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Date: 28 October 2016

## **Decision on the RIIO-GD1 Stakeholder Engagement Incentive 2015-16 – Gas Distribution Networks**

This letter sets out our decision on the Gas Distribution Operators (GDN) Stakeholder Engagement Incentive in the 2015-16 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 27 May 2016 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:

- Mark Copley, Associate Partner Wholesale Markets, Ofgem (Chair)
- Marieke Dwarshuis, former Director, Consumer Focus Scotland
- Ashleye Gunn, independent consumer policy consultant
- Claire Whyley, independent consumer behaviour and protection consultant
- Olivia Clymer, non-executive director for Dudley and Walsall Mental Health Trust and Northampton General Hospital

The companies were invited to attend the panel session on 20 July 2016.

## **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:

- There was evidence that the feedback GDNs have received is influencing projects.
- Those GDNs who have got stakeholder engagement into the heart of the business show a clear exposition of what they want to achieve, why they have gone down that route, and whether the approaches worked and why.
- The GDNs had showcased some brilliant ideas and approaches to stakeholder engagement, but in many cases they could be rolled out further.
- There were some good examples of collaboration and sharing of ideas, but there is more scope for sharing beyond peers or those who scored highly in previous years.
- The GDNs were encouraged to go further in what they are sharing in terms of outcomes and how this can influence the business.
- Benefits from approaches should be articulated, financially where appropriate, and how these relate to the costs incurred as part of the project.
- GDNs should ensure they are proactive in their engagement with stakeholders, and not merely giving stakeholders an opportunity to engage with the GDN.
- GDNs should also think about how they can demonstrate that their (future) strategy has changed as a result of stakeholder engagement and feedback.
- 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 in 2015-16 prices.

- National Grid Gas Distribution (NGGD) 6.90 (£5.35m)
- Northern Gas Networks (NGN) 6.80 (£1.18m)
- Wales and West Utilities (WWU) 6.05 (£0.82m)
- Scotia Gas Networks (SGN) 5.75 (£1.76m)

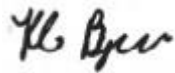
The money awarded to the GDNs under this incentive will form part of the Broad Measure of Customer Satisfaction term in the licence. The effect of this term is to monitor the licensee's performance in relation to customer satisfaction, customer complaints, and the extent to which is effectively engages with its stakeholders. This adjustment will be applied to the 2017-18 revenues.

### Next steps

The next round of the Stakeholder Engagement will take place in July 2017, assessing the companies' performance during the 2016-17 reporting year. This will also be covered by the stakeholder engagement scheme in the current price control, RIIO-GD1. We will be publishing revised guidance shortly.

If you have any queries about this letter please contact Tessa Hall at [Tessa.Hall@ofgem.gov.uk](mailto:Tessa.Hall@ofgem.gov.uk) or on 0141 331 6365.

Yours faithfully,



**Kersti Berge**  
Partner, RIIO Networks

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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)