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By email only to connections@ofgem.gov.uk

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Dear James

Changes to the Stakeholder Engagement Incentive Guidance Document

Thank you for the opportunity to provide comments on the modified Stakeholder Engagement Incentive Guidance Document, as circulated with your letter of 6 February.

This letter should be regarded as a consolidated response on behalf of UK Power Networks' three distribution licence holding companies: Eastern Power Networks plc, London Power Networks plc, and South Eastern Power Networks plc. Our comments are not confidential and can be published via the Ofgem website.

We have reviewed the proposed changes to the Guidance Document and have the following observations:

- Currently, it is not clear exactly how Ofgem assesses Part 1 of DNOs' submissions to determine whether they meet the minimum requirements of stakeholder engagement. A clearer definition of the requirements is important: differences in demographics, cultures and geography mean that effective stakeholder engagement will be different for different DNOs and "a broad and inclusive" range of stakeholders will involve different challenges for different areas.
- In relation to vulnerable customers, we note that a sentence has been introduced within the Guidance Document to state Ofgem's expectations that network companies need to pay particular attention to stakeholders that represent the interests of this group of customers. While we welcome the more explicit emphasis on vulnerable customers, we believe that the scheme would benefit from additional guidelines on any other areas where DNOs are expected to exceed or demonstrate best practice in stakeholder engagement. This would ensure that DNOs take due account of all stakeholder groups and ensure a balanced mix of initiatives in their submissions in accordance with Ofgem's expectations.

- The text in the first bullet states that initiatives must result in “measurable benefits”. This could easily be interpreted as requiring a numerical assessment which is not appropriate in this case. Therefore, instead of looking at “measurable benefits” we believe that “demonstrable benefits” is more appropriate as this allows Ofgem and the external assessment panel to look at the qualitative aspects of each engagement initiative as well as any appropriate numerical ones.
- We would welcome clarification in the guidance as to what cost effectiveness means in stakeholder engagement. To facilitate this, it would be beneficial if Ofgem proposed a methodology that licensees can use for calculating the economic value that stakeholder engagement and corporate social responsibility bring to the business.
- Ofgem encourages network companies to undergo an independent evaluation/audit. This is stated on the second page of the Guidance Document and, using the results of the audit as evidence of meeting minimum requirements, features in numerous sections of the Entry Form that is submitted as part of the assessment documentation. Last year, in verbal feedback post-assessment, the DNOs were told that the audit was being done by the companies for their own benefit and not for Ofgem. This suggested that the level of audit was not a factor in the assessment. In essence, this means that there is currently not a level playing field because those DNOs that opt for a less intrusive audit of the evidence have advantage over those that conduct a more rigorous audit. We believe that the level of audit required should be specified within the guidance notes and that this should be sufficiently detailed to assure the underlying quality of the work by the DNO.
- We also believe that greater clarity on the criteria used by the panel when assessing individual DNOs would be desirable. It has been a subject of considerable debate whether preference is given to those DNOs that can demonstrate an array of ideas that have touched a large number of stakeholders across the spectrum, including hard-to-reach customers, or to those that have focused on one large idea and (consequently) developed it more fully in the interview.
- From the point of view of network companies, greater clarity would be desirable on whether Ofgem would like to see supporting evidence. A statement on page 5 indicates that Ofgem will consider such evidence but there is no indication as to whether submitting such evidence is preferable or even required.
- According to the Guidance Notes, the voting members of the Panel will be drawn from organisations “with expertise in stakeholder and customer engagement”. We consider that the emphasis should move to recruiting panel members from across the industry (not just UK but international) where stakeholder engagement is more entrenched, including oil, gas and mining. Individuals with an industry background would be more familiar with the challenges associated with engaging stakeholders on more technical issues. Not having a representative panel means that over time the submissions (and resources allocated by DNOs to different initiatives throughout the year) would tend to focus very heavily on social obligations, serving vulnerable customers etc. While this is an important aspect of stakeholder engagement, we believe that due attention should be given to the multiple groups of stakeholders who are only interested in the technical aspects of UK Power Networks’ business.
- From an administrative perspective, we support Ofgem’s proposal to remove references to specific regulatory years and specific types of network companies, so that the document is standardised.

We hope that you will find our comments helpful. If you have any questions please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'K Hutton', written over a light blue horizontal line.

Keith Hutton
Head of Regulation
UK Power Networks

Copy: Matt Rudling, Director of Customer Services, UK Power Networks
Nazrin Mehdiyeva, Head of Stakeholder Engagement, UK Power Networks
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