

Appendix 07.03.02 Enhanced Engagement on Whole Systems Thinking



This output case recognises the vast array of ongoing engagement activity that is required and proposes how we will work collaboratively with others to help decarbonise the energy system. We have developed a comprehensive ongoing Stakeholder Engagement Strategy that we will deliver against during RIIO-2 (see Appendix 05.01). This includes a description of how we will engage on whole systems thinking and the energy transition, vulnerability and affordability.

Noting the success of the Stakeholder Engagement Incentive Scheme process in RIIO-1 in demonstrably driving real benefit across a range of areas for customer and stakeholders from targeted engagement activities, we believe that by refocussing this scheme towards whole system solution engagement, it will incentivise higher levels of engagement and collaboration across the industry, putting the necessary focus on the critical questions and challenges in this area.

We propose that this incentive operates in much the same way as the RIIO-1 incentive, with an independent panel assessing organisations on their strategic engagement approach and against the tangible benefits their approach has delivered. The key difference is that this will focus entirely on whole system solutions where we believe there is likely to be insufficient engagement without this incentive.

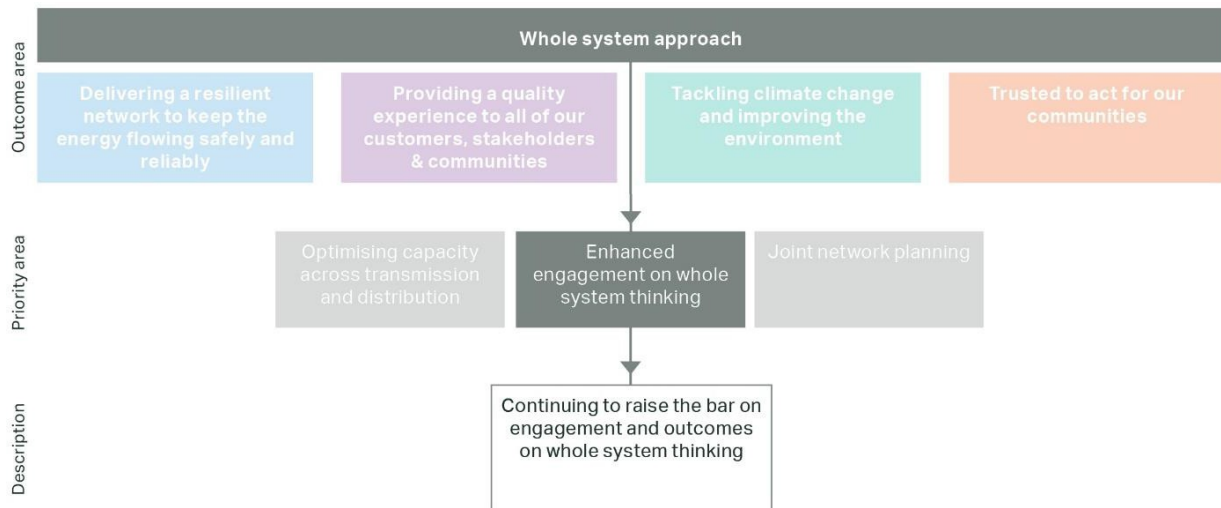


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How we have developed our proposals

