

Stakeholder Engagement Incentive Scheme¹ 2012/13 Guidance Notes

The aim of the stakeholder incentive scheme is to encourage network companies to engage proactively with stakeholders in order to anticipate their needs better and deliver a consumer and wider stakeholder focused, socially responsible and sustainable energy service.

Proactive stakeholder engagement is necessary for efficient business practice. The stakeholder engagement element of the Broad Measure of Customer Satisfaction² incentivises the network companies to perform beyond business as usual standards and to excel in seeking timely input and feedback from stakeholders on relevant issues, business activities and other developments. We expect that the companies will use this feedback to inform their current business operations and planning for future decision making.

The stakeholder engagement incentive will go live in April 2013. This year's scheme will be a trial run covering stakeholder engagement activities for the 2012/13 year and the assessment process will take place during the summer of 2013. All network companies will be invited to the panel session to be held during the summer of 2013. Under this year's scheme there will be no financial reward available. All network companies will be provided with individual feedback sessions to review the results of the trial scheme.

Scope of the scheme

Stakeholders are individuals or organisations that can be impacted by the activities of the company. They may have a direct or indirect interest in the company's business, and their contact with the company may be anything from a daily interaction to those who have occasional contact. Stakeholders can include customers, investors, regulatory authorities, local government agencies, NGOs and other interested organisations, interest groups and civil society with particular attention to vulnerable customers.

Through the stakeholder engagement incentive scheme we aim to encourage high quality stakeholder engagement by rewarding activities which in our assessment demonstrate:

- Initiatives that best serve specific interests of challenging groups of customers/communities/future stakeholders and resulted in measurable benefits (eg CO awareness initiatives)
- Initiatives that reflect innovative thinking in responding to needs of stakeholders

¹ This is also the Stakeholder Engagement Reward Guidance referred to in Special Condition 3D (Stakeholder Satisfaction Output) of the Electricity transmission licence or Special Condition 2C (Stakeholder Satisfaction Output) of the Gas Transporter Licence.

² While the RIIO-T1 output in this area does not encompass the broad measure in full, it is based on the principles as relevant to transmission and the point made is relevant for all network companies.

- Initiatives which are part of an holistic approach embedded in business
- Initiatives which are supported by robust project management processes and appropriate resources
- Initiatives resulting from stakeholder engagement activities which may be recognized as smart practice and could be replicated across the industry

Application process

We are inviting network companies to put forward a submission in relation to engagement activities carried out during the 2012/13 regulatory year. We expect company's submissions to include two parts:

Part 1 Submission

Part one of the submission is aimed at demonstrating the company has an engagement strategy in place that satisfies the minimum requirements as set out below. The company will have some flexibility as to how it will gather and present relevant evidence to meet these requirements. We note that in assessing the quality of stakeholder engagement activities and their effectiveness in bringing about positive change, we will need to be satisfied that the evidence presented is sound, robust and verifiable.

Network companies are encouraged to consider the following means of gathering evidence to support Part 1 of their submission:

- Independent evaluation / audit – to assess network companies' approach to stakeholder engagement covering: process of engagement, quality of engagement, senior management buy in, impact on culture, organisational activities and decision-making, cost effectiveness, likely outcomes for customers/communities etc;
- relevant accreditation schemes;
- results and feedback from stakeholder surveys;
- evidence of culture change, senior management buy in, e.g. as reflected in key strategic documents and decision-making arrangements within the company.

Part 2 Submission

The second stage of the process is aimed at reviewing the outcomes and outputs of such engagement. In Part 2 of their submission, the company should submit a relevant summary of outcomes/activities/action plans resulting from its stakeholder engagement activities carried out during the regulatory year 2012/13. We recommend that this part of the submission include the following information:

- The nature of the stakeholder engagement activities undertaken which led to the showcased outcomes/action plan;
- how do these outcomes fit with the organisation's stakeholder engagement strategy;
- any impact the outcomes have had on organisation's, policies, procedures, business plans and/or organisational culture;

- any impact the outcomes have had on stakeholders groups
- any mechanisms by which the outcomes are monitored and reported within the organisation;
- any outcomes/action plans which are considered best in class and/or portray an innovative approach.

