

# Guidance

## Stakeholder Engagement Incentive Guidance

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### Overview:

To ensure the ongoing delivery of an efficient network that embraces wider social and environmental objectives, network companies need to engage with a range of stakeholders. Key stakeholders will include parties that are affected by, or represent those affected by, decisions made by the network companies.

The Stakeholder Engagement Incentive (SEI) encourages network companies to engage proactively with stakeholders in order to anticipate their needs and deliver a consumer focused, socially responsible and sustainable energy service. The SEI Guidance outlines the scope of the incentive, the application process, the assessment process and the reporting requirements.

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## 1. Introduction

### Chapter summary

This chapter outlines the purpose of the incentive, the purpose of this document and the status of this document from a compliance perspective.

1.1. The aim of the SEI is to encourage network companies to engage proactively with stakeholders in order to anticipate their needs and deliver a consumer focused, socially responsible and sustainable energy service.

1.2. Proactive stakeholder engagement is necessary for efficient business practice. The stakeholder engagement element of the Broad Measure of Customer Satisfaction<sup>1</sup> incentivises network companies to perform beyond 'business as usual' standards and to seek timely input and feedback from stakeholders on relevant issues, business activities and other developments. We expect that each network company will use this feedback to inform their current business operations and planning for future decision making.

## Purpose of this Guidance

1.3. This document sets out the regulation, governance and administration of the SEI. This document is issued by the Authority<sup>2</sup> under:

1.3.1. Part E of Special Condition 1E of the gas transporter licence for gas distribution.  
This document may be revised and reissued in accordance with Part E of Special Condition 1E.

1.3.2. Part C of Special Condition 2C of the gas transporter licence for gas transmission. This document may be revised and reissued in accordance with Part C of the Special Condition 2C.

1.3.3. Part C of Special Condition 3D of the electricity transmission licence. This document may be revised and reissued in accordance with Part C of the Special Condition 3D.

1.4. This Guidance Document is only relevant to the gas distribution, gas transmission and electricity transmission licensees. There is a separate guidance document for the electricity distribution Stakeholder Engagement and Consumer Vulnerability (SECV) incentive.

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<sup>1</sup> While the RIIO-T1 output in this area does not encompass the broad measure in full, it is based on the principles as relevant to transmission and the point made is relevant for all network companies.

<sup>2</sup> The terms "Authority", "Ofgem", "we" and "us" are used interchangeably in this document. The Authority refers to the Gas and Electricity Markets Authority. Ofgem is the Office of the Gas and Electricity Markets.

1.5. To be considered eligible for a reward, a network company must demonstrate that it meets the criteria set out in the SEI Guidance. We have attempted to make this document accessible and informative to a range of stakeholders, especially those that are interested in understanding how we incentivise and drive network companies to engage with stakeholders.

1.6. For the avoidance of doubt, this document is subordinate to the Licence. This document does not change any definition or obligations contained within the Licence and if, in the event of any dispute, the Licence will take precedence.

## 2. Scope of the scheme

### **Chapter summary**

This section outlines the scope of the SEI.

- 2.1. Stakeholders are individuals or organisations that can be impacted by the activities of the network company. They may have a direct or indirect interest in a network company's business, and their contact with the network company may be anything from daily interaction to occasional contact.
- 2.2. Stakeholders can include customers, investors, regulatory authorities, local government agencies, non-Governmental Organisations (NGOs) and any other interested organisations. We expect network companies to pay particular attention to stakeholders that represent the interests of vulnerable customers.
- 2.3. Through the SEI, we aim to reward high quality activities undertaken by the network companies and the outcomes these activities deliver. These activities and outcomes must go beyond the network companies' Business As Usual activities.
- 2.4. We expect network companies to build on and highlight progress they have made, and are making, on their activities from previous years. Activities in subsequent years will require justification in order to be rewarded.

### 3. Application Process

#### Chapter summary

This chapter outlines what needs to be included in the network company's application.

- 3.1. We are inviting each network company to put forward a Submission in relation to engagement activities carried out during the Regulatory Year in question. We expect each network company's Submission to include two parts:

#### Part 1

- Aimed at demonstrating that the network company meets the Minimum Requirements.

#### Part 2

- Aimed at demonstrating network company performance against the Panel Assessment Criteria.

- 3.2. Network companies will have some flexibility as to how they gather and present relevant evidence to meet the requirements of each stage. In assessing the quality of the network company's activities and the effectiveness of their outcomes, we will need to be satisfied that the evidence presented is robust and verifiable.