1. **We considered the context** – The challenge of reducing greenhouse gas emissions will require the transformation of multiple sectors. There is a consensus that energy networks need to work with the whole system to deliver benefits for consumers.
2. **We considered our experience of working with stakeholders during RIIO-1** - Ofgem introduced a stakeholder engagement incentive for RIIO-GD1 (to reward high quality stakeholder activities undertaken by GDNs and to encourage delivery beyond business as usual activities). We have worked with stakeholders to:
 - Provide support for customers in vulnerable situations
 - To help tackle fuel poverty
 - To support Sustainability First's work to establish a fair basis for utility and essential services.
 - Pursue innovative projects and initiatives.
3. **We considered the assessment by Citizens' Advice on engagement by the gas distribution business** - The report found that engagement has predominantly focused on a narrow set of topics such as reliability, safety and service standards. They identified the scope to engage more widely on complex, long-term questions.
4. **Our engagement with stakeholders supports the view that we can play a valuable role in delivering whole system solutions** – Our extensive engagement has reinforced the view that we can do more to work with others, for example, by sharing information, to support vulnerable customers and to minimise disruption from road work.
5. **This provided us with a clear problem statement** – How can we best engage to promote whole system solutions.
6. We considered three options:
 - Option 1 – Continue with the current regulatory Stakeholder Engagement Incentive Scheme.
 - Option 2 – Develop and deliver a new Stakeholder Engagement Incentive Scheme that focuses on whole systems thinking and the energy transition, vulnerability and affordability.
 - Option 3 – Work in partnership with other organisations to develop and delivery a new Stakeholder Engagement Incentive Scheme .
7. **We considered a range of research and analysis** and confirmed our proposal in our October plan and have tested this along with other aspects of the plan in our acceptability-testing process. On the basis of this engagement we are proposing to adopt Option 2.
8. We have not proposed specific costs within our plan to deliver this output commitment, however, we have suggested a financial incentive of 0.5% of base revenue.
9. **What will the future look like after we embed our RIIO-2 commitments?** Whole system approaches will be the natural way of resolving solutions.

The table below summarises our commitment in this area:

Table 1 Our commitment

Output: Enhanced engagement of whole systems	
Common / Bespoke	Proposed common
Output type	ODI(F+)
Comment	Continuing to raise the bar on engagement and outcomes on whole system thinking
Target	Assessment by an independent panel
Cost implications (annual)	0
Incentive range	£0 to +£9.6m per annum
CVP	Qualitative benefits only

Incentivising whole system solutions

This note sets out the reasons why we consider it is important to have an additional financial incentive to support the development of whole system solutions.

Table 2 The importance of a financial incentive

Context	
There is a consensus that the electricity and gas industry should embrace whole system approaches.	<ul style="list-style-type: none"> • The delivery of the Government's Net Zero target will require actions across multiple sectors (electricity, gas, heat and transport). • Some of the most pressing problems are cross-sectoral in nature – heat, hydrogen, the roll-out of electric vehicles, carbon capture and storage, supporting customers in vulnerable situations, data usage and sharing, etc. • Regional decarbonisation ambitions and responses to climate emergencies will require whole system local area energy planning to enable successful delivery. • The National Infrastructure Commissions (in its most recent report on UK regulationⁱ) has argued for the need for greater coordination across sectors. • Sustainability First has emphasised the importance of collaboration and the creation of wider systems valueⁱⁱ. • The National Council for Voluntary Organisations (NCVO), the Institute for Volunteering Research (IVR) and Involve identified the need for collaborative solutions to complex problemsⁱⁱⁱ. • Ofgem has placed an emphasis on network companies adopting a whole systems thinking approach.
The RIIO-1 framework does not encourage whole system solutions	<ul style="list-style-type: none"> • Companies have incentives to reduce totex and, therefore, to look for whole system solutions that deliver efficiency.

