

Gas Distribution Stakeholder Engagement Incentive¹ Scheme - Guidance Notes

The aim of the Stakeholder Engagement Incentive Scheme is to encourage network companies 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 Satisfaction² incentivises network companies to perform beyond 'business as usual' standards and to seek timely input and feedback from stakeholders on relevant issues, business activities and other developments. We expect that each network company 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 network company. They may have a direct or indirect interest in a network company's business, and their contact with the network company may be anything from daily interaction to those who have occasional contact. Stakeholders can include customers, investors, regulatory authorities, local government agencies, Non-Governmental Organisations (NGOs) and other interested organisations. We expect network companies to pay particular attention to stakeholders that represent the interests of vulnerable customers.

Through the Stakeholder Engagement Incentive Scheme we aim to reward high quality activities which in our assessment demonstrate -

- Initiatives which best serve specific interests of challenging groups of customers/communities/future stakeholders and result in measurable benefits,
- Initiatives which reflect innovative thinking in responding to needs of stakeholders,
- Initiatives which are part of an holistic approach embedded in their business,
- Initiatives which are supported by robust project management processes and appropriate resources,
- Initiatives resulting from stakeholder engagement activities which may be recognised as smart practice and could be replicated across the industry.

Application process

We are inviting each network company to put forward a submission in relation to engagement activities carried out during the regulatory year in question. We expect each network company's submission to include two parts:

Part 1 Submission

Part 1 of the submission is aimed at demonstrating that the network company has an engagement strategy in place that satisfies the minimum requirements set out below. Network companies will 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

¹ In the Transmission licence the Stakeholder Engagement Incentive is referred to as the Stakeholder Satisfaction Output.

² While the RIIO-T1 output in this area does not encompass the broad measure in full, it is based on the principles as relevant to transmission and the point made is relevant for all network companies.

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.

Each network company is encouraged to consider the following means of gathering evidence to support Part 1 of their submissions -

- Independent evaluation / audit – to assess the network company’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.

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, each network company should submit a relevant summary of outcomes/activities/action plans resulting from its stakeholder engagement activities carried out during the regulatory year in question. We recommend that this part of the submission include the following information -

- The nature of the stakeholder engagement activities undertaken which led to the showcased outcomes/action plans;
- 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 are considered best in class and/or portray an innovative approach.

In assessing the outcomes and outputs of stakeholder engagement activities the independent 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 network companies for high quality outcomes resulting from stakeholder engagement process. Hence network companies are expected to have a stakeholder engagement process in place which meets the following **minimum requirements** -

- The network company has a comprehensive and up to date stakeholder engagement strategy, which sets out -
 - how the network company keeps stakeholders informed about relevant issues, business activities, decision-making and other developments, and
 - how the network company enables timely input and feedback from stakeholders via appropriate mechanisms to inform decision-making.
- A broad and inclusive range of stakeholders have been engaged.
- The network company has used a variety of appropriate mechanisms to inform and engage their 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 network company can demonstrate it is acting on input / feedback from stakeholders.

Evaluation and Reward Allocation

Our assessment process will involve the following steps -

- 1) An internal panel at Ofgem will assess each network company's Part 1 submission against the minimum requirements while considering all of the supporting evidence and the information provided in the entry form. If required, we will ask the network company supplementary questions, to clarify any aspects of its submission. We would not expect this process to result in any additional information being provided to us. All supplementary questions and answers will be published. The internal panel will then decide which companies have met minimum requirements and are eligible for a reward. We will collate those submissions and send them to the Panel prior to their meeting. All network companies will then be informed of the outcome of our assessment and those who meet the minimum requirements will then be invited to attend a panel session. Those who have not met the minimum requirements will be advised of the reasons for our assessment.
- 2) Panel assessment: The independent panel will only assess those submissions that have met the 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 each network company during the Panel meeting.
- 3) Panel meeting: Each network company that is 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. We will perform a secretariat role at the Panel meeting. The Panel 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 network company that will determine the allocation of a financial reward under the incentive mechanism.
- 4) Feedback session: After the Panel has made its decision there will be an opportunity for the Panel to provide some general feedback on submissions to each network company on the day. Attendance at the feedback session does not preclude further feedback discussions between us and a network company at a later date.

Each network company will be notified of the exact date and timetable for the day in due course.

Panel Members

The Panel will be comprised of at least four voting members and a non-voting Chair (who will be an Ofgem employee). The remaining members will be drawn from organisations with expertise in stakeholder and customer engagement. 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.

We will provide guidance to the Panel and brief them before the panel session (eg on the role of energy network companies, the regulatory framework, the purpose of this incentive and the Panel’s role). We will also provide the Panel with a scorecard against which they will provide an initial assessment of the network company’s submission. The scorecard includes the areas of assessment outlined in the section of this guidance describing the scope of the scheme.

Format of application

Applications should consist of the following -

Application Checklist	Length of submissions
Part 1 submission: <ol style="list-style-type: none"> 1. Entry form providing evidence that the network company has met the 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 – at the network company’s discretion, however consideration should be given to the purpose and length of any supplementary information provided.
Part 2 submission: <ol style="list-style-type: none"> 1. Summary of outcomes/activities/action plans resulting from stakeholder engagement activities carried out during the regulatory year in question. 	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 us by **5pm on the final Friday in May, the year following the regulatory year in question** (for example submissions for the regulatory year 2014-15 should be made in May 2015). All submissions should be sent to our office in London for the attention of Distribution Policy Team³, SG&G Distribution and emailed to connections@ofgem.gov.uk.

³ This is the single contact arrangement and is relevant to both transmission and distribution companies.