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## **Decision on the RIIO-ED1 Stakeholder Engagement and Consumer Vulnerability Incentive 2016-17 – Electricity Distribution Network Operators**

This letter sets out our decision on the Distribution Network Operator (DNO) Stakeholder Engagement Incentive in the 2016-17 regulatory year. This is the second 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 sStakeholder 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.<sup>1</sup> 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. This is the fifth 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> This is determined under Part G of Charge Restriction 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 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](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 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 28 April 2017, 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, Associate Partner Wholesale Markets, Ofgem (Chair)
- Marieke Dwarshuis, Non-executive Director in the public sector; former Director, Consumer Focus Scotland
- Ashleyle Gunn, consumer policy consultant
- Angela Love, energy consultant, Love Energy Consulting
- Colin Browne, strategic communications consultant

The companies were invited to attend the panel session on 26 July 2017.

### **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 the DNOs:

- Stakeholder engagement is becoming increasingly embedded in the businesses, but there is still a long way to go for some companies.
- The culture of DNOs working collaboratively is becoming more established and has improved year-on-year.
- The DNOs displayed some excellent ideas and approaches to stakeholder engagement, but in many cases they could be rolled out further. The panel wanted to see more ambition from companies, not just in terms of new initiatives but also in terms of rolling out initiatives that have been proved to work in previous years.
- The panel felt that the DNOs had a good understanding of how varied vulnerability can be, but some DNOs could be doing more in this area. For example, some companies only presented consumer vulnerability activities related to the Priority Services Register<sup>3</sup> but we would expect a wider scope of outcomes to be delivered.
- The DNOs should ensure they have considered who their hard-to-reach stakeholders are and aim to provide clear examples of how they have engaged with these groups.
- As in previous years, more could be done to express the benefits of stakeholder engagement activities. These do not always have to be financial or quantitative, but should be highlighted wherever possible and the companies should explain how the benefits relate to the costs incurred as part of the project.

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<sup>3</sup> The Priority Services Register (PSR) is a free service provided by suppliers and network operators to customers in need. More information on the PSR can be found here: <https://www.ofgem.gov.uk/consumers/household-gas-and-electricity-guide/extra-help-energy-services/priority-services-register-people-need>

- The DNOs should ensure they articulate the outcomes of stakeholder engagement and consumer vulnerability activities as well as the outputs.
- The DNOs should be clear to focus on productive stakeholder engagement activities which have influenced business strategy and decisions, rather than good day-to-day operational customer service.
- At this stage in the initiative, the panel expects to see activities in various stages of the development and implementation lifecycle. The panel thinks it would be beneficial for the companies to explain more clearly how they have progressed since the previous year. This could include more information on how activities they have previously presented have been developed or rolled out.

### **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 methodology<sup>4</sup>, the financial reward for each DNO group is (shown in brackets in 2016-17 prices):

• Western Power Distribution (WPD)	8.53 (£6.17m)
• UK Power Networks (UKPN)	7.53 (£4.12m)
• Electricity North West Limited (ENWL)	6.38 (£0.82m)
• SP Energy Networks (SPEN)	6.28 (£1.63m)
• Northern Powergrid (NPG)	6.50 (£1.46m)
• Scottish and Southern Electricity Networks (SSEN)	5.23 (£0.82m)

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 2018-19 revenues.

### **Next steps**

The next Stakeholder Engagement and Consumer Vulnerability Incentive assessment is expected to take place in July 2018, which will assess the companies' performances during the 2017-18 reporting year.

If you have any queries about this letter please contact Rebecca Pickett at [Rebecca.Pickett@Ofgem.gov.uk](mailto:Rebecca.Pickett@Ofgem.gov.uk) or on 0203 263 9654.

Yours faithfully,



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<sup>4</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)