#### Part 1 Submission

- 3.3. The Part 1 Submission is aimed at demonstrating that the network company has an engagement strategy in place that satisfies the **Minimum Requirements** stated in paragraph 4.2 of this document. Each network company is encouraged to consider the following means of gathering evidence to support Part 1 of their Submissions:

- Independent evaluation / audit – to assess the network company's approach to stakeholder engagement covering: process of engagement, quality of engagement, senior management buy-in, impact on culture, organisational activities and senior decision-making, cost effectiveness, likely outcomes for customers / communities etc;
- Relevant accreditation schemes;
- Results and feedback from stakeholder engagement surveys;
- Evidence of culture change, senior management buy-in, e.g. as reflected in key strategic documents and decision-making arrangements within the company.

#### Part 2 Submission

- 3.4. The Part 2 Submission is aimed at demonstrating performance against the **Panel Assessment Criteria** stated in paragraph 4.9 of this document.

3.5. In Part 2 of their Submission, each network company should submit a summary of the activities and outcomes resulting from its stakeholder engagement activities carried out during the Regulatory Year in question. We recommend that this part of the Submission includes evidence of the following:

- the nature of the stakeholder engagement activities undertaken which led to the showcased outcomes/action plans;
- how these outcomes fit with the organisation's stakeholder engagement strategy;
- any impact the outcomes have had on policies, procedures, business plans and/or organisational culture;
- any impact the outcomes have had on stakeholder groups;
- any mechanisms by which the outcomes are monitored and reported within the organisation;
- any outcomes/action plans which are considered best in class and/or portray an innovative approach.

## 4. Assessment Process

### Chapter summary

This chapter outlines the assessment process of the SEI.

4.1. Our assessment process will involve the following steps –

- Internal assessment against the Minimum Requirements
- Panel assessment against the Panel Assessment Criteria

### Internal Assessment against the Minimum Requirements

4.2. The SEI is designed to only reward network companies for high quality activities or outcomes that go beyond Business As Usual. Network companies must therefore have basic processes in place to meet the following **Minimum Requirements** to be eligible for a reward:

- The network company has a comprehensive and up to date stakeholder engagement strategy, which sets out –
  - how the network company keeps stakeholders informed about relevant issues, business activities, decision-making and other developments, and
  - how the network company enables timely input and feedback from stakeholders via appropriate mechanisms to inform decision-making.
- A broad and inclusive range of stakeholders have been engaged.
- The network company has used a variety of appropriate mechanisms to inform and engage their stakeholders, which:
  - have been tailored to meet the needs of various stakeholder groups, and
  - are fit-for-purpose in allowing a detailed analysis of a breadth of stakeholder perspectives.
- The network company can demonstrate it is acting on input / feedback from stakeholders.

4.3. An Internal Team will assess each network company's Part 1 Submission to identify evidence that the network company meets the Minimum Requirements.

4.4. The Internal Team will be comprised of Ofgem staff that have sector-specific experience. They will consider all information provided in the Part 1 Submission when carrying out their assessment. They will confirm whether each network company has provided evidence that they meet the Minimum Requirements.

4.5. If required, the Internal Team will ask the network company supplementary questions to clarify any aspects of its Submission. All supplementary questions and answers will be published, subject to redactions of confidential information.

4.6. If the Internal Team identifies evidence to demonstrate that the network company has satisfied all of the Minimum Requirements, then the network company is eligible for a reward. All network companies will be informed of the outcome of the internal assessment against the Minimum Requirement in advance of the Panel Session. Those network companies that meet the Minimum Requirements will be invited to attend a Panel Session. Those network companies that do not meet the Minimum Requirements will not be invited to the Panel Session and will be advised of the reasons for our decision.

## Panel Assessment against the Panel Assessment Criteria

### The Panel Session

4.7. The Panel will only assess those Submissions that have met the Minimum Requirements, as assessed by the Internal Team. The focus of their assessment will be the Part 2 Submissions. Although the Panel will not score the Part 1 Submissions, they will receive the licensee's complete Submission for information purposes.

4.8. Each invited network company will have the opportunity to take part in a 40 minute Panel Session. To contribute to the Panel's assessment against the Panel Assessment Criteria, network companies will be asked to give a 10 minute presentation as part of their Panel Session. The presentation will be based on supplementary questions provided by the Panel to the network company, no later than 10 working days prior to the Panel Session. The Panel will be able to ask a maximum of 6 supplementary questions and these will focus on the Part 2 Submission. The presentation will be followed by a 30 minute question and answer session. During the Panel Session, the Panel may ask additional supplementary questions to inform their assessment. We will perform a secretariat role at the Panel Session. Additional information regarding the format of the presentations and question and answer sessions will be provided in advance of the supplementary questions being received.