	<ul style="list-style-type: none"> • However, there is no motivation to pursue whole system solutions which benefit other (out-of-sector) companies. For example, GDNs have no financial incentive to pursue a solution, which reduces water company costs (perhaps through coordinated roadworks) but which does not simultaneously reduce our costs. • Even if efficiencies do exist cross-sector, they are unlikely to have equal prioritisation and drive action at pace.
<p>In recognition of this, Ofgem has proposed three mechanisms:</p>	
<p>1. Ofgem will consider the extent that gas distribution businesses have embraced whole system thinking when it assesses business plans (through the business plan incentive).</p>	<ul style="list-style-type: none"> • The October Business Plan Guidance document makes clear that Ofgem expects “companies to provide information on their approach to enabling whole system solutions in their Business Plan.” And, “The Business Plan should contain justified and costed proposals for whole system outcomes and solutions.”^{iv} • The inclusion of whole system solutions is a minimum requirement^v.
<p>2. Ofgem has proposed reforms to the arrangements to innovation stimulus</p>	<ul style="list-style-type: none"> • Ofgem will “will incorporate a whole system aspect in the innovation stimulus package, through development of whole system criteria to qualify for additional stimulus funding”^{vi}. • Furthermore, Ofgem “will also require licensees to include whole system considerations in their respective gas and electricity joint innovation strategies”.
<p>3. Ofgem will establish a Coordinated Adjustment Mechanism</p>	<ul style="list-style-type: none"> • “We will develop and implement a whole system re-opener (named a ‘Coordinated Adjustment Mechanism’) to protect consumer interests by supporting the reallocation of project revenues and responsibilities to the network(s) best placed to deliver those projects.”^{vii} • This Mechanism will operate as a series of price control re-openers for projects that span multiple networks^{viii}.
<p>In our view, these changes do not go far enough.</p>	<ol style="list-style-type: none"> 1. The Business Plan Incentive will encourage companies to set out plans for whole system solutions in their business plans, however, <u>it does not encourage the continued pursuit</u> of whole system thinking. 2. The changes to the innovation stimulus package will only benefit specific projects and recipients of the funding. 3. Although it serves an important purpose, the Coordinated Adjustment Mechanism is unlikely to encourage companies to pursue whole system solutions because: <ol style="list-style-type: none"> a) the history of price control re-openers suggests they are only rarely used, b) we anticipate the mechanisms will only allow a company to recover costs (i.e. we do not expect the Mechanism to provide a financial reward to companies), c) the Mechanism is still under development and its application is therefore uncertain, and

	d) the proposed de minimis level will only impact large projects and not support lower value initiatives even if they are large in volume.
Others agrees with us	<ul style="list-style-type: none"> • Sustainability First consider there should be an ongoing incentive for companies to explore whole system solutions^{ixx}. • The Greater London Authority (GLA) would like to see wider incentives on GDNs to collaborate to reduce road congestion. • From our discussions with other network companies, including the DNOS, we understand there is widespread support for an ongoing incentive.
We consider there is a gap in the incentive regime - companies should have a financial incentive to continue to pursue whole system solutions	<p>We propose an incentive that models the approach adopted by Ofgem for the Stakeholder Engagement Incentive.</p> <p>The arrangement:</p> <ul style="list-style-type: none"> • has been tried and tested • relies on objective criteria and uses an independent process • provides for a maximum reward of 0.5% of base revenues, which is not unreasonable given the potential size of the prize, and • can be validated by clear, independent stakeholder support e.g. support for local area energy plans.

Background to the Stakeholder Engagement Incentive

The Stakeholder Engagement Incentive was introduced for RIIO-1.

Under the incentive, a network company may receive a financial reward depending on the quality of its stakeholder engagement. Performance is assessed by an independent panel of consumer and stakeholder engagement experts ('the Panel'). In making its assessment, the Panel awards a score out of 10. The reward earned by each company depends on their score.

1. Defining our customers' needs



In their RIIO-2 guidance Ofgem note that energy systems are becoming increasingly interlinked. This means that the actions of a network company are more likely than ever to impact on other network companies, the wider energy sector and non-energy sectors such as transport.

The growth of these linkages is increasing the value of cooperation across the whole system, particularly regarding the environment. As such, Ofgem's RIIO-2 guidance is that networks should focus on the goals of decarbonisation and sustainable development when considering whole system thinking.

Greenhouse gas emissions, and their impact on our global climate, is one of the most pressing issues facing society and protecting the environment was near universally important to customers when discussed during our RIIO-2 customer engagement.

The Paris Agreement, the UK's Committee on Climate Change (CCC) and the Climate Change Act (2008) all stress the need for deep and urgent reductions in greenhouse gas emissions. Indeed, the CCC recently stressed the need for radical reductions before 2030, if irreversible climate change is to be avoided.

