

Report on the Electricity Stakeholder Engagement Scheme 2011-12

Introduction

Overall usage of electricity has changed significantly during the last three decades confirming we are now more reliant on electricity than ever before. There is no definite forecast on how demand will evolve in the next years as people's requirements changes and the network companies are forced to meet these new requirements and reconcile them with those of a low carbon economy. Distribution Network Operators (DNOs) will have to be flexible enough to respond to customers' changing demands on energy networks and adapt to new types of stakeholders that may emerge in the future.

Our regulatory framework has also evolved as a result of the changing needs of customers. As part of the current electricity price review (DPCR5) we introduced a suite of measures to incentivise the electricity Distribution Network Operators (DNOs) to improve their approach to customer service. This 'broad measure of customer satisfaction'¹ includes a Stakeholder Engagement element. This element of the incentive provides a financial reward (of up to 0.2% allowed revenue) to DNOs who are able to demonstrate that they are effectively engaging with a range of stakeholders and responding to their changing requirements. The allocation of this reward will be based upon an annual assessment of DNOs' stakeholder engagement activities by an Independent Panel, chaired by Ofgem.

The key aim of the stakeholder engagement incentive is to encourage DNOs to be more outwardly focused and responsive to their changing stakeholders needs. This is both a reputational and a financial incentive designed to reward exceptional outcomes that can be regarded as best practice and replicated across the industry.

Prior to the introduction of the incentive, we have been trialling our approach to assessing stakeholder engagement to ensure we have a robust process in place that supports the allocation of rewards. This year's assessment of DNO activities for 2011-12 was our last opportunity to trial this process.

For this year's assessment we invited all of the DNOs to submit an application detailing the activities they have undertaken and demonstrating how they have met the minimum requirements we had set out in guidance documents.² All DNOs sent submissions which we then reviewed and assessed against the minimum requirements. The submissions, including our assessment, were then forwarded to the Panel members for their consideration.

The Panel was convened on 19 July 2012 for a one day session at which all of the DNOs were questioned on their submissions. The Panel then agreed on a final score for those DNOs that had met minimum requirements and provided feedback to all the companies.

¹

http://www.ofgem.gov.uk/Networks/ElecDist/PriceCtrls/DPCR5/Documents1/FP_2_Incentives%20and%20Obligations%20FINAL.pdf

² engaging with range of stakeholders; have an up-to-date strategy in place; use a variety of mechanisms to inform stakeholders; and adapt internal process and policies in response to feedback

The Panel

- Philip Cullum, Partner Consumer and Demand Insight, Ofgem (Chair)
- Colin Browne (Communications Consultant)
- Mary Fagan (Group Communications and Corporate Affairs Director at ITV)
- Teresa Perchard (Director of Policy and Advocacy, Citizens Advice)
- Malcolm Rigg (Director of the Policy Studies Institute)
- Andrew Whyte (Communications Consultant)

Decision

The Panel thanked all of the DNOs who attended the Q&A session as well as the wider DNO teams involved in the preparation of this year's submissions.

The Panel ratified Ofgem's initial assessment that only three DNOs had provided submissions that met the minimum requirements. These were the only DNOs who were subsequently scored by the Panel. The Panel agreed that Western Power Distribution (WPD) was the best performing DNO and received an average score of 8.6 (out of 10). UK Power Networks (UKPN) received a score of 6.2 and Electricity Northwest (ENW) scored 5.

The Panel stated that three DNOs (Scottish and Southern Energy, Scottish Power and Northern PowerGrid) had not met Ofgem's minimum requirements and were therefore not scored by the Panel on the scorecard. If the scheme had been in full operation, these submissions would not have reached the Panel.

On behalf of the Panel, the Chair proceeded to provide the following general feedback regarding the DNOs' submissions and presentations:

- The Panel emphasised that in the majority of cases, the presentations were an improvement on the submissions. The Panel was impressed by the obvious commitment shown by the individuals to this topic.
- The Panel felt DNOs need to think more strategically about their approach to stakeholder engagement. DNOs need to have greater clarity on what good stakeholder engagement should involve, who their stakeholders were and how to effectively engage with them.
- The Panel emphasised the importance of commitment at board level to a stakeholder engagement strategy. This commitment to support stakeholder engagement should be understood throughout the organisation. Additionally, there should be mechanisms to provide senior management with assurance that the various engagement activities are undertaken in a professional and co-ordinated manner and that there are reporting mechanisms to follow up on the outcomes of engagement.
- The Panel highlighted that independent assurance reports or other forms of external accreditation and audit might be appropriate mechanisms to evaluate the effectiveness of the company's overall stakeholder engagement strategy.
- The Panel emphasised the importance of investing in relevant resources to have the right level of expertise to implement a stakeholder engagement strategy.

- The Panel stated that embedding stakeholder engagement into business practices requires a culture change that goes beyond managing relationships with people. It implies working on a return path where the organisation is capable of changing processes as a result of stakeholders' feedback.
- The Panel was favourably impressed by the number of references to activities providing additional assistance to vulnerable consumers within the submissions. They believe some of the initiatives outlined were more effective than others and they encourage the use of partnerships in this area.

Areas for improvement

The assessment of this year's submissions highlighted the differences in development between the DNOs in terms of their commitment to engagement and the maturity of their approach.

The Panel expressed concern that some DNOs had failed to meet minimum requirements and suggested they undertake a thorough evaluation of their current approach. They strongly recommended these organisations to consider the level of resource and expertise that is required to improve upon their current performance.

Additionally, the Panel agreed on the following areas of improvement based on their assessment of this year's submissions and Q&A sessions:

- The need for better alignment between the written submissions and the presentations. The written submissions should focus on activities/outputs resulting from the implementation of their stakeholder engagement strategy.
- The need to articulate their engagement strategy better, starting with an understanding of what stakeholder engagement actually involves and where it sits within their business.
- The need to guarantee good engagement at board and senior management level, which this year was a key differentiator between the leading and lagging companies.
- The importance of independent assurance of the stakeholder engagement. The Panel believed this year there were some good examples where an external body was used to provide assurance. DNOs are invited to explore other options that guarantee their approach is auditable.