4.9. The Panel will assess the companies against the **Panel Assessment Criteria**:

- Initiatives which are part of an holistic approach embedded in their business,
- Initiatives which reflect innovative thinking in responding to needs of stakeholders,
- Initiatives which best serve specific interests of challenging groups of customers/communities/future stakeholders and result in measurable benefits,
- Initiatives which are supported by robust project management processes and appropriate resources,
- Initiatives resulting from stakeholder engagement activities which may be recognised as smart practice and could be replicated across the industry.

4.10. The Panel will score the network company out of 10. The score out of 10 will be given the reference points below:

<b>Score</b>	<b>Below 5</b>	<b>5</b>	<b>6-7</b>	<b>8</b>	<b>9-10</b>
<b>Description</b>	Weak	Average	Fair	Good	Excellent

4.11. The score for each criterion will be weighted using the weightings below, to calculate an Overall Panel Score. The Overall Panel Score will determine the allocation of a financial reward (if any) under the incentive mechanism, as outlined in Chapter 6.

Panel Assessment Criteria	Weighting
1) Initiatives which are part of an holistic approach embedded in their business	15%
2) Initiatives which reflect innovative thinking in responding to needs of stakeholders	25%
3) Initiatives which best serve specific interests of challenging groups of customers/communities/future stakeholders and result in measurable benefits,	25%
4) Initiatives which are supported by robust project management processes and appropriate resources,	10%
5) Initiatives resulting from stakeholder engagement activities which may be recognised as smart practice and could be replicated across the industry	25%

4.12. After the Panel has made its decision it will provide general feedback on Submissions to the network companies on, or shortly after, the day of the Panel Session. This will include providing each company with their Overall Panel Score.

4.13. Following the Panel Session, we will provide detailed feedback to each network company to explain the Overall Panel Score received, highlight best practice and identify key areas for improvement.

4.14. In addition, each year the Panel will publish a **Panel Report** after the Panel assessment has taken place. The Panel Report will be published by 30 September, the year following the Regulatory Year in question.<sup>3</sup> The Panel Report will set out:

- An Executive Summary, including:
  - An explanation of the decision-making process undertaken by the Panel.
  - Examples of best-practice identified by the Panel, broken down by criteria where appropriate.
  - Areas for improvement identified by the Panel, broken down by criteria where appropriate.
  - Details of all network company activities that the Panel deemed were appropriately incentivised by another primary driver, and which were excluded from consideration during scoring.
- An Appendix for each network company, including:
  - The Overall Panel Score awarded, as well as criteria specific scores ie against the Panel Assessment Criteria outlined in 4.11; and
  - Detailed feedback to explain how the scores were decided, subject to redactions of confidential information.

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<sup>3</sup> ie the Panel Report for the 2018-19 Regulatory Year will be published no later than 30 November 2019.

### The Panel Members

4.15. The Panel will be comprised of at least four voting members and a non-voting Chair (who will be an Ofgem employee). The remaining members will be drawn from organisations with expertise in stakeholder and customer engagement. Tenure on the Panel will be time-limited, with a proportion changed from time to time to allow for a diversity of views, regions and organisations to be represented. We will publish the biographies for each of the Panel Members in advance of the Panel Session. Panel members must declare any potential conflict of interest to Ofgem in advance of the Panel Session.

4.16. We will provide guidance to the Panel and brief them before the panel session (eg on the role of energy network companies, the regulatory framework, the purpose of this incentive and the Panel's role). We will also provide the Panel with a copy of the Panel Assessment Criteria to undertake an initial assessment of the network company's Submission ahead of the Panel Session.

## 5. Format of the application and timescales of reporting

### **Chapter summary**

This section outlines the format of the application and the timescales for reporting.

### **Format of application**

5.1. Applications should consist of the following -

<b>Application Checklist</b>	<b>Length of Submissions</b>
Part 1 Submission:  1. Overview of evidence.	Maximum of ten A4 pages (excluding covers pages, content pages and blank pages).
Part 2 Submission:  1. Summary of outcomes/activities/action plans resulting from stakeholder engagement activities carried out during the Regulatory Year in question.	Maximum of ten pages (excluding cover pages, content pages and blank pages).
Redacted versions (as relevant) of Parts 1 and 2 for Ofgem to publish accordingly.	