As the largest gas distribution company in the UK, we have a significant part to play in providing a cleaner, greener, responsible and sustainable future.

In August 2019 the House of Commons Science and Technology Select Committee highlighted 10 priority areas that must be addressed by Government to ensure that the UK is on track to meet a 2050 net-zero emissions target. The 10 strategic areas highlighted by the committee are:

1. Strategy for decarbonising heat
2. Incentive scheme for energy efficiency home improvements
3. Plan for reducing vehicle emissions
4. Support for onshore wind and solar power
5. Review of the Smart Export Guarantee
6. Sustain nuclear power without growing the industry
7. Removal of greenhouse gases
8. Clear action on carbon capture, usage and storage
9. Clean growth regulation of the energy market
10. Support for local authorities

Each of these 10 priority areas will impact directly, or indirectly, on the gas networks and our provision of an essential service that keeps the energy flowing to over 11m homes, offices and businesses.

As such, it is essential that we can undertake in-depth engagement with customers, stakeholders, policy makers, government, Ofgem and the HSE to determine how whole systems changes, will impact upon them, the challenges they will face and the benefits they will receive. Ofgem's RIIO-2 Sector Specific Methodology Core Document paragraph 8.14 notes the requirement to evidence these benefits, stating:

"Networks will need to demonstrate that projects of a whole system nature produce net benefits for their sector's consumers, and where the project will generate broader whole system benefits, such benefits should be explicitly evidenced. In comparing alternative potential approaches to a project, Ofgem will consider both sets of benefits."

1.1. Sources of insight



We engaged with stakeholders and customers across a range of methods to understand their views.

Table 3 Engagement activities

Phase	Date	Source name	Source description	Questions asked	# of stakeholders	Score
Historical engagement	Jan-19	Smart metering feedback	For the last three years we have asked energy suppliers to provide feedback on the way we provide them with information on incidents we have reported as a result of their smart meter installations. In 2017 and 2018 this was email based feedback, but in 2019 we introduced a consistent set of questions. Overall, the results are positive, and suppliers are pleased with the service we provide.	In 2017 and 2018, we asked for general feedback via email. In 2019, we prompted suppliers with questions including the level of support we have provided during smart meter roll out, additional expectations and their views on the particular approaches we have taken.	11	1.5

Historical engagement	Nov-18	Meeting with Coventry and Warwickshire Chamber of Commerce	We met with Jeremy Wright MP at the Coventry and Warwickshire Chamber of Commerce at an event with approximately 150 delegates. The purpose of this annual conference is to discuss future topics and sustainable business growth.	N/A	150	1.0
Discovery	Nov-17	2017 regional stakeholder workshops	We held four workshops in different regions to seek feedback from key stakeholders on the early development of our business plan. Each workshop began with a short presentation, followed by roundtable discussions. Electronic voting was also used to ask stakeholders about preferred options.	The workshops explored a number of topics, including: safeguarding (e.g. PSR awareness, partnerships and innovation opportunities); the future role of gas and the decarbonisation of home heating. Our general approach to our business plan was also discussed, for example the importance and coverage of the four outcome areas identified, the extent to which the plan should respond to the needs of specific customer groups or regions;—"how strongly do you feel that networks should collaborate?"	127	2.5
	Sep-18	Deliberative workshops	We delivered full day deliberative workshops in each of our regions to discuss what services customers find important, find our customer expectations of GDNs and gather feedback on our (at the time) four draft customer outcomes. The sessions began with information-giving and building knowledge of Cadent, then eliciting participants' views of services and priorities.	Participants were asked about their awareness of us and expectations of a GDN. Participants were also asked for their views on the four draft outcomes in our business plan: keeping your energy flowing safely, reliably and hassle free; protecting the environment and creating a sustainable energy future; working for you and your community safeguarding those that need it most; value for money and customer satisfaction at the heart of all our services. The aim of the discussions was to shape these draft outcomes and identify any gaps.	206	2.0

