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## **Decision on the RIIO-T1 and GD1 Stakeholder Engagement Incentive 2018-19 – Transmission and Gas Distribution Network companies**

This letter sets out our decision on the gas and electricity Transmission Operators (TO) and Gas Distribution Networks (GDN) Stakeholder Engagement Incentive in the 2018-19 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.

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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.

## **The assessment process**

Chapter 4 of the Stakeholder Engagement Guidance (“The Guidance”) outlines the assessment process for the Stakeholder Engagement Incentive.<sup>2</sup>

The TOs and GDNs put forward a Submission in relation to the engagement activities carried out during the regulatory year in question, in two 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 strategy.
2. The second part is aimed at demonstrating network company performance against the panel assessment criteria.

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 companies.

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

On 31 May 2019 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:

- Anna Rossington, Deputy Director, Consumers and Markets, Ofgem (Chair)
- Ashleye Gunn, consumer policy consultant

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<sup>2</sup> [https://www.ofgem.gov.uk/system/files/docs/2018/12/sei\\_guidance.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/12/sei_guidance.pdf)

- 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 2 and 3 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 Incentive and the performance of the electricity distribution companies (DNOs) under the 2018-19 Stakeholder Engagement and Consumer Vulnerability Incentive.

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

The panel awarded the following overall panel 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 2018-19 prices):

• Cadent	6.33 (£4.33m)
• Northern Gas Networks (NGN)	5.96 (£0.81m)
• Wales and West Utilities (WWU)	5.43 (£0.62m)
• SGN	6.76 (£3.00m)
• Scottish Power Transmission (SPT)	4.94 (£0.34m)
• National Grid Electricity Transmission (NGET)	5.54 (£2.57m)
• National Grid Gas Transmission (NGGT)	4.85 (£0.59m)
• Scottish Hydro Electric Transmission plc (SHET)	4.06 (£0.02m)

For the GDNs, the financial reward 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

<sup>3</sup> [See Chapter 6 of the Guidance.](#)

performance in addressing customer complaints. This adjustment will be applied to the 2020-21 revenues.

### **Next steps**

The next Stakeholder Engagement 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](mailto:Laura.Hutton@ofgem.gov.uk) or on 0203 263 9769.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Steven McMahon', written in a cursive style.

**Steven McMahon**

**Deputy Director, Electricity Distribution and Cross Sector Policy  
Systems and Networks**