



Supplementary annex 3: Stakeholder Engagement Incentive Guidance

[Draft published January 2014]

The aim of the stakeholder incentive scheme is to encourage DNOs to engage proactively with stakeholders in order to anticipate their needs and deliver a consumer 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 Satisfaction incentivises the DNOs 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 DNOs will use this feedback to inform their current business operations and planning for future decision making.

Scope of the scheme

Stakeholders are individuals or organisations that can be impacted by the activities of the DNO. They may have a direct or indirect interest in the DNO's business, and their contact with the DNO may be anything from a daily interaction to those who have occasional contact. Stakeholders can include (but are not limited to) 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 scheme we aim to encourage high quality stakeholder engagement by rewarding activities which that in our assessment demonstrate:

- Initiatives that -best serve the specific interests of challenging groups of customers/communities/future stakeholders -and result in measurable demonstrable benefits
- Initiatives that -reflect innovative thinking in responding to needs of stakeholders
- Initiatives which that -are part of a holistic approach embedded in the business
- Initiatives which that are supported by robust project management processes and appropriate resources
- Initiatives resulting from stakeholder engagement activities which that 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 20XX/XX regulatory year. We expect DNOs' submissions to shall include two parts:

Part 1 Submission

Part one of the submission is aimed at demonstrating the DNO has an engagement strategy in place that satisfies the minimum requirements as set out below. DNOs will

Comment [PXM1]: • As social obligations is to become part of this incentive mechanism in ED1 – it appears to be missing from the document

Comment [PXM2]: Guidance must be implemented 3 months before the start of a regulatory year t for it to be capable of using in year t for reporting in t+1

Comment [PXM3]: Doesn't make sense to talk about a range that has interactions at one end and people at the other end – should read something like "from a daily interaction to occasional contact", ie delete "those who have"

Comment [t4]: What is meant by this?

Comment [PXM5]: What is meant by this?

Comment [t6]: The use of a specific year such as 20xx/xx in the text infers this guidance will be updated and issued annually. The way the licence is drafted and DNOs have commented back on that document means that it won't be a simple annual update and issuing of this document, it will be a formal consultation before it is issued with 15 months before implementation. Accordingly this document will need bringing into line in the areas where 20xx/xx is used.

have some flexibility as to how they gather and present relevant evidence to meet the requirements of each stage. 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.

DNOs are encouraged to consider the following means of gathering evidence to support Part 1 of their submissions:

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

Comment [PXM7]: Culture might not need to change if it already has done.

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~~ DNOs should submit a relevant summary of outcomes/activities/action plans resulting from ~~its~~ their stakeholder engagement activities carried out during the regulatory year 20XX/XX. We recommend that this part of the submission include the following information:

- ~~The~~ the nature of the stakeholder engagement activities undertaken ~~which~~ that led to the showcased outcome/action plan;
- how these outcomes fit with the organisation's stakeholder engagement strategy;
- any impact the outcomes have had on policies, procedures, business plans and/or organisational culture;
- any impact the outcomes have had on stakeholder groups;
- any mechanisms by which the outcomes are monitored and reported within the organisation;
- any outcomes/action plans ~~which~~ that are considered best in class and/or portray an innovative approach.

Comment [PXM8]: policies, procedures, business plans and/or organisational culture could well be the outcomes rather than things affected by the outcomes – wording needs to cater for both options

Comment [PXM9]: Having this in the document removes incentive to not share initiatives across DNOs

In assessing the outcomes and outputs of stakeholder engagement activities the Panel will need to be satisfied that the evidence presented is sound, robust and verifiable.

Assessment Process

Our aim for the stakeholder engagement incentive is to reward DNOs for high quality outcomes resulting from the stakeholder engagement process. Hence DNOs are expected to have a stakeholder engagement process in place ~~which~~ that meets the following **minimum requirements**:

- The DNO has a comprehensive ~~and up-to-date~~ stakeholder engagement strategy, ~~which~~ that sets out:
 - how the DNO keeps stakeholders informed about relevant issues, business activities, decision-making and other developments;
 - how the DNO enables timely input and feedback from stakeholders via appropriate mechanisms to inform decision making.
- The DNO has made and evidenced efforts to engage with Aa broad and inclusive range of stakeholders ~~have been engaged~~. The range of stakeholders should be relative to the location, demographics and cultures that the DNO serves.