5.2. The Submissions should clearly identify the driver for activities where that driver has come from an Ofgem, BEIS or other statutory body incentive (eg activities that form part of a Low Carbon Network Fund, Network Innovation Competition or Network Innovation Allowance project) or intervention. Such activities are not necessarily out of scope, but highlighting them is intended to increase transparency for the Panel and stakeholders. The Panel will assess whether it is appropriate to reward these activities (and/or the way they are delivered) under the SEI, or whether they are appropriately incentivised by their primary driver. Where the Panel decides that an activity is appropriately incentivised by its primary driver, it will be included in the Panel Report provided to the network company as stated in paragraph 4.14.

5.3. The format of the application and the use of graphics are flexible and there is no restriction on the font sizes used in the Submissions (however Submissions must be legible). Embedded URLs are acceptable.

### **Timescales for reporting**

5.4. This guidance document applies to Submissions made from April 2019 onwards. From this date, electronic copies of the Submissions should be received by us **on the final Friday in May, the year following the Regulatory Year in question. Six hard copies of the Submissions (excluding redacted versions) should be received by us by the Friday of the first week in June** (the hard copies should be prepared so that they can be easily placed in an A4 ring binder file). All gas distribution and gas transmission Submissions should be sent to our office in London for the attention of the Gas Networks team, and should be emailed to [gasnetworks@ofgem.gov.uk](mailto:gasnetworks@ofgem.gov.uk). All electricity transmission Submissions should be

sent to our office in London for the attention of the Electricity Transmission team, and should be emailed to [electransnetworks@ofgem.gov.uk](mailto:electransnetworks@ofgem.gov.uk).

5.5. We will not consider any Submissions that are received after the deadline dates, unless the network company has consent from us for late submission. We will only consider requests for late submission in exceptional circumstances.

5.6. The network companies' Submissions and the Panel Report will be published on our website. We will also publish any supplementary questions asked by the Internal Team as well as the answers provided by the network companies subject to redactions of confidential information. The network companies should highlight any information that they consider to be confidential. If a network company's Submission includes information that the network company considers to be confidential, then the network company should provide an alternative redacted version of their Submission for us to publish.

## **Ofgem confirmation of arrangements**

5.7. We will confirm the name of the Panel Members and Chair, and the date of the Panel Session by the final Friday in May.

## 6. Converting the Overall Panel Score into a financial reward

### **Chapter summary**

This section outlines how the Overall Panel Score is converted into a financial reward.

6.1. Under this incentive, a network company may receive a financial reward depending on the quality of its stakeholder engagement activities. The value of any financial reward is directed by us, pursuant to:

6.1.1. Part E of Special Condition 1E of the gas transporter licence for gas distribution.

6.1.2. Part B of Special Condition 2C of the gas transporter licence for gas transmission.

6.1.3. Part B of Special Condition 3D of the electricity transmission licence.

6.2. This document is issued by the Authority under:

6.2.1. Part E of Special Condition 1E of the gas transporter licence for gas distribution.  
This document may be revised and reissued in accordance with Part E of Special Condition 1E.

6.2.2. Part C of Special Condition 2C of the gas transporter licence for gas transmission. This document may be revised and reissued in accordance with Part C of the Special Condition 2C.

6.2.3. Part C of Special Condition 3D of the electricity transmission licence. This document may be revised and reissued in accordance with Part C of the Special Condition 3D.

6.3. Performance is assessed by an independent panel of consumer and stakeholder engagement experts (the Panel) as set out in paragraphs 4.7 to 4.15. In making its assessment, the Panel awards an Overall Panel Score out of 10 for each network company group. We convert the Overall Panel Score, into a financial reward for each licensee, as per the following formula:

If OPS  $\geq$  9, then  $SE_t = MSER$

If OPS  $\leq$  4, then  $SE_t = 0$

If OPS > 4 and < 9, then  $SE_t = MSER \times ((OPS - 4) \times 0.2)$

Where:

SEt the positive adjustment (if any) to Allowed Revenue in Regulatory Year t in relation to stakeholder engagement performance, pursuant to the provisions of

- Part E of Special Condition 1E of the gas transporter licence for gas distribution
- Part B of Special Condition 2C of the gas transporter licence for gas transmission
- Part B of Special Condition 3D of the electricity transmission licence.

MSER Maximum stakeholder engagement reward (£m, in 2012/13 prices). The methodology for calculating the maximum stakeholder engagement reward is outlined in:

- Part E of Special Condition 1E of the gas transporter licence for gas distribution
- Part B of Special Condition 2C of the gas transporter licence for gas transmission
- Part B of Special Condition 3D of the electricity transmission licence.

