of small-scale, incremental changes that can drive a continuous improvement process. However, these are not necessarily the outcomes that will 'impress' a panel.

Hence, we do believe that in the very early years of the Broad Measure of Customer Satisfaction, there is value in incentivising the DNOs to invest in their engagement processes, and thus further transform themselves into externally focused organisations. A small reward attached to the quality of engagement processes and recognising innovative practices, limited to the remaining years of DPCR5, would provide a useful recognition of the extensive work that DNOs will need to do.

It is also fair to point out that there were no allowances for this activity as part of the DPCR5 allowance, and whilst there may in future be some element of self-funding through stakeholder-inspired process improvements, at least in the short term, this will be funded out of shareholder returns.


Secondly, we would agree with Ofgem's proposal that a relatively formal evaluation/audit process is the appropriate vehicle for assessing company processes. This will both satisfy the requirement for an assessment, but also provide a mechanism through which the DNO can gain insight into their areas of strength and opportunities for improvement.

The inherent risk with audits is ensuring that they are independent and consistent across companies, and hence we believe that Ofgem will firstly need to put in place very clear criteria against which the audits can be conducted. However assuming that these criteria are explicit, UK Power Networks is content to appoint an external auditor to undertake a formal assessment. We are already in discussions with companies that could provide specialised auditing services, as well as provide advice in best practise.

We would support the use of a standard, as the basis for the audit process. However Ofgem would have to recognise that where organisations are not current users of that standard, it will take time to adopt and embed this in their operations. As such, it would be unreasonable to exclude any such organisation from the panel process, due to a lack of such accreditation, at least for the first year of the assessment scheme, i.e. for submissions in summer 2013.

When it come to the operation of the panel itself, we would again expect to see Ofgem publish clear and detailed evaluation criteria which the panel would be expected to apply, well in advance of the panel submission.

As a suggestion, Ofgem might want to consider the model similar to that which has been proposed for the RIIO-T1 Environmental Discretionary Reward. This employs a defined scorecard against which the companies are assessed and, within each evaluation category, defined thresholds which will trigger a reward.



We would favour the introduction of similar schemes within the other sectors of energy networks. There will always be things that we can learn from the other energy networks, and the existence of similar arrangements in gas/electricity, transmission/distribution is a simple way for Ofgem to promote cross-sector learning. Hence, UK Power Networks believes that incentive schemes of this sort should be aligned where possible.

The consultation asks for any further suggestions in respect of their proposals. One area that we feel is perhaps understated is the use of customer and stakeholder engagement to drive innovation. Ofgem may wish to consider whether the panel could play a role in this by having the power to reward innovation.

One way in which this might be realised is by enabling companies to present proposals to the panel, which were originated as a result of engagement activity, but for which there is no source of funding. The panel could then award funding, alongside an appropriate company contribution, towards the cost of implementing that proposal.

I hope that you find these views of use. If you wish to follow up any of the points described in this letter, please do not hesitate to contact me on (07875) 112948.

Yours sincerely

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

Keith Hutton
Head of Regulation
UK Power Networks