Format of application

| Application Checklist | Length of submissions |
|--|---|
| Part 1 submission: <ol style="list-style-type: none"> 1. Entry form providing evidence that they have met minimum requirements 2. Overview of evidence 3. Supplementary information referenced in the entry form. | Entry Form – Maximum of four A4 pages Overview of evidence – Maximum of ten A4 pages Supplementary information – company's discretion |
| Part 2 submission: <ol style="list-style-type: none"> 1. Summary of outcomes/activities/action plans resulting from stakeholder engagement activities carried out during the regulatory year 2012/13 | Maximum of ten A4 pages |

The format of the application and the use of graphics are flexible and there is no restriction on the font sizes used in submissions.

All submissions should be received by Ofgem by **3 May 2013**. All submissions should be sent to Ofgem's office in London for the attention of Distribution Policy Team³, SG&G Division and emailed to connections@ofgem.gov.uk

Assessment Process

Our aim for the stakeholder engagement incentive is to reward companies for high quality outcomes resulting from the stakeholder engagement process. In order to achieve these outcomes, the company is expected to have a stakeholder engagement process in place which meets the following **minimum requirements**:

- The network company has a comprehensive and up to date stakeholder engagement strategy, which sets out:
 - how it keeps stakeholders informed about relevant issues, business activities, decision-making and other developments;

³ This is the single contact arrangement and is relevant to transmission companies.

- how it enables timely input and feedback from stakeholders via appropriate mechanisms to inform decision making.
- A broad and inclusive range of stakeholders have been engaged.
- The company has used variety of appropriate mechanisms to inform and engage their stakeholders – these have been tailored to meet the needs of various stakeholder groups, and are fit for purpose in allowing a detailed analysis of a breadth of stakeholder perspectives
- The company can demonstrate it is acting on input / feedback from stakeholders.

Evaluation and Reward Allocation⁴

The assessment process under trial for this year's stakeholder engagement scheme stems from our experience from last year's trial electricity scheme and it will involve the following steps:

- 1) An internal panel at Ofgem will assess the company's Part 1 submission against the minimum requirements while considering all the supporting evidence and the information provided in the entry form. The internal panel will then decide which companies have met minimum requirements and are eligible for a reward. Ofgem will collate all submissions and send them to the Panel prior to their meeting in July 2013. All companies will be invited to attend the panel meeting this year.
- 2) Panel assessment: The independent panel will only score those submissions that have met minimum requirements as assessed by Ofgem's internal panel. The focus of their assessment will be the Part 2 submissions (although they will receive the complete submission for information purposes). They will then decide on relevant questions to pose to the companies during the panel meeting.
- 3) Panel meeting: Each of the companies attending the panel session will have an opportunity to take part in a 20 minute question and answer session with the Panel on the day of the meeting. Ofgem will perform a secretariat role at the Panel meeting. The panel will assess the submissions and Q&A session with the aid of a scorecard and will then make recommendations on a score for each eligible network company.
- 4) Feedback session: As was the case with previous year's electricity trial scheme, it is intended that after the Panel has made its decision there will be an opportunity for the Panel to provide some general feedback on submissions to companies on the day. Attendance of the feedback session does not preclude further feedback discussions between Ofgem and the companies at a later date.

⁴ For this year's scheme there will be no financial reward available since it is a trial run. All companies assessed by Ofgem's internal panel will be invited to attend the independent panel meeting.

The companies will be notified of the exact date and timetable for the day in due course.

Panel Members

The Panel will be comprised of five or six voting members and a non-voting Chair. The chair will be Philip Cullum, Partner, Consumer and Demand Insight from Ofgem. The remaining five members will be drawn from organisations with expertise in stakeholder and customer engagement. Tenure on the Panel will be time limited, with a proportion changed from time to time to allow for a diversity of views, regions and organisations to be represented.

Ofgem will provide guidance to the Panel and brief them before the panel session. We will also provide the panel with a scorecard against which they will provide an initial scoring for the companies' submission. The scorecard includes the areas of assessment outlined in the section of this guidance describing the scope of the scheme.