OPS The Overall Panel Score calculated as outlined above.

6.4. As outlined in the formula above the formula states that any network company that scores 4 out of 10 or less will not receive a financial reward. Any network company that scores 9 out of 10 or above will receive all of their financial reward. There is a straight line incentive rate between these two values.

6.5. This approach rewards good performers, does not reward weaker performers, and ensures that excellent performers are able to realise 100 per cent of their incentive.

## 7. Glossary

### **Broad Measure of Customer Service**

The RIIO-ED1 Broad Measure of Customer Service incentive drives network companies to deliver good customer service, engage with stakeholders and address consumer vulnerability issues. It comprises of a customer satisfaction survey, a complaints metric and the SECV incentive. For more information on the Broad Measure of Customer Service please see Chapter 6 of the Strategy decision for the RIIO-ED1 electricity distribution price control - Outputs, incentives and innovation.<sup>4</sup>

### **Business As Usual**

Activities which the network company undertakes that go beyond the requirements of the licence conditions will be considered beyond Business As Usual where it is clear to the Panel that this does not constitute the normal execution of standard operations involved with running the business.

### **Internal Team**

A team of Ofgem employees that will critically assess network companies against the Minimum Requirements, in accordance with paragraphs 4.2 to 4.6 of this document.

### **Minimum Requirements**

The Minimum Requirements are the basic requirements that a network company must meet to be eligible for a reward. The Minimum Requirements are outlined in paragraph 4.2 of this document.

### **Overall Panel Score**

The overall score awarded to each network company by the Panel, in accordance with paragraphs 4.7 to 4.15 of this document.

### **Part 1 Submission**

The Part 1 Submission is aimed at demonstrating that the network company meets the Minimum Requirements. More information on the contents this document and the assessment process can be found in Chapters 3 and 4 of this document.

### **Part 2 Submission**

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<sup>4</sup>

[https://www.ofgem.gov.uk/sites/default/files/docs/2013/02/riioed1decoutputsincentives\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2013/02/riioed1decoutputsincentives_0.pdf)

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The Part 2 Submission is aimed at demonstrating the network company's performance against the Panel Assessment Criteria. More information on the contents this document and the assessment process can be found in Chapters 3 and 4 of this document.

### **Panel**

The Panel Members and Panel Chair that will assess the network companies' Submissions against the Panel Assessment Criteria.

#### **Panel Chair**

A non-scoring Ofgem employee that is appointed to chair the Panel. The Panel Chair will oversee the Panel's assessment and will lead the Panel Session.

#### **Panel Member**

An individual with stakeholder engagement expertise appointed by Ofgem to sit on the Panel.

#### **Panel Assessment Criteria**

The Panel Assessment Criteria are the criteria that the Panel will use to assess and score the network companies' performance engaging with stakeholders and consumer vulnerability issues. The Panel Assessment Criteria are outlined in paragraph 4.9 of this document.

#### **Panel Report**

Each year, a Panel Report will be published after the panel assessment has taken place. The Panel Report will set out the Overall Panel Score awarded to each network company and will include detailed feedback on network companies' performance. More information on the Panel Report can be found in Chapter 4 of this document.

#### **Panel Session**

A meeting of the Panel to discuss the Submissions, assess performance against the Panel Assessment Criteria through a presentation and question-and-answer session, and determine an Overall Panel Score for each network company.

#### **Regulatory Year**

Means a period of twelve months beginning on 1 April in any calendar year and ending on 31 March of the following calendar year.

#### **Stakeholder Engagement Incentive Scheme (SEI)**

The SEI drives network companies to engage proactively with stakeholders in order to anticipate their needs and deliver a consumer focused, socially responsible and sustainable energy service.

#### **Stakeholder Engagement Incentive (SEI) Guidance**

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The SEI Guidance sets out the regulation, governance and administration of the SEI. This document is issued by the Authority under:

- Part E of Special Condition 1E of the gas transporter licence for gas distribution. This document may be revised and reissued in accordance with Part E of Special Condition 1E.
- Part C of Special Condition 2C of the gas transporter licence for gas transmission. This document may be revised and reissued in accordance with Part C of the Special Condition 2C.
- Part C of Special Condition 3D of the electricity transmission licence. This document may be revised and reissued in accordance with Part C of the Special Condition 3D.

### **Submission**

The network company's combined Part 1 Submission and Part 2 Submission.