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for energy consumers

DNOs, GDNs, TOs and other
interested parties

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Decision on changes to the Stakeholder Engagement Incentive Guidance document¹

I am writing to explain some changes we are making to our guidance on the Stakeholder Engagement Incentive.

Background

The Stakeholder Engagement Incentive is intended to encourage electricity distribution network operators (DNOs), gas distribution network operators (GDNs) and Transmission Operators (TOs) to engage effectively with a wide range of stakeholders and use the outputs from this process to inform how they plan and run their businesses.

The Stakeholder Engagement Incentive Guidance document (the 'Guidance Document') specifies the application process, submission format and assessment process for the Stakeholder Engagement Incentive.

Consultation

On 6 February 2014 we consulted on proposed changes to the Guidance Document² for gas and electricity, transmission and distribution companies.

Responses

We received eight responses to our consultation. All responses were from network companies and all responses can be found on our website.³ The majority of companies broadly supported our proposed changes to the Guidance Document.

Some stakeholders raised additional comments on the Guidance Document that they wanted us to consider.

A summary of consultation responses and our response to the points raised can be found in Appendix 1 to this letter.

¹ This is known as the Stakeholder Engagement Reward Guidance in both the elec and gas transmission licences. For the avoidance of doubt, references to the Stakeholder Engagement Incentive Guidance are also references to this.

² <https://www.ofgem.gov.uk/ofgem-publications/85900/seguidanceconsultation06feb2014.pdf>

³ <https://www.ofgem.gov.uk/publications-and-updates/consultation-changes-stakeholder-engagement-incentive-guidance-document>

Decision

After considering the responses received to our consultation, we have decided to modify the Guidance Document. We consider that our primary changes will -

- Ensure that the volume of information presented is manageable.
- Allow us to us to clarify any queries about a company's submission before making a decision on whether it has met the minimum requirements.
- Ensure consistency across all forms of the Stakeholder Engagement Incentive and reduce the number of changes required each year.

The revised Guidance Documents are attached as associated documents to this letter. The wording is common across all Guidance Documents.

Next Steps

The revised Guidance Documents will take effect today, on 30 April 2014, in time for the 2013-14 assessment of stakeholder engagement in summer 2014. These Guidance Documents will remain in effect until modified in accordance with the respective licences.

The following directions⁴ are attached as associated documents to this letter:

- To gas distribution licensees under Special Condition 1E (Incentive adjustment in respect of the Broad Measure of Customer Satisfaction) of the gas transporter licence (for gas distribution).
- To electricity transmission licensees under Special Condition 3D (Stakeholder Satisfaction Output) of the electricity transmission licence.
- To gas transmission licensees under Special Condition 2C (Stakeholder Satisfaction Output) of the gas transporter licence (for gas transmission).

If you have any questions on our decision then please contact us at connections@ofgem.gov.uk.

Yours faithfully,



Andy Burgess
Associate Partner, Transmission and Distribution Policy

⁴ No such direction is required under the electricity distribution licence

Appendix 1 – Summary of comments raised in the consultation and our responses to them

The extent to which the incentive differentiates between transmission and distribution:

Respondents' comments

- One respondent considered that issuing a common Guidance Document for transmission and distribution did not help differentiate between the two industries.
- One respondent wanted greater clarity as to how panel members will be briefed on the difference between transmission and distribution companies.
- Two respondents also raised concerns about saying "stakeholders that represent the interest of vulnerable customers" as they considered this issue to be more relevant to distribution than transmission.

Our response

- We recognise that there are differences between transmission and distribution companies. We consider that removing references to specific network companies promotes consistency across all forms of the incentive. We do not therefore consider that additional changes are required to the Guidance Document.
- In the Guidance Document we commit to briefing the panel about the roles of transmission and distribution prior to the Panel Meeting. We do not consider that further information is required in the Guidance Document.
- We recognise that vulnerability may be a more pertinent issue for distribution. However, we consider that it is relevant to both transmission and distribution industries. For example, a transmission company may need to engage with stakeholders that represent vulnerable consumers to gather feedback on routing options. We do not therefore consider that additional changes are necessary.

The level of guidance provided in the Guidance Document:

Respondents' comments

- Several respondents proposed more specific guidance on the amount of supplementary information that should be provided.
- One respondent raised several areas where it would like more guidance. It wanted us to provide a clearer definition of minimum requirements, our expectations in relation to vulnerable consumers, the level of audit required to meet minimum requirements and the criteria used by the panel to assess performance. This company also suggested that we propose a methodology for calculating the economic value of stakeholder engagement to the business.

Our response

- We consider it right to remind companies that they should give consideration to the length and purpose of any supplementary information.
- We have also reviewed the level of guidance provided in the Guidance Document and we consider that it is appropriate as it gives companies flexibility. We do not consider that additional changes are required to the Guidance Document.

Suggestions to improve the Stakeholder Engagement process:

Respondents' comments

- One respondent considered that it would be useful to get earlier sight of any changes to the Guidance Document.
- One respondent stated that it would be useful to stagger the submission deadlines for transmission and distribution incentives, to help manage resources.

- One respondent also asked for additional time for question and answers with the panel.
- Another respondent also asked for more granular feedback on performance.

Our response

- We will endeavour to give network companies early sight of changes to the Guidance Document.
- We have considered staggering deadlines for the transmission and distribution incentives. However, we are keen for the assessment process to operate on similar assessment timelines. We therefore intend to retain the proposed submission deadline of the final Friday in May.
- We commit to trying to maximise company time with the panel and to providing feedback to all companies that request it.

Suggestions to improve the Stakeholder Engagement Panel:

Respondents' comments

- Several respondents did not agree with changing the number of panel members from "five or six" to "a minimum of four".
- One respondent also suggested that it might be useful to have more panel members with previous experience of engaging stakeholders on technical issues.

Our response

- We agree that it is important to have a diversity of views on the panel. We are amending the number of panel members specified in the Guidance Document from "five or six" to "a minimum of four" because we want to remove an upper limit on the number of panel members, rather than reduce the number of panel members.
- We deliberately choose stakeholder and consumer experts from across a range of industries (including non-energy) to help us identify genuinely "good" performance, regardless of the sector in which the company is operating. We consider that we do not need to provide additional information about how we choose panel members in the Guidance Document.

Other comments on the Stakeholder Engagement Incentive Guidance:

Respondents' comments

- One respondent was concerned that the focus on "outcomes" placed larger focus on short term initiatives which delivered immediate returns, rather than long term engagement.
- One respondent noted that the minimum criteria remain unchanged from previous years and wanted confirmation that our interpretation would not change between years.

Our response

- We disagree that the focus on "outcomes" places a larger emphasis on short term initiatives. We consider it right that the focus is placed on outcomes, as this allows network companies to adopt different approaches. Network companies should ensure that their submission identifies both long and short term outcomes.
- We can confirm that the minimum criteria remain unchanged. However, our assessment of minimum criteria will take into account changes over time.