



Making a positive difference  
for energy consumers

All interested parties

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Dear Stakeholders,

### **RIIO-ED1 Stakeholder Engagement and Consumer Vulnerability (SECV) incentive consultation**

It is important that distribution network operators (DNOs) engage with stakeholders and help address consumer vulnerability. This consultation seeks views on the approach that we will use to assess how well DNOs do this.

#### Background

The actions and behaviours of external stakeholders can have a large impact on DNOs. The decisions made by DNOs can also have a large impact on a wide range of stakeholders. It is therefore critical that DNOs engage with stakeholders.

During the current price control (DPCR5) we introduced the Stakeholder Engagement Incentive to drive DNOs to engage with stakeholders and respond to their needs. We decided to retain this incentive for the next price control (RIIO-ED1).

DNOs also have an important role to play in helping consumers in vulnerable situations. To encourage this, we have increased the value of reward available under the RIIO-ED1 Stakeholder Engagement Incentive so that we can specifically assess and reward the steps DNOs take in response to social challenges.

#### DPCR5 Stakeholder Engagement Incentive

We already have a mechanism to assess how well DNOs are engaging with stakeholders.<sup>1</sup> A summary of the assessment process is outlined below:

1. All DNOs submit a stakeholder engagement submission to us.
2. We review submissions against set minimum requirements.
3. DNO submissions that meet minimum requirements are forwarded to our Stakeholder Engagement Panel.
4. The Stakeholder Engagement Panel assesses and scores submissions against the Panel's scorecard.
5. Based on this assessment, we decide whether DNOs should receive a reward. And, if so, how much.

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<sup>1</sup> Please find a link to the current DPCR5 Stakeholder Engagement Incentive Guidance Document: <https://www.ofgem.gov.uk/ofgem-publications/87494/edse incentive-guidancedoc.pdf>

## Amending the Stakeholder Engagement Incentive to incorporate consumer vulnerability

We want to adapt this mechanism, so we can also examine how well DNOs are addressing consumer vulnerability. We consider that the best way of achieving this is to make the following changes to the incentive:

<b>Change</b>	<b>Reason</b>
Change the name of the incentive to the "Stakeholder Engagement and Consumer Vulnerability (SECV) Incentive".	To raise awareness that this incentive is driving DNOs to engage with stakeholders <u>and</u> to address consumer vulnerability.
Revise the minimum requirements.	To ensure that DNOs have to provide evidence of a consumer vulnerability strategy, to be eligible for the scheme.
Introduce a new assessment against a set of "Consumer Vulnerability criteria".  An independent party will review the submissions, visit the DNOs and produce a report for the Stakeholder Engagement Panel to consider.	To provide the Panel with independent, expert insight into the DNOs' identification and understanding of effective solutions for vulnerable consumers, and their ability to integrate this learning into their core business activities.
Ensure that there is <u>at least</u> one member of the Stakeholder Engagement Panel with consumer vulnerability expertise.	To ensure that at least one member of the Panel is familiar with relevant consumer vulnerability issues.
Revise the Panel scorecard.	To ensure that the DNOs are explicitly assessed on how well they address consumer vulnerability.

## Additional changes to the Stakeholder Engagement and Consumer Vulnerability Incentive

To ensure that DNOs are adding value for stakeholders and prioritising activities that deliver the biggest benefits, there are additional changes that we would like to make to the RIIO-ED1 incentive:

<b>Change</b>	<b>Reason</b>
Revise the minimum requirements	Specify that DNOs need to demonstrate that stakeholder engagement has led to positive outcomes for stakeholders to be eligible for the scheme.
Revise the Panel's scorecard	To ensure that the DNOs are explicitly assessed on measurable benefits produced for stakeholders.

## Consultation

The RIIO-ED1 SECV Guidance Document outlines the detailed procedures for reporting. It also specifies how we will assess the DNOs' submissions.

We are seeking views on our general approach and the detailed RIIO-ED1 SECV Guidance Document. Please find the draft RIIO-ED1 SECV Guidance Document attached to this letter.

Please submit any written comments on the proposed SECV Guidance Document to [connections@ofgem.gov.uk](mailto:connections@ofgem.gov.uk) by 16 January 2015. Unless clearly marked as confidential, we will publish responses on our website.

## Next Steps

We will review consultation responses and issue our decision in early 2015.

The Stakeholder Engagement Incentive assessment in Summer 2015 will still be based on the DPCR5 arrangements (as this will be assessing performance in the final year of DPCR5 (2014-15)). However, we would like to trial some parts of the new arrangements next year. We therefore intend to appoint an independent consultant to assess DNO performance against the "consumer vulnerability criteria". This will take place in late Summer 2015 (after the DPCR5 Panel assessment).

Following this trial, we will issue notice to all DNOs consulting on our proposals for the Stakeholder Engagement and Consumer Vulnerability Guidance Document. Following this, we will issue our decision.

An overview of our next steps is provided below:

<b>Next Step</b>	<b>Date</b>
Consultation closes	16 January 2014
Decision document	Early 2015
Trial consumer vulnerability assessment process	Late summer 2015
Issue Notice	Autumn 2015
Issue Direction	Late Autumn 2015
First RII0-ED1 SECV submission	31 May 2016

Yours sincerely,

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**Head of Distribution Policy**