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## **Decision on the RIIO-T1 and GD1 Stakeholder Engagement Incentive 2019-20**

This letter sets out our decision on the gas and electricity Transmission Operators (TO) and Gas Distribution Networks (GDN) Stakeholder Engagement Incentive (SEI) in respect of the 2019-20 regulatory year.

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 SEI 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 (the Panel).

### **The assessment process**

The standard assessment process for the incentive is set out in the SEI Guidance (the Guidance)<sup>2</sup>. This year we modified the process in response to the challenges presented by the COVID-19 pandemic. The changes to the process are set out in the 2019-20 Stakeholder

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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> See Chapter 4 of the Guidance: [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)

Engagement (and Consumer Vulnerability) Incentives Panel Report (Panel Report), which was published on our website on 30 September 2020<sup>3</sup>.

## **Minimum requirements checks and Panel assessment**

In June 2020, we received submissions from all 8 TOs and GDNs. We assessed each submission against the minimum requirements set out in the Guidance. All submissions met these requirements.

This year's Panel <sup>4</sup> was made up of experts from a range of backgrounds, chosen for their skills and expertise in corporate governance, 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:

- Tom Corcut, Deputy Director of Wholesale Markets and Commercial, Ofgem (Chair)
- Ashleyle Gunn, consumer policy consultant
- Angela Love, energy consultant
- Stephen Workman, regulated markets and corporate social responsibility expert
- Marieke Dwarshuish, corporate governance, regulations and legal services expert

On 22 and 23 July 2020, the Panel discussed their assessments of the quality of the TOs' and GDNs' stakeholder engagement and agreed overall scores<sup>5</sup>.

## **Panel feedback**

Following the Panel assessment, the TOs and GDNs were provided with feedback and scores, which were subsequently included in the Panel Report. This report covers both the SEI and the performance of the electricity distribution companies (DNOs) under the 2019-20 Stakeholder Engagement and Consumer Vulnerability (SECV) Incentive.

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<sup>3</sup> See page 5 of the 2019-20 Stakeholder Engagement (and Consumer Vulnerability) Incentives Panel Report for details on this year's modified assessment process: <https://www.ofgem.gov.uk/publications-and-updates/panel-report-stakeholder-engagement-and-consumer-vulnerability-incentive-2019-20>

<sup>4</sup> Details of the 2019-20 Panel can be found here: <https://authors.ofgem.gov.uk/publications-and-updates/stakeholder-engagement-panel-2019-20>

<sup>5</sup> See page 14 of the Panel Report, which sets out the results

## 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. Applying the stakeholder engagement methodology<sup>6</sup>, the financial reward for each company is (shown in 2019-20 prices):

• Cadent	6.93 (£5.51m)
• Northern Gas Networks (NGN)	6.96 (£1.26m)
• Wales and West Utilities (WWU)	5.55 (£0.69m)
• SGN	6.23 (£2.41m)
• Scottish Power Transmission (SPT)	5.94 (£0.74m)
• National Grid Electricity Transmission (NGET)	5.91 (£3.14m)
• National Grid Gas Transmission (NGGT)	3.11 (£0m)
• Scottish Hydro Electric Transmission plc (SHET)	6.55 (£0.90m)

For the GDNs, the financial reward under this incentive forms 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 2021-22 revenues.

### Next steps

The next SEI assessment is expected to take place in July 2021, which will assess the TOs' and GDNs' performances during the 2020-21 reporting year.

If you have any queries about this letter please contact Nayar Hussain at [Nayar.Hussain@ofgem.gov.uk](mailto:Nayar.Hussain@ofgem.gov.uk) or on 0203 263 9735.

Yours faithfully,



**Steven McMahon**

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

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<sup>6</sup> See Chapter 6 of the Guidance.