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## **Decision on the RIIO-GD1 Stakeholder Engagement Incentive 2014-15 – Gas Distribution Networks**

This letter sets out our decision on the Gas Distribution Operators (GDN) Stakeholder Engagement Incentive in the 2014-15 regulatory year of the RIIO-GD1 price control period.

Under RIIO-GD1, the GDNs are 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 GDNs 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 0.5% of annual allowed revenues per GDN, under Part E of Special condition 1E. The allocation of this reward is based on an assessment of GDN activities by a panel of independent experts, chaired by Ofgem. This is the second year in which we have assessed GDN stakeholder engagement activities and provided a reward.

### **The assessment process**

Our stakeholder engagement guidance sets out the assessment process for this scheme<sup>1</sup>.

GDNs 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 GDN 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 GDN. The panel provides group and individual feedback for the GDNs, and we also provide the companies with more specific feedback.

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<sup>1</sup> <https://www.ofgem.gov.uk/ofgem-publications/87494/edseincentive-guidancedoc.pdf>

## **The submissions and the panel session**

On 29 May 2015 we received submissions from all four GDNs; 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 9 July 2015.

## **General panel feedback to the GDNs**

The Chair thanked all of the GDNs 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 GDNs:

- The panel noted that there had been an industry-wide shift from a tactical approach to a strategic approach, but that some GDNs still had work to do to demonstrate this.
- The GDNs 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 panel felt that the GDNs need to clearly show how their stakeholder engagement work relates to their day-to-day activities and vice versa. Successful approaches should have a blend of strategic leadership and drive, allied with technical skills focused on delivery.
- The use of quantitative assessment of stakeholder engagement activities had improved but there is still more work to be done on this.
- The panel were keen to stress that quantitative assessment 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 GDNs 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 GDNs should show why they are taking their chosen approach, particularly for different geographical locations or parts of the business.
- Some GDNs 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 GDN is changing.
- The GDNs had given valuable examples of innovation and positive initiatives that are being taken forward, and there were some good examples of collaboration with bodies outside of the energy industry.
- 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 GDNs

The panel awarded the following scores out of 10 for each of the GDNs. Using the stakeholder engagement methodology<sup>2</sup> we have decided on the financial reward, shown in brackets.

- Wales and West Utilities (WWU) 7.05 (£1.25m)
- Scotia Gas Networks (SGN) 6.40 (£2.43m)
- National Grid Gas Distribution (NGGD) 5.90 (£3.42m)
- Northern Gas Networks (NGN) 5.50 (£0.61m)

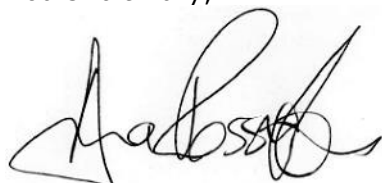
The money awarded to the GDNs under this incentive will form part of the Broad Measure of Customer Satisfaction term in the licence. The effect of this term is to monitor the licensee's performance in relation to customer satisfaction, customer complaints, and the extent to which is effectively engages with its stakeholders. 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 also be covered by the stakeholder engagement scheme in the current price control, RII0-GD1. 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](mailto:Jack.Ambler@ofgem.gov.uk) or on 020 7901 3107.

Yours faithfully,



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<sup>2</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/2014/07/se\\_reward\\_decision.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2014/07/se_reward_decision.pdf)