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## **Decision on the RIIO-T1 and GD1 Stakeholder Engagement Incentive 2016-17 – Transmission and Gas Distribution Networks**

This letter sets out our decision on the gas and electricity Transmission Operators (TO) and Gas Distribution Networks (GDN) Stakeholder Engagement Incentive in the 2016-17 regulatory year of the RIIO-T1 and GD1 price control periods.

Under RIIO-T1 and GD1, the TOs and 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 the network companies to identify and engage with their stakeholders and use this to inform how they run and plan their businesses. The incentive is designed to financially reward companies where their engagement leads to high quality outcomes.

The incentive provides for an annual reward to the TOs and GDNs.<sup>1</sup> The allocation of this reward is based on an assessment of the network company's activities by a panel of independent experts, chaired by Ofgem. This is the fourth year in which we have assessed TO and GDN stakeholder engagement activities and provided a reward.

### **The assessment process**

Our stakeholder engagement guidance sets out the assessment process for this scheme.<sup>2</sup>

TOs and 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.

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<sup>1</sup> This is determined in accordance with Part B of Special Condition 3D of the electricity transmission licence, Part B of Special Condition 2C of the gas transmission licence and Part E of Special Condition 1E of the gas distribution licence. The value of the reward for the gas TO and GDNs is up to 0.5% of their base revenues, and for the electricity TOs is up to 0.5% of the sum of base revenue and the Transmission Investment for Renewable Generation adjustment.

<sup>2</sup> <https://www.ofgem.gov.uk/publications-and-updates/decision-changes-stakeholder-engagement-incentive-guidance-document>

The panel uses a scorecard to assess the quality of the submissions and the responses at the question and answer session. The panel awards each company a score out of ten based on this assessment. The score is then used to derive the proportion of the incentive due to each network company. The panel provides group and individual feedback for the companies, and we also provide them with more specific feedback.

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

On 26 May 2017, we received submissions from all eight TOs and 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, Non-executive Director in the public sector; former Director, Consumer Focus Scotland
- Ashleye Gunn, consumer policy consultant
- Angela Love, energy consultant, Love Energy Consulting
- Colin Browne, strategic communications consultant

The companies were invited to attend the panel session on 25 July 2017.

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

The Chair thanked all of the TOs and GDNs for their commitment to stakeholder engagement and acknowledged that the majority of 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 the TOs and GDNs:

- Stakeholder engagement is becoming increasingly embedded in the businesses and we saw improvement compared to previous years, but there is still a long way to go for some companies.
- The TOs and GDNs displayed some excellent ideas and approaches to stakeholder engagement, but in many cases they could be rolled out further. The panel wanted to see more ambition from companies, not just in terms of new initiatives but also in terms of rolling out initiatives that have been proven to work in previous years.
- The companies should ensure they have considered who their hard-to-reach stakeholders are and aim to provide clear examples of how they have engaged with these groups.
- The DNOs should be clear to focus on productive stakeholder engagement activities which have influenced business strategy and decisions, rather than good day-to-day operational customer service.
- The TOs and GDNs should ensure they articulate the outcomes of stakeholder engagement activities as well as the outputs.
- As in previous years, more could be done to express the benefits of stakeholder engagement activities. These do not always have to be financial or quantitative, but should be highlighted wherever possible and the companies should explain how the benefits relate to the costs incurred as part of the project.
- The panel also thinks it would be beneficial for the companies to explain more clearly how they have progressed since the previous year. This could include more information on how activities they have previously presented have been developed or rolled out.

## Panel scores and Ofgem decision on financial rewards for the TOs and GDNs

The panel awarded the following scores out of 10 for each of the TOs and GDNs. Using the stakeholder engagement methodology<sup>3</sup>, the financial reward for each company is (shown in brackets in 2016-17 prices):

• Cadent	6.90 (£5.18m)
• Northern Gas Networks (NGN)	7.25 (£1.32m)
• Wales and West Utilities (WWU)	6.00 (£0.80m)
• SGN	7.00 (£3.16m)
• Scottish Power Transmission (SPT)	6.25 (£0.68m)
• National Grid Electricity Transmission (NGET)	7.00 (£5.05m)
• National Grid Gas Transmission (NGGT)	6.50 (£1.80m)
• Scottish Hydro Electric Transmission plc (SHET)	5.40 (£0.48m)

For the GDNs, the money awarded under this incentive will form part of the Broad Measure of Customer Satisfaction term in the gas distribution licence; for the TOs, it will form part of the Stakeholder Satisfaction Output term in the gas and electricity transmission licences. The purpose of these terms is to reflect the licensee's performance in relation to customer satisfaction, and the extent to which it effectively engages with its stakeholders. In addition, the Broad Measure of Customer Satisfaction term also reflects the licensee's performance in addressing customer complaints. This adjustment will be applied to the 2018-19 revenues.

### Next steps

The next Stakeholder Engagement Incentive assessment is expected to take place in July 2018, which will assess the companies' performances during the 2017-18 reporting year.

If you have any queries about this letter please contact Rebecca Pickett at [Rebecca.Pickett@ofgem.gov.uk](mailto:Rebecca.Pickett@ofgem.gov.uk) or on 0203 263 9654.

Yours faithfully,



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<sup>3</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)