

## Report on the DPCR5 Electricity Stakeholder Engagement Scheme 2012-13

This document summarises the results of the DPCR5 Electricity Stakeholder Engagement Scheme 2012-13

From	santisl
To	Internal stakeholders
Date	30 July 2013

### 1. Introduction

- 1.1 Under the current electricity distribution price control (DPCR5) we have a suite of measures to incentivise electricity Distribution Network Operators (DNOs) to become more outward facing and respond to the needs of their stakeholders. The 'Broad measure of customer satisfaction'<sup>1</sup> includes a specific incentive to reward high quality outcomes in regards to stakeholder engagement.
- 1.2 The key aim of the stakeholder engagement scheme is to encourage DNOs to be more responsive to changing stakeholder needs. The incentive is designed to reward high quality outcomes that reflect competitive behaviours, can be regarded as best practice and replicated across the industry.
- 1.3 This scheme provides an annual financial reward of up to 0.2% annual allowed revenues per DNO. The allocation of this reward is based on an annual assessment of DNOs' stakeholder engagement activities by a Panel of Independent experts, which is chaired by Ofgem.
- 1.4 This year's scheme is the first time financial rewards have been allocated to DNOs following our assessment process. Prior (to this last year) we carried out a trial of our approach to test the submission and assessment process.

### 2. The assessment process

- 2.1. On 9 November 2012 we published a decision document<sup>2</sup> and guidance notes<sup>3</sup> setting out the assessment process for this scheme.
- 2.2. DNOs are required to submit evidence which covers two parts. Part one requires DNOs 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 takes place and that 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. The Part one assessment against the minimum requirements is carried out by the Distribution Policy team. Those companies that pass the Part one assessment are invited to attend the panel session.

### 3. The submissions and the panel

- 3.1 On 7 June 2013 we received submissions from all six DNOs. Following our internal assessment of Part one of their submissions we concluded that all but one of the

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

<sup>2</sup>See link: [Decision Letter on Ofgem's Approach to assessing Stakeholder engagement and Guidance notes](#)

<sup>3</sup><http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=277&refer=Networks/ElecDist/QualofServ/CustSer vRwSch>

companies had passed the minimum requirements. This year an exception was made to let the company that had failed to meet the minimum requirements attend the panel session so they could receive 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)<sup>4</sup>
- Colin Browne (Communications Consultant and former Director of Corporate Relations at BT and the BBC)
- Mary Fagan (Group Communications and Corporate Affairs Director at ITV)
- Teresa Perchard (former Director of Policy and Advocacy, Citizens Advice)
- Malcolm Rigg (Director of the Policy Studies Institute)
- Andrew Whyte (Communications Consultant and former Director of Communications at the Foreign and Commonwealth Office)
- Alan Mitchell (Strategy Director, Control-Shift)

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

- 4.1 All companies were invited to attend a 15 minute question and answer session with the panel on 11 July 2013.
- 4.2 The panel members were given a scorecard with a set of criteria to help them assess 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 DNO, ie a score of 6 out of 10 in the DNO would result in that DNO receiving 60% of the reward to which it was entitled. The panel also provided both general and more substantive feedback to all companies.

#### **5. General Panel feedback to the DNOs**

- 5.1 The Chair thanked all of the DNOs for their commitment to stakeholder engagement and acknowledged the significant progress and improvements they have made over the last year.
- 5.2 The panel acknowledged that last year the principle gaps in DNO activities concerned the level of senior management support, the allocation of resources and the approach to embedding the process across the organisation. In general the panel saw a major improvement across all these areas.
- 5.3 The panel made the following key points to all DNOs:
- There were some good examples of senior management buy in. There is clear evidence that governing boards and executive teams have more visibility over stakeholder engagement processes.
  - The panel saw some good examples of sophisticated approaches to employee engagement and how they link to the delivery of wider engagement outcomes.

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<sup>4</sup>[http://www.ofgem.gov.uk/Networks/GasDistr/QoS/Documents1/Stakeholder\\_Engagement\\_Gas\\_Panel\\_Biography\\_2013.pdf](http://www.ofgem.gov.uk/Networks/GasDistr/QoS/Documents1/Stakeholder_Engagement_Gas_Panel_Biography_2013.pdf)

- All DNOs had improved at listening to stakeholders and making business changes on the back of this engagement
- The panel thought there could be clearer methodologies for stakeholder engagement and that some DNOs were still focused on engagement in order to drive improvements in customer service, rather than a broader level of engagement with a wider range of stakeholders.
- Work is required to make stakeholder engagement more inclusive; there is a need to give consideration to diversity issues and treatment of minority and groups of stakeholders with whom it may be more difficult to engage.
- Further work required to demonstrate how the stakeholder engagement process is generating value for the business.
- Some good practice was identified in how companies are using social media. Overall though more consideration is required to the approach to using social media to engage with stakeholders and monitor how their organisation is viewed by an external audience.
- The panel encouraged DNOs to share any tools and innovative mechanisms that are replicable such as apps and other technical initiatives.
- The panel reiterated that DNOs should use independent auditing mechanisms to assure themselves that they have good processes in place.

## **6. The panel scores and specific feedback for DNOs**

6.1. The panel awarded the following scores out of 10 for each of the DNOs:

- 8.4 for Western Power Distribution (WPD)
- 7.9 for Electricity North West Ltd (ENWL)
- 7.85 for Northern Powergrid (NPG)
- 7.15 for UK Power Networks (UKPN)
- 6.85 for Scottish and Southern Energy (SSE)
- Scottish Power Energy Networks (SPEN) did not pass the minimum requirements and were not scored.

6.2. WPD was considered to have the strongest overall submission. The quality of the information regarding the outcomes of engagement was excellent. They provided good evidence of an embedded strategy and have thought about the impact of their engagement.

6.3. The panel thought that for WPD engagement was embedded into their organisation and treated as a business as usual activity. They liked how WPD monitored feedback and adapted to changes in the views, and the make-up, of stakeholders. They have excellent senior management buy-in from both the WPD board and their owners Pennsylvania Power and Light (PPL).

6.4. ENWL were recognised for having a clear focus and good buy-in and senior executive level.

6.5. NPG were commended for their sophisticated approach on various individual policy matters. Their senior level engagement was excellent and it was acknowledged that they have carried out some progressive work on how to engage with and respond to the needs of vulnerable customers.

## **7. Conclusion of the DPCR5 Stakeholder Incentive scheme for 2012-13**

7.1. 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.

7.2. Learning from this year's scheme may inform further improvements in the process and this will be reflected in guidance produced to support the scheme in future years.