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Decision on the RIIO-ED1 Stakeholder Engagement and Consumer Vulnerability Incentive 2019-20

This letter sets out our decision on the Distribution Network Operator (DNO) Stakeholder Engagement and Consumer Vulnerability (SECV) Incentive in respect of the 2019-20 regulatory year.

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 SECV 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 DNOs for high-quality activities undertaken by them and the outcomes these activities deliver.

The incentive provides for an annual reward for each DNO.¹ The allocation of this reward is based on an assessment of the DNOs' stakeholder engagement activities by a panel of independent experts, chaired by Ofgem (the Panel).

¹ This is determined under Part G of Charge Restriction Condition 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 Table 16 of Appendix 1 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 and https://www.ofgem.gov.uk/sites/default/files/docs/2015/02/crc_slow_track_master_0.pdf

The assessment process

The standard assessment process for the incentive is set out in the SECV Guidance (the Guidance)². 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 Engagement (and Consumer Vulnerability) Incentives Panel Report (Panel Report), which was published on 30 September 2020³.

Minimum requirements checks and Panel assessment

In May 2020, we received submissions from all 6 DNO groups. We assessed each submission, with the exception of WPD, against the minimum requirements set out in the Guidance. All of those submissions met these requirements.

We decided it was appropriate to defer the minimum requirements assessment for WPD in light of the opening of an enforcement investigation into its compliance with obligations relating to the Priority Services Register (PSR)⁴. The Panel Report sets out details of our treatment of WPD's submission⁵.

This year's Panel⁶ 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

² See Chapter 4 of the Guidance:

https://www.ofgem.gov.uk/system/files/docs/2018/12/secv_incentive_guidance.pdf

³ 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>

⁴ Ofgem announcement of enforcement investigation into WPD's compliance with obligations relating to its PSR: <https://www.ofgem.gov.uk/publications-and-updates/investigation-western-power-distribution-plc-and-its-compliance-obligations-relating-priority-services-register>

⁵ See page 7 of the Panel Report

⁶ Details of the 2019-20 Panel can be found here: <https://authors.ofgem.gov.uk/publications-and-updates/stakeholder-engagement-panel-2019-20>

- Angela Love, energy consultant
- Stephen Workman, regulated markets and corporate social responsibility expert
- Marieke Dwarshuish, corporate governance, regulations and legal services expert

On 21 July 2020, the Panel discussed their assessments of the quality of the DNOs' stakeholder engagement and agreed overall scores⁷.

Panel feedback

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

Panel scores and Ofgem decision on financial rewards for the DNOs

The Panel awarded the following Overall Panel Scores out of 10 for each of the DNO groups (rounded to 2 decimal places). Applying the stakeholder engagement methodology⁸, the financial reward for each DNO group is (shown in 2019-20 prices):

- | | |
|---|---------------|
| • UK Power Networks (UKPN) | 8.30 (£5.52m) |
| • Electricity North West Limited (ENWL) | 6.03 (£0.77m) |
| • SP Energy Networks (SPEN) | 6.85 (£2.23m) |
| • Northern Powergrid (NPG) | 6.71 (£1.74m) |
| • Scottish and Southern Electricity Networks (SSEN) | 5.54 (£1.13m) |

The financial reward to each of the DNOs under this incentive forms 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 it effectively engages with its stakeholders. This adjustment will be applied to the 2021-22 revenues.

Next steps

The next SECV Incentive assessment is expected to take place in July 2021, which will assess the DNOs' performances during the 2020-21 reporting year.

⁷ See page 14 of the Panel Report, which sets out the results.

⁸ See Chapter 6 of the Guidance.

If you have any queries about this letter please contact Nayar Hussain at Nayar.Hussain@ofgem.gov.uk or on 0203 263 9735.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Steven McMahon', written in a cursive style.

Steven McMahon

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