

## Report on the Gas Distribution Stakeholder Engagement Incentive Scheme trial for 2012-13

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This document summarises the results of the Gas Distribution Stakeholder Engagement Incentive Scheme trial for 2012-13

From  
To  
Date

Ofgem  
stakeholders  
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### 1. Introduction

- 1.1 Under the current gas (RIIO-GD1) price control we have introduced a suite of measures to incentivise Gas Distribution Network Operators (GDNs) to improve their approach to customer service. This 'broad measure of customer satisfaction'<sup>1</sup> includes a Stakeholder Engagement element which provides the network companies with an incentive linked to their performance.
- 1.2 The key aim of the scheme is to encourage GDNs to be more outwardly focused and responsive to changing stakeholder needs. The incentive is designed to reward exceptional outcomes that reflect competitive behaviours and can be regarded as best practice and replicated across the industry.
- 1.3 The scheme provides a financial reward that allows for the following maximum incentives:
  - For GDNs: up to +0.5% base demand revenue which represents between £1.6m to £7.8m depending on the company's size.
- 1.4 This year there was no financial reward as this was a trial to test the process and ensure that the assessment process supporting the allocation of reward is robust and consistent.

### 2. The assessment process:

- 2.1 In January 2013 we published Guidance notes for this year's scheme. These notes set out the assessment process for companies and against what criteria we would be assessing them.
- 2.2 The companies are required to submit evidence which covers two parts. To simplify, Part one requires companies to demonstrate that they have an engagement strategy in place. This includes having an understanding of who their stakeholders are and how to engage with them. They also have to demonstrate they have governance arrangements in place to ensure the engagement in part of their business and to ensure feedback leads to meaningful outcomes. Part two requires evidence of outcomes that resulted from the engagement process. The guidance sets out in detail the minimum requirements the companies must demonstrate under each part.
- 2.3 Part one assessment against the minimum requirements are carried out by the Distribution policy team. Those companies that pass the Part one assessment are invited to attend an independent panel session who will then review the outcomes of their engagement and score them accordingly.

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<sup>1</sup> See report: [Electricity Distribution Price Control Review Final Proposals - Incentives and Obligations](#)

### **3. The submissions and the panel**

- 3.1 On 3 May 2013 we received submissions from all of the network operators eligible to participate in this incentive scheme (four GDNs). Our internal assessment identified that three companies had passed the minimum requirements and one had failed. This year was a trial run so all companies were provided with the opportunity to meet the panel in order to test the process and gain feedback.
- 3.2 This year's panel was made up of experts drawn from a range of UK organisations. The panellists were chosen because of their unique skills and expertise - in particular their specialist knowledge of corporate and government communications, stakeholder engagement and understanding of business-consumer and business-business relationships. The panel members were:
- Philip Cullum, Partner Consumer and Demand Insight, Ofgem (Chair)
  - Colin Browne (Communications consultant and former Director of Corporate Relations at BT and the BBC)
  - Alexander Ehmann (Head of Government and Parliamentary Affairs, Institute of Directors)
  - Teresa Perchard (former Director of Policy and Advocacy, Citizens Advice)
  - Malcolm Rigg (Director at the Policy Studies Institute)

### **4. The panel session**

- 4.1 All companies were invited to attend a 15 minutes question and answer session with the panel on 20 June 2013.
- 4.2 The panel members were only asked to assess Part two of the submissions. They were given a scorecard<sup>2</sup> that set out a number of criteria to help them assess on a consistent basis the quality of stakeholder engagement activities and the outcomes these activities have helped deliver.
- 4.3 The panel agreed a final score for each company out of 10. It is intended that this score be used to determine the proportion of the overall financial incentive to be allocated to each company once the scheme goes live, ie a score of 6 out of 10 would result in that company receiving 60% of the reward to which it was entitled. The panel also provided both general and more substantive feedback to all companies. The panel also provided both general and more substantive feedback to all companies.

### **5. Panel scores and feedback for the Gas distribution companies**

- 5.1 The Chair thanked all of the companies for their personal commitment to stakeholder engagement. The panel made the following key points to companies:
- On the whole the oral presentations from each of the companies were better than the written submissions.
  - Companies need to plan the structure of their written submissions carefully to ensure relevant and meaningful information is effectively conveyed in their submissions.
  - The panel noted that the companies' submissions were focused mainly on outputs and more work is required to identify and strategically target outcomes. Stakeholder engagement should lead to activities and outcomes that may not be delivered through a continuation of current business as usual

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<sup>2</sup> Possibly add appendix doc – Panel Scorecard.

- practices. The process of engagement should be embedded in the business and should be directed through a strategic and proactive approach.
- All companies need to ensure that the governance processes that co-ordinate, monitor and ensure that feedback provided informs how the business operates are clearly set out in their submissions
- 5.2 The panel recommended the following scores for each of the GDNs (10 being the best and one being the lowest):
- 6.4 for National Grid Gas Distribution (NGGD)
  - 6.15 for Wales and West Utilities (WWU)
  - 5.75 for Northern Gas Networks (NGN)
  - 5.25 for Scotia Gas Networks (SGN)
- 5.3 The panel considered NGGD had the strongest overall submission and the most comprehensive engagement strategy.
- 5.4 The panel recognised a number of WWU's initiatives as innovative such as use of school children to produce and perform radio advertisements raising awareness on carbon monoxide (CO) safety. They also thought WWU provided a strong and compelling oral presentation of their activities.
- 5.5 NGN was recognised for innovative projects which were driven by targeted stakeholder engagement, for example, the 'ICOP app' that helped raise awareness of the risks of CO. The Panel also wanted to recognise their work with local authorities by assigning a single point of contact within the business on any issue to strengthen relations.
- 5.6 The panel identified specific areas where GDNs could make improvements:
- The need for better stakeholder segmentation and prioritisation in order to identify weak and strong stakeholder relationships.
  - GDNs need to develop a better understanding of the difference between consumers and stakeholders, and subsequently customer service and stakeholder engagement.
  - GDNs need to have more clarity over governance arrangements and the commitment to engagement at senior management level.
  - GDNs need to provide more information on how they are using social and mainstream media to engage with stakeholders and monitor how their organisations are perceived externally.
  - They need to provide more evidence on existing stakeholder relationships and how they are leveraging these in order to develop and drive value through longer term partnerships.

## **6. Conclusion of the RIIO-GD1 Stakeholder Incentive scheme for 2012-13**

- 6.1 Learning from this year's scheme will inform further improvements in the process and this will be reflected in the final guidance produced to support the next year's scheme.
- 6.2 All companies will be invited to meet separately with Ofgem staff after the panel session where they will be provided with more company-specific feedback.