- The DNO has used a variety of appropriate mechanisms to inform and engage their-its 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 DNO can demonstrate it is acting on input / feedback from stakeholders.

Evaluation and Reward Allocation

Our assessment process for this year's-the stakeholder engagement scheme will involve the following steps:

- 1) An internal panel at Ofgem will assess the DNO'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 those submissions and send them to the Panel prior to their meeting. All DNOs will then be informed of the outcome Ofgem's assessment and those who meet minimum requirements will then be invited to attend a panel session. Those who have not met minimum requirements will be advised of the reasons for our assessment.
- 2) Panel assessment: The independent panel will only assess those DNO 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 DNOs during the panel meeting.
- 3) Panel meeting: Each of the DNOs invited to attend 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 Ppanel 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 DNO that will determine the allocation of a financial reward under the incentive mechanism.
- 4) Feedback session: 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 DNOs on the day. Attendance ofat the feedback session does not preclude further feedback discussions between Ofgem and DNOs at a later date.

DNOs 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 from Ofgem. The remaining five members will be drawn from organisations with expertise in stakeholder and customer engagement to result in a balanced makeup of the panel. 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 publish a short resume of the panel members once appointed and on each change of member so that DNOs and other stakeholders can see that the panel makeup is broad and representative.

Comment [PXM10]: What does this mean?

Comment [t11]: Timescales for each of the steps are required

Comment [t12]: Assessment should be clear how the panel compare two DNOs where DNO1 has one big engagement activity and DNO2 has a number of smaller ones but both DNO1 and DNO2 have a similar scale of outcomes

Comment [t13]: Scorecard should be in this document

Comment [PXM14]: Needs to explain how recommendation becomes decision. Is there any overarching discretion for Ofgem?

Comment [t15]: See comment below the table – this does not constitute "the manner and process by which the stakeholder engagement submissions will be assessed against the key assessment criteria and by which the Authority will allocate the stakeholder engagement reward"

Comment [PXM16]: Was a recommendation in last paragraph

Comment [PXM17]: Should they have to declare any interests?

Comment [t18]: Why the option for 5 or 6?

Comment [t19]: Or six...

Comment [t20]: How long?

Comment [t21]: What proportion?

Comment [t22]: Should the panel be geographically blind or they might favour their local DNO?

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

Comment [t23]: Brief the panel on what?

Comment [t24]: See comment below the table – this does not constitute “the manner and process by which the stakeholder engagement submissions will be assessed against the key assessment criteria and by which the Authority will allocate the stakeholder engagement reward”

Comment [t25]: Reword all this section to make it clear that an A4 page is 2 sides i.e. “four A4 pages (8 sides of A4)”

Format of application

Applications should consist of the following:

Application Checklist	Length of submissions
Part 1 submission: 1. Entry form providing evidence that they have met minimum requirements; and 2. Overview of evidence; and 3. Any supplementary information referenced in the entry form.	Entry Form – Maximum of four A4 pages Overview of evidence – Maximum of ten A4 pages Supplementary information – DNO's discretion
Part 2 submission: 1. Summary of outcomes/activities/action plans resulting from stakeholder engagement activities carried out during the regulatory year 20XX/XX	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 **XX XX XX**. All submissions should be sent to Ofgem's office in London for the attention of Distribution Policy Team, SG&G Distribution and emailed to connections@ofgem.gov.uk.

Comment [t26]: The draft licence condition (2C.25(c)) requires the guidance document to include “key assessment” criteria and “the manner and process by which the stakeholder engagement submissions will be assessed against the key assessment criteria and by which the Authority will allocate the stakeholder engagement reward” – these are missing from the draft

Field Code Changed