

Report on the Gas and Electricity Transmission Stakeholder Satisfaction Output trial for 2012-13

This document summarises the results of the Gas and Electricity Transmission Stakeholder Satisfaction Output trial for 2012-13

From
To
Date

Ofgem
stakeholders
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1. Introduction

- 1.1 Under the current transmission (RIIO-T1) price controls we have introduced a suite of measures to the Gas Transmission Network Operator (GTO) and the Electricity Transmission Operators (TOs) to improve their approach to stakeholder engagement. This Stakeholder Satisfaction Output provides the network companies with an incentive linked to their performance.
- 1.2 The key aim of the scheme is to encourage the GTO and the TOs 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 the GTO: up to +0.5% base demand revenue which represents between £2.7m to £3.7m depending on the regulatory year in question.
 - For TOs: up to +0.5% base demand revenue which represents between £0.8m to £8.7m 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 is carried out by the Transmission and 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.

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 (one GTO and three TOs). Our internal assessment identified that one company had passed the minimum requirements and three 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 scorecard¹ that set out a number of criteria to help them assess on 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 is 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 for the Transmission 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

¹ 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 recognised that the transmission companies had further to go in terms of stakeholder engagement than the electricity and gas distribution companies. They are all just beginning to formalise their stakeholder engagement strategies and embed them within their business.
- 5.3 The panel recommended the following scores out of 10:
- 3.4/10 for Scottish Power Transmission Ltd (SP)
 - 3.4/10 for National Grid Gas Transmission (NGGT)
 - 3.4/10 for National Grid Electricity Transmission (NGET)
 - 3/10 for Scottish Hydro Electricity Transmission (SHE)
- 5.4 The panel identified specific areas of improvement for the Transmission companies:
- TOs should focus on improving relationships with stakeholders with whom they may have historically had fewer dealings and are less familiar.
 - TOs need to widen the focus of their engagement to ensure they talk to people, not just institutions or businesses.
 - There needs to be more consideration of the use of both social media and traditional media as vehicles for engagement.
 - TOs need to provide evidence that stakeholder engagement is underpinned by governance arrangements and that they can provide the appropriate level of assurance that their approach is robust.

6. Conclusion of the RIIO-T1 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.