Discovery	Oct-18	Domestic survey	We ran an online survey of a representative sample of our domestic customers (and non-customers). This aimed to test the findings of the earlier deliberative workshops and focus groups.	Participants were asked closed questions on 14 topics we could cover in the business plan (e.g. minimising leaks, affordability) and asked to rate how important they are. They were then asked more open questions about the level of importance and whether anything was missing from the list of 14. Finally, they were asked a multiple-choice question on their preferred engagement methods for the future.	2,332	2.0
	Oct-18	Public survey	We ran an online survey that anyone could take part in (so unlike the domestic survey, it was not a representative sample). This followed the same approach as our domestic survey, aiming to test the findings of earlier deliberative workshops and focus groups.	Participants were asked closed questions on 14 topics we could cover in the business plan (e.g. minimising leaks, affordability) and asked to rate how important they are. They were then asked more open questions about the level of importance and whether anything was missing from the list of 14. Finally, they were asked a multiple-choice question on their preferred engagement methods for the future.	165	1.5
	Oct-18	Focus groups with hard to reach groups	We held focus groups with individuals considered 'hard to reach' in each of our regions. Each group contained 8-10 participants and lasted two hours. Participants covered three groups: urban customers with English as a Second Language, Future Generations and Non-Customers (predominantly from rural areas). These built on our previous deliberative workshops, whose voices could otherwise become 'lost within the crowd'.	Participants were asked what they expected of us. The four draft outcomes for the business plan were shared with participants and they were asked for their views on these, what they wanted to see from us and whether there were additional outcomes that we should include.	57	2.0

Discovery	Oct-18	Customers in vulnerable situations report	We interviewed customers in vulnerable situations and professionals working to support them (e.g. district nurses). We selected participants based on PSR needs codes and recruited via community organisations.	The interviews sought to understand what services were important to customers in vulnerable situations and what expectations such customers had of us to safeguard them and accommodate their specific circumstances. Participants were also asked their views of the four draft outcomes in our business plan.	20	2.0
	Feb-19	Ofgem's Feb 2019 RIIO-2 stakeholder workshop	We attended Ofgem's RIIO-2 stakeholder workshop with other industry participants and gas networks.	N/A	N/A	2.5
Targeted	Apr-19	Cadent London stakeholder engagement event 25 April 2019	We conducted a poll of 92 stakeholders to understand their views on disruption to inform our business plan for RIIO-2. The poll explored what they found most disruptive (e.g. roadworks, customers being off gas or digging holes in the road or on private land), what improvements we should focus on, and willingness to pay for such improvements. Roadworks were considered most disruptive and multi-utility working to mitigate this was viewed positively.	When you consider disruption caused by utility providers, what do you consider 'disruption' to be in your role? The disruption that I would like Cadent to work hardest to eliminate is? For roadworks disruption, what kind of improvement would you like Cadent to focus on? For disruption caused by customers being off gas, what kind of improvement would you like Cadent to focus on? For disruption caused by digging holes in the road or on private land, what kind of improvement would you like Cadent to focus on? If Cadent could find ways of reducing disruption, how much more do you think bill payers would be willing to pay?	92	1.0

