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Decision on the DPCR5 Stakeholder Engagement Incentive 2014-15 – Electricity Distribution Network Operators

This letter sets out our decision on the Distribution Network Operator (DNO) Stakeholder Engagement Incentive in the 2014-15 regulatory year; this was the last year of the previous price control period, DPCR5.

Under DPCR5, the DNOs were incentivised to become more outward facing and responsive to the needs of their stakeholders. The key aim of the stakeholder engagement incentive is to encourage DNOs to identify and engage stakeholders and use this to inform how they run and plan their business. The incentive is designed to financially reward companies where their engagement leads to high quality outcomes.

The incentive provides an annual reward of up to 0.2% of annual allowed revenues per DNO, under Part D of Charge Restriction Condition 8 of the Electricity Distribution Licence¹. The allocation of this reward is based on an assessment of DNO activities by a panel of independent experts, chaired by Ofgem. This is the third year in which we have assessed DNO stakeholder engagement activities and provided a reward.

The assessment process

Our stakeholder engagement guidance sets out the assessment process for this scheme².

DNOs submit evidence in two parts. The first part is a demonstration that there is a robust engagement strategy in place. This should show how feedback from engagement is incorporated into business plans and decisions. This includes showing an understanding of who their stakeholders are and how best to engage with them. The second part showcases evidence of the outcomes of the engagement process.

The guidance sets out the minimum requirements for each submission. The companies whose submissions meet these requirements are then invited to a question and answer session with the panel.

The panel use a scorecard to assess the quality of the submissions and the presentation. The panel award each DNO a score out of ten based on this assessment. The score is then used to derive the proportion of the overall incentive available to each DNO. The panel

¹ <https://www.ofgem.gov.uk/ofgem-publications/46671/crcs-master-merged.pdf>

² <https://www.ofgem.gov.uk/ofgem-publications/87494/edseincentive-guidancedoc.pdf>

provides group and individual feedback for the DNOs, and we also provide the companies with more specific feedback.

The submissions and the panel session

On 29 May 2015 we received submissions from all six DNOs; all submissions met the minimum requirements.

This year's panel was made up of experts from a range of backgrounds, chosen for their skills and expertise in communications and understanding business relationships. This experience included stakeholder engagement across the public, private and charity sectors. The panel members were:

- Philip Cullum, Partner Consumer and Demand-side Insight, Ofgem (Chair)
- Colin Browne, Consultant, Colin Browne Strategic Communications
- Marieke Dwarshuis, former Director, Consumer Focus Scotland
- Ashleye Gunn, independent consumer policy consultant
- Jessica Lennard, Head of Corporate Affairs, Ovo Energy

The companies were invited to attend the panel session on 8 July 2015.

General panel feedback to the DNOs

The Chair thanked all of the DNOs for their commitment to stakeholder engagement and acknowledged that all submissions demonstrated progress since last year. However, the Chair noted that the panel's expectations have also increased from last year.

The panel made the following key points to all DNOs:

- There had been an industry-wide shift from a tactical approach to a strategic approach, but that some DNOs still had work to do to demonstrate this.
- As with previous years, many DNOs had demonstrated practices and initiatives which could be rolled out to other areas of the business. The panel encouraged all DNOs to increase sharing of learning and best practice across the industry.
- Many DNOs presented examples of innovation and new approaches; the panel was interested in how they add value to the business.
- The DNOs had shown that a decent level of resource is being committed to Stakeholder Engagement, and progress is being made on embedding the work within the business.
- The use of quantitative assessment of stakeholder engagement activities had improved, but the panel were keen to stress that this should not be limited to retrospective assessment of activities, and that the benefits of activities undertaken do not always need to be expressed quantitatively.
- By using examples, the DNOs should be able to show: how they identify issues that are important to stakeholders; what actions they take to address these issues; what the outcomes of these actions are; and how this is influencing the business.
- The DNOs should also be able to show why they are taking their chosen approach, particularly for different geographical areas or parts of the business.
- Some DNOs had demonstrated that they were thinking about issues external to the industry which could be impacting on their stakeholders, reflecting that the industry recognises the role of the DNO is changing.
- Overall, the panel acknowledged that the industry is moving forward, but reiterated the point that those who are seen to stand still will receive a lower score than in the previous year.

Panel scores and Ofgem decision on financial rewards for the DNOs

The panel awarded the following scores out of 10 for each of the DNOs. Using the stakeholder engagement methodology³ we have decided on the financial reward, shown in brackets.

• Western Power Distribution (WPD)	8.75 (£2.63m)
• Northern Powergrid (NPG)	7.65 (£0.92m)
• Scottish Power Energy Networks (SPEN)	6.50 (£0.75m)
• Electricity North West Limited (ENWL)	6.10 (£0.32m)
• UK Power Networks (UKPN)	5.85 (£0.98m)
• Scottish and Southern Energy (SSE)	5.00 (£0.33m)

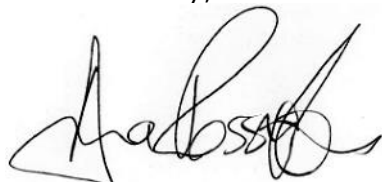
The money awarded to the DNOs under this incentive will form part of the total quality of incentive term in the licence. The effect of this term is to adjust the licensee's total allowed revenue, either upwards or downwards, in order to reflect the performance of the licensee on the relevant quality of service issues. This adjustment will be applied to the 2016-17 revenues.

Next steps

The next round of the Stakeholder Engagement will take place in July 2016, assessing the companies' performance during the 2015-16 reporting year. This will be covered by the stakeholder engagement scheme in the current price control. We will be publishing revised guidance shortly.

If you have any queries about this letter please contact Jack Ambler at Jack.Ambler@ofgem.gov.uk or on 020 7901 3107.

Yours faithfully,



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³ https://www.ofgem.gov.uk/sites/default/files/docs/2014/07/se_reward_decision.pdf