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## **Decision on the RIIO-ED1 Stakeholder Engagement Incentive 2015-16 – Electricity Distribution Network Operators**

This letter sets out our decision on the Distribution Network Operator (DNO) Stakeholder Engagement Incentive in the 2015-16 regulatory year; this was the first 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 incentive is to encourage DNOs to identify and engage with all their stakeholders, and use this to inform how they run and plan their business. The incentive is designed to financially reward companies where their engagement leads to high quality outcomes.

The incentive provides an annual reward of up to 0.5% of annual allowed revenues per DNO, under Part G of Charge Restriction Condition 2C (Broad Measure of Customer Service Adjustment) of the Electricity Distribution Licence<sup>1</sup>. The allocation of this reward is based on an assessment of DNO activities by a panel of independent experts, chaired by Ofgem. This is the fourth year in which we have assessed DNO stakeholder engagement activities and provided a reward.

### **The assessment process**

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

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.

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<sup>1</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/2014/05/schedule\\_2a\\_wpd\\_crc\\_0.pdf](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](https://www.ofgem.gov.uk/sites/default/files/docs/2015/02/crc_slow_track_master_0.pdf)

<sup>2</sup> [https://www.ofgem.gov.uk/system/files/docs/2016/04/electricity\\_distribution\\_secv\\_guidance\\_document.pdf](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 use a scorecard to assess the quality of the submissions and the presentation. The panel award each DNO a score out of ten based on this assessment. The score is then used to derive the proportion of the overall incentive available 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 29 April 2016 we received submissions from all six 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, Associate Partner Wholesale Markets, Ofgem (Chair)
- Marieke Dwarshuis, former Director, Consumer Focus Scotland
- Ashleye Gunn, independent consumer policy consultant
- Claire Whyley, independent consumer behaviour and protection consultant
- Olivia Clymer, non-executive director for Dudley and Walsall Mental Health Trust and Northampton General Hospital

The companies were invited to attend the panel session on 21 July 2016.

### **General panel feedback to the DNOs**

The Chair thanked all of the DNOs 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 all DNOs:

- As was noted last year, there has been a general shift from tactical to strategic approaches to engagement, and stakeholder engagement is becoming more embedded, but there is still a long way to go for some DNOs.
- DNOs have started to get stakeholders involved in the processes and they are much more involved in thinking about future challenges.
- Some DNOs demonstrated what they had done and why, how initiatives had been scaled up, and what they had learned from this, in particular how their future strategy had been influenced.
- All DNOs need to find a balance between demonstrating board involvement and allowing those on the ground to demonstrate their work to the panel.
- The energy system is changing rapidly, and customers need to be at the heart of this. DNOs need to be able to show how stakeholder engagement is changing the way they are thinking about future challenges, and how they are applying learning and new approaches from unexpected outcomes.
- A range of efforts were demonstrated as to how DNOs are making the Priority Services Register comprehensive and high quality. Some DNOs could be doing more in this area, and there are plenty of opportunities to learn from others.

- As in previous years, more could be done to express the benefits of stakeholder engagement activities. This does not always have to be financial or quantitative, but should be highlighted wherever possible.
- Those DNOs who work across different geographical areas need to be able to show how they are taking into account different activities and stakeholder needs, and how they are applying a strategy to all areas.
- The panel found it reassuring that all companies are aware that they have a long way to go. The key challenge to everyone is to make sure they can go further and realise the benefits from this.
- Overall, the panel acknowledged that the industry is moving forward, but reiterated the point that those who are seen to stand still will receive a lower score than in the previous year.

### **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. Using the stakeholder engagement methodology<sup>3</sup> we have decided on the financial reward, shown in brackets in 2015-16 prices.

• Western Power Distribution (WPD)	8.75 (£6.35m)
• UK Power Networks (UKPN)	7.53 (£4.04m)
• Electricity North West Limited (ENWL)	6.90 (£0.98m)
• Scottish Power Energy Networks (SPEN)	6.78 (£1.94m)
• Northern Powergrid (NPG)	6.50 (£1.43m)
• Scottish and Southern Energy (SSE)	5.73 (£1.13m)

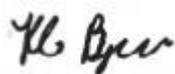
The money awarded to the DNOs under this incentive will form part of the total quality of incentive term in the licence. The effect of this term is to adjust the licensee's total allowed revenue, either upwards or downwards, in order to reflect the performance of the licensee on the relevant quality of service issues. This adjustment will be applied to the 2017-18 revenues.

### **Next steps**

The next round of the Stakeholder Engagement will take place in July 2017, assessing the companies' performance during the 2016-17 reporting year. This will be covered by the stakeholder engagement scheme in the current price control.

If you have any queries about this letter please contact Tessa Hall at [Tessa.Hall@Ofgem.gov.uk](mailto:Tessa.Hall@Ofgem.gov.uk) or on 0141 331 6365.

Yours faithfully,



**Kersti Berge**  
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**RIIO Networks**

<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)