Targeted	May-19	Cadent customer forums (April & May 2019): Interruptions and Reinstatements	The third round of customer forums was held at four locations (Ipswich, London, Manchester, Birmingham) involving 104 customers. The forums are designed to be ongoing conversations with customers, with engaged discussions around our role within society. The third customer forum focused on planned and unplanned interruptions and public and private reinstatements to inform these sections of the RIIO-2 business plan. Within these themes, we investigated how customers are impacted and what level of customer service they think we should provide.	Customers were guided through different questions about the current service during planned and unplanned interruptions and new ideas we were considering around: communication, length of interruption, provisions and timeslots to get gas back on. Discussions on public reinstatement focused on: impact of public reinstatement on customers, communication, and multi-utility working. Discussions on private reinstatements focused on the quality and duration of works.	104	2.0
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Business Options Testing	Jun-19	Cadent customer forum, round 4, Traverse	<p>We held our fourth customer forum in Ipswich, London, Birmingham and Manchester to get customers' views on their priorities on a range of issues. This cross section of customers discussed with us various options (some proposed by us, some suggested by them) in a deliberative style session. Key topics discussed included: customer service, replacing pipes, reinstatement, interruptions, fuel poverty, carbon monoxide, decarbonising energy and becoming carbon neutral.</p>	<p>Participants were asked questions about a range of topics. On customer service, we explored what "great" looks like. We also asked about timeliness and communication with respect to reinstatements. We also tried to understand the level and type of service customers want during an unplanned interruption, including views on provisions, length of time without gas, and timeslots for getting the gas turned back on. We also asked for views on our options for addressing fuel poverty and carbon monoxide.</p> <p>With regards to resilience, we sought to understand what risks customers prioritise when replacing mains pipes and how this is influenced by bill impact as well as views on minimum standards of service.</p> <p>On the environment, we discussed: whether the theft of gas should be a priority (and who should benefit from successful recovery), whether connecting off-grid communities was a good way to decarbonise (and who should pay for this) and customer views on our plans to make our business operations carbon neutral.</p>	200	1.0
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Business Options Testing	Aug-19	Business customer workshops, Traverse	<p>We commissioned Traverse to engage with 74 business customers through deliberative workshops to understand their views on options for our business plan in relation to a number of areas that would affect their businesses such as the supply and demand of gas, interruptions, reinstatements and minimum standards.</p> <p>One of the topics discussed was demand-side response. Many businesses said they could turn gas down or off to some extent but noted that education and awareness were critical.</p>	<p>Businesses were asked about their priorities. The future of gas, including decarbonisation, was also discussed in terms of business awareness of the issue and potential implications. The ability and willingness for businesses to reduce their demand under certain circumstances was also discussed.</p> <p>The impact of interruptions and reinstatements on their business was also explored including the need for provisions during interruptions, the desirability of timeslots when gas is switched back on, multi-utility working and communication.</p> <p>Businesses were also asked if they would be willing to pay for us to go beyond minimum standards.</p>	74	1.5
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Business Options Testing	Aug-19	Public consultation, BOT, qualitative phase, Traverse	We commissioned Traverse to conduct a survey of 2,605 members of the public to understand views on certain aspects of our business plan in each of the 4 outcome areas (environment, quality experience, trusted to act for society and resilience). The survey revealed strong support for utilities working together to minimise disruption and for outstanding customer service, as well as providing useful information on the relative importance to customers of different types of information and different environmental initiatives.	Participants were asked questions to understand their views and preferences on issues within each of the four outcome areas. On resilience, customers were asked which one single improvement we should make to reduce disruption the most. In relation to a "quality experience", customers were asked what level of service they'd love the most and how much they'd be willing to pay to ensure a customer in a vulnerable situation could get enhanced help if their gas stopped working. On the environment, customers were asked their relative preference for initiatives to achieve carbon neutrality and eliminate avoidable waste to landfill. Customers were also asked how much they knew about the decarbonisation challenge. Finally, for "trusted to act for society", customers were asked what the most important information to know about us was and how we can help the customer / Cadent conversation flow. We also asked about their awareness of us.	2,605	1.5
	Aug-19	Cadent's trust & transparency commitments - executive summary	We commissioned Enzen to compile a report on our trust and transparency commitments. This provided us with a view of what other organisations are doing with respect to issues such as community funds, employee volunteering, and charitable giving.	N/A	0	1.0

