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Decision on the RIIO-T1 Stakeholder Engagement Incentive 2014-15 – Transmission Operators

This letter sets out our decision on the Transmission Operators (TO) Stakeholder Engagement Incentive in the 2014-15 regulatory year of the RIIO-T1 price control period.

Under RIIO-T1, the TOs 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 TOs 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 TO, under Part A of Special condition 3D¹. The allocation of this reward is based on an assessment of TO activities by a panel of independent experts, which is chaired by Ofgem. This is the second year in which we have assessed TO stakeholder engagement activities and provided a reward.

The assessment process

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

TOs 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 TO 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 TO. The panel

¹ <https://epr.ofgem.gov.uk/Content/Documents/National%20Grid%20Electricity%20Transmission%20Plc%20-%20Special%20Conditions%20-%20Current%20Version.pdf>

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

provides group and individual feedback for the TOs, 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 four TOs; 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 TOs

The Chair thanked all of the TOs 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 TOs:

- The TOs 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.
- More evidence could have been given on how the industry is working together and sharing ideas with each other.
- The panel felt that the TOs need to clearly show how their stakeholder engagement work relates to their day-to-day activities and vice versa.
- The use of quantitative assessments 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 TOs 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 TOs should show why they are taking their chosen approach, particularly for different geographical areas or parts of the business.
- For some companies, the panel felt there had been a tendency to list activities rather than detailing their actual stakeholder engagement.
- The panel is interested in the strategy the companies are taking, how the business is operating, their stakeholder engagement, and how all three are interlinked.
- The panel reminded the companies that they are looking at 14 submissions, and that presentation of the written submissions is an important way of engaging the panel.

- 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 TOs

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

- National Grid Gas Transmission (NGGT) 6.25 (£1.49m)
- Scottish Hydro Electricity Transmission (SHETL) 6.00 (£0.44m)
- National Grid Electricity Transmission (NGET) 6.00 (£3.50m)
- Scottish Power Transmission (SPT) 5.50 (£0.48m)

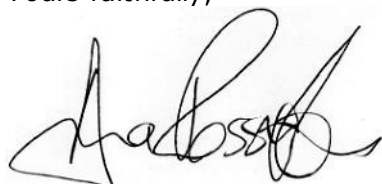
The money awarded to the TOs under this incentive will form the Stakeholder Satisfaction Output term in the licence. The effect of this term is to adjust the amount of the Output Incentive Revenue Adjustment term, to reflect the licensee's performance in relation to its stakeholder engagement. This adjustment 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, RIIO-T1. 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