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Decision on the RIIO-ED1 Stakeholder Engagement and Consumer Vulnerability Incentive 2017-18 – Electricity Distribution Network Operators

This letter sets out our decision on the Distribution Network Operator (DNO) Stakeholder Engagement Incentive in the 2017-18 regulatory year. This is the third year of the RIIO-ED1 price control period.

Under the previous price control period (DPCR5) the DNOs were incentivised to become more outward facing and responsive to the needs of their stakeholders. The incentive has continued in RIIO-ED1, and has been updated to drive DNOs to address consumer vulnerability issues. The key aim of the Stakeholder Engagement and Consumer Vulnerability Incentive is to encourage DNOs to engage proactively with stakeholders in order to anticipate their needs and deliver a consumer focused, socially responsible and sustainable energy service. The incentive is designed to financially reward high quality activities undertaken by the DNOs and outcomes these activities deliver.

The incentive provides for an annual reward for each DNO.¹ The allocation of this reward is based on an assessment of the DNO's stakeholder engagement activities by a panel of independent experts, chaired by Ofgem.

The assessment process

Our Stakeholder Engagement and Consumer Vulnerability Guidance ("The Guidance") sets out the assessment process for this scheme.²

DNOs submit evidence in three parts. The first part demonstrates 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 third part evidences the work they are doing to address consumer vulnerability issues.

¹ This is determined under Part G of Special Condition CRC 2C (Broad Measure of Customer Service Adjustment) of the Electricity Distribution Licence. The value of the award can be no more than the value set out in Appendix 1 Table 16 to CRC 2C. The licence can be found here:

https://www.ofgem.gov.uk/sites/default/files/docs/2014/05/schedule_2a_wpd_crc_0.pdf and
https://www.ofgem.gov.uk/sites/default/files/docs/2015/02/crc_slow_track_master_0.pdf

² https://www.ofgem.gov.uk/system/files/docs/2016/04/electricity_distribution_secv_guidance_document.pdf

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

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 DNO a score out of ten based on this assessment. The score is then used to derive the proportion of the incentive due to each DNO. The panel 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 27 April 2018, we received submissions from all 14 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, understanding business relationships, stakeholder engagement, and consumer vulnerability issues. This experience included stakeholder engagement across the public, private and charity sectors. The panel members were:

- Mark Copley, Deputy Director, Systems and Networks, Ofgem (Chair)
- Ashleye Gunn, consumer policy consultant
- Angela Love, energy consultant, Love Energy Consulting
- Colin Browne, strategic communications consultant
- Stephen Workman, regulated markets and corporate social responsibility expert

The companies were invited to attend the panel session on 3 July 2018.

General panel feedback to the DNOs

The Chair acknowledged that the majority of DNOs' submissions demonstrated progress since last year. However, the Chair noted that the panel's expectations continue to increase every year.

The panel made the following key points to the DNOs:

- Stakeholder engagement continues to be increasingly embedded in the businesses, with the majority of companies demonstrating that a commitment to stakeholder engagement runs through all levels of the organisation.
- The culture of DNOs working collaboratively continued this year, with more examples of companies sharing information and best practice with each other. In addition, the panel noted that there were examples of a number of companies looking beyond their own sector and beyond other utilities for initiatives and other innovative ways to engage with their stakeholders.
- The DNOs demonstrated a number of initiatives which reflected innovative thinking, however the panel noted that in a number of cases initiatives appeared to be pilots or in early stages of development. While the panel expect to see activities in various stages of development, maturity is also key. The panel think it would be useful for companies to explain more clearly how projects have developed from one year to the next, as well as to articulate which projects have been embedded in the businesses.
- At this stage of the incentive, the panel also expect DNOs to be able to demonstrate how stakeholder views have influenced decision-making. High scoring DNOs were able not only to articulate how initiatives have changed as a result of stakeholder feedback, but could also identify projects that have been abandoned because they aren't delivering for stakeholders. The panel felt that there is room for improvement for some companies in this area.
- The panel felt that some companies' stakeholder engagement and advisory panels are not being used as effectively as they could be. The panel wanted to see more

evidence that these panels are being used to hear views and invite challenge of companies' strategies, rather than just validating existing plans.

- The panel felt that while some DNOs have progressed on last year with regards to addressing consumer vulnerability issues, some companies could still be doing more in this area. In particular, the panel noted there were a number of initiatives which were small in scale and reach. Given the size of these companies and the number of customers they serve, the panel expected the impact of consumer vulnerability initiatives to be greater in a number of cases. In addition, the panel expected DNOs to better articulate the outcomes resulting from activities to address vulnerability, not just the outputs.
- The panel felt that demonstrating costs, benefits and value for money remain poor. While this does not always have to be financial or quantitative, it should be highlighted wherever possible and the companies should explain how the benefits relate to the costs incurred as part of the project.

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 (rounded to 2 decimal places). Using the stakeholder engagement methodology³, the financial reward for each DNO group is (shown in brackets in 2017-18 prices):

• Western Power Distribution (WPD)	8.75 (£6.72m)
• UK Power Networks (UKPN)	7.25 (£3.94m)
• Electricity North West Limited (ENWL)	5.75 (£0.63m)
• SP Energy Networks (SPEN)	6.35 (£1.74m)
• Northern Powergrid (NPG)	7.50 (£2.12m)
• Scottish and Southern Electricity Networks (SSEN)	5.50 (£1.04m)

The money awarded to the DNOs under this incentive will form part of the Broad Measure of Customer Service Adjustment term in the licence. The purpose of this term is to reflect 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 2019-20 revenues.

Next steps

The next Stakeholder Engagement and Consumer Vulnerability Incentive assessment is expected to take place in July 2019, which will assess the companies' performances during the 2018-19 reporting year.

If you have any queries about this letter please contact Victoria Low at Victoria.Low@ofgem.gov.uk or on 0203 263 2773.

Yours faithfully,



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