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Decision on the RIIO-ED1 Stakeholder Engagement and Consumer Vulnerability Incentive 2018-19 – Electricity Distribution Network Operators

This letter sets out our decision on the Distribution Network Operator (DNO) Stakeholder Engagement Incentive in the 2018-19 regulatory year. This is the fourth 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.

¹ This is determined under Part G of Charge Restriction Condition 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

The assessment process

Chapter 4 of the Stakeholder Engagement and Consumer Vulnerability Guidance (“The Guidance”) outlines the assessment process for the Stakeholder Engagement and Consumer Vulnerability Incentive.²

DNOs put forward a Submission in relation to engagement activities carried out during the Regulatory Year in question, which includes three parts:

1. The first part is aimed at demonstrating that the network company meets the minimum requirements. These requirements include a comprehensive and up-to-date stakeholder engagement and consumer vulnerability strategy.
2. The second part is aimed at demonstrating company performance against the panel assessment criteria.
3. The third part is aimed at demonstrating network company performance against the panel assessment criteria, in particular against the criteria addressing consumer vulnerability.

Companies whose submissions meet the minimum requirements are then invited to a panel session.

The panel assess the companies against the panel assessment criteria, and score the network companies out of 10. The score out of ten for each criterion is then weighted to calculate the Overall Panel Score, which determines the allocation of any financial reward under the incentive mechanism. The panel provides both general and detailed feedback to the DNOs.

The submissions and the panel session

On 26 April 2019, 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

² https://www.ofgem.gov.uk/system/files/docs/2018/12/secv_incentive_guidance.pdf

engagement, and consumer vulnerability issues. This experience included stakeholder engagement across the public, private and charity sectors. The panel members were:

- Anna Rossington, Deputy Director, Consumers and Markets, Ofgem (Chair)
- Ashleyle Gunn, consumer policy consultant
- Angela Love, energy consultant
- Colin Browne, strategic communications consultant
- Stephen Workman, regulated markets and corporate social responsibility expert

The companies were invited to attend the panel sessions on 3 and 4 July 2019.

Panel Feedback

Following the panel sessions, companies were provided with feedback. The Panel Report, published alongside this decision, covers both the Stakeholder Engagement and Consumer Vulnerability Incentive and the performance of the gas distribution companies (GDNs) and transmission companies (TOs) under the 2018-19 Stakeholder Engagement Incentive.

Panel scores and Ofgem decision on financial rewards for the DNOs

The panel awarded the following Overall Panel 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 2018-19 prices):

- | | |
|-----------------------------------------------------|---------------|
| • Western Power Distribution (WPD) | 8.35 (£6.35m) |
| • UK Power Networks (UKPN) | 7.95 (£4.94m) |
| • Electricity North West Limited (ENWL) | 4.54 (£0.20m) |
| • SP Energy Networks (SPEN) | 6.71 (£2.07m) |
| • Northern Powergrid (NPG) | 7.01 (£1.88m) |
| • Scottish and Southern Electricity Networks (SSEN) | 3.95 (£0.00m) |

³ See Chapter 6 of the Guidance.

The financial reward 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 it 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 2020, which will assess the companies' performances during the 2019-20 reporting year.

If you have any queries about this letter please contact Laura Hutton at Laura.Hutton@ofgem.gov.uk or on 0203 263 9769.

Yours faithfully,



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