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Direct Dial: 0141 354 5416
Email: Steven.McMahon@ofgem.gov.uk

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Decision on the RIIO-T1 and GD1 Stakeholder Engagement Incentive 2017-18 – 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 2017-18 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.¹ 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 assessment process

Our Stakeholder Engagement Guidance ("The Guidance") sets out the assessment process for this scheme.²

The TOs and GDNs submit evidence in two parts. The first part is a demonstration 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 Guidance sets out the minimum requirements for each submission. The companies whose submissions meet these requirements are then invited to a question and answer session with the panel.

¹ 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.

² <https://www.ofgem.gov.uk/publications-and-updates/decision-changes-stakeholder-engagement-incentive-guidance-document>

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 company a score out of ten based on this assessment. The score is then used to derive the proportion of the incentive due to each network company. The panel provides group and individual feedback for the companies, and we also provide them with more specific feedback.

The submissions and the panel session

On 25 May 2018, 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:

- Mark Copley, Associate Partner Wholesale Markets, Ofgem (Chair)
- Ashleye Gunn, consumer policy consultant
- Angela Love, energy consultant, Love Energy Consulting
- Colin Browne, strategic communications consultant
- Stephen Workman, regulated markets and corporate social responsibility expert

The companies were invited to attend the panel session on 4 July 2018.

General panel feedback to the TOs and GDNs

The Chair acknowledged that some submissions demonstrated progress since last year. However, the Chair noted that the panel's expectations continue to increase every year.

The panel made the following key points to the TOs and GDNs:

- Stakeholder engagement continues to be increasingly embedded in the businesses, with a number of companies demonstrating that a commitment to stakeholder engagement runs through all levels of the organisation.
- The culture of network companies working collaboratively continued this year, with more examples of companies sharing information and best practice with each other. In addition, the panel noted that there were examples of a number of companies looking beyond their own sector and beyond other utilities for initiatives and other innovative ways to engage with their stakeholders.
- The GDNs and TOs demonstrated a number of initiatives which reflected innovative thinking, however the panel noted that in a number of cases initiatives appeared to be pilots or in early stages of development. While the panel expect to see activities in various stages of development, maturity is also key. The panel think it would be useful for companies to explain more clearly how projects have developed from one year to the next, as well as to articulate which projects have been embedded in the businesses.
- At this stage of the incentive, the panel also expect GDNs and TOs to be able to demonstrate how stakeholder views have influenced decision-making. High scoring companies were able not only to articulate how initiatives have changed as a result of stakeholder feedback, but could also identify projects that have been abandoned because they aren't delivering for stakeholders. The panel felt that there is room for improvement for some companies in this area.
- The panel felt that some companies' stakeholder engagement and advisory panels are not being used as effectively as they could be. The panel wanted to see more evidence that these panels are being used to hear views and invite challenge of companies' strategies, rather than just validating existing plans.
- While some companies were more outcomes-focused this year, rather than just thinking about outputs, there is still room for further improvement in this respect.

- There was a lack of partnership approaches from some companies and there still seems to be a lack of understanding around who is considered 'hard-to-reach'. GDNs and TOs 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.
- The panel felt that demonstrating costs, benefits and value for money remain poor. While this does not always have to be financial or quantitative, it should be highlighted wherever possible and the companies should explain how the benefits relate to the costs incurred as part of the project.

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

The panel awarded the following scores out of 10 for each of the TOs and GDNs. Using the stakeholder engagement methodology³, the financial reward for each company is (shown in brackets in 2017-18 prices):

• Cadent	6.00 (£3.54m)
• Northern Gas Networks (NGN)	6.15 (£0.85m)
• Wales and West Utilities (WWU)	5.00 (£0.41m)
• SGN	6.25 (£2.34m)
• Scottish Power Transmission (SPT)	6.40 (£0.78m)
• National Grid Electricity Transmission (NGET)	5.10 (£1.78m)
• National Grid Gas Transmission (NGGT)	4.25 (£0.21m)
• Scottish Hydro Electric Transmission plc (SHET)	3.25 (£0.00m)

For the GDNs, the money awarded 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 performance in addressing customer complaints. This adjustment will be applied to the 2019-20 revenues.

Next steps

The next Stakeholder Engagement Incentive assessment is expected to take place in July 2019, which will assess the companies' performances during the 2018-19 reporting year.

If you have any queries about this letter please contact Victoria Low at Victoria.Low@ofgem.gov.uk or on 0203 263 2773.

Yours faithfully,



Steven McMahon
Deputy Director, Electricity Distribution and Cross Sector Policy
Systems and Networks

³ https://www.ofgem.gov.uk/sites/default/files/docs/2014/07/se_reward_decision.pdf