Acceptability testing	Oct-19	Phase 4 - Business interviews and surveys	We commissioned Traverse to test the acceptability and affordability of our proposed plan amongst business customers. This consisted of an on-line / face to face survey of 504 business customers and in-depth qualitative telephone interviews with 45 business customers. This showed that the plan had achieved high levels of acceptability and affordability from a business customer perspective.	Business customers were asked about the acceptability and affordability of our overall plan. If they said that the plan was unacceptable, they were asked to explain their response. If they said that it was neither acceptable nor unacceptable, they were asked what they would like to see in order to find it acceptable. Business customers were also asked to rate the acceptability of the outcome areas (environment, quality experience and resilience). Then, having learnt about the outcome areas, customers were asked as "informed customers" to rate the overall acceptability and affordability of the plan.	549	2.0
	Oct-19	Acceptability testing - final survey report on domestic customers,	We commissioned Traverse to test the acceptability and affordability of our proposed plan amongst domestic customers. This consisted of surveying 4,446 domestic customers through on-line and face to face methods. This showed that the plan had achieved high levels of acceptability and affordability amongst domestic customers, including those who are fuel poor.	Customers were asked about the acceptability and affordability of our overall plan. If they said that the plan was unacceptable, they were asked to explain their response. If they said that it was neither acceptable nor unacceptable, they were asked what they would like to see in order to find it acceptable. Customers were also asked to rate the acceptability of the outcome areas (environment, quality experience and resilience). Then, having learnt about the outcome areas, customers were asked as "informed customers" to rate the overall acceptability and affordability of the plan.	4,446	2.0

Key to scoring

Criteria	Robustness		Relevance
The score shown is based on a combination of the robustness of the source information (judged on whether it was recent, direct and representative) and the relevance to this area.	<1.5	One or zero criteria met	Limited relevance
	1.5 – 2.0	Two criteria met	Significantly relevant and contributory
	>2.0	All criteria met	Highly relevant and contributory

1.2. Engagement feedback & insights

Participants in our deliberative workshops suggested that there was potential for us to work more collaboratively with others. When this area was first discussed, the two topics that frequently arose were sharing information on customers in vulnerable situations and planning of roadworks. These have been picked up in our four output cases related to our Customer Vulnerability Strategy (Appendix 07.03.00) and our Minimising Disruption output case (Appendix 07.03.08). This desire for common working was also reflected in responses to our domestic survey when 78% of people said that collaborating with other companies was important.

There was also broad support for greater collaboration at our regional stakeholder workshops. In Birmingham, stakeholders felt strongly that there should be more collaboration on long-term goals across the different networks, including a cross-utility policy that enables renewables, and that we should lead this. Others noted that differences between networks could be an obstacle. In London, some stakeholders emphasised collaboration across networks as crucial to a whole energy approach while others felt that this would be very difficult due to the differential between electricity, gas and water networks in terms of modernisation and upgrading.

At the stakeholder workshop run by the Energy Networks Association and Accent, some stakeholders noted that a whole systems approach needed to be balanced and factor in demand on the electricity system for electric transport. They worried that electrification might not achieve the appropriate balance of resources to optimise decarbonisation.

In our vulnerability interviews, professionals suggested that we collaborate with others involved in the care of customers in vulnerable situations, such as hospitals, to identify customer needs and tailor services. They were concerned that the specific needs of customers in vulnerable situations would not be adequately considered when macro level decisions were made on future energy decarbonisation scenarios.

We have also received feedback regarding our performance in collaborative working to date. For example, suppliers informed us that we are leading the way in sharing information on smart meter issues and gas incidents. The most recent feedback from 2019 is that we have gone beyond industry expectations and that the information provided has materially improved over the last two years. Our ongoing engagement run through our stakeholder engagement team has seen us host several round tables, attend and present at major political party conferences and at significant industry events. We have taken an active role in promoting the role for hydrogen and the wider gas network in future decarbonised energy scenarios and creating a balanced discussion with policy makers and government. The output of these sessions gets captured in 'day after reports' and has been used to support this output case. The time, effort, and cost associated with this ongoing engagement is significant and it is often the case that we are the primary force in initiating these key discussions. A common view resulting from these sessions is that the discussions are not running at sufficient pace with enough join across the various stakeholders that need to play a critical role in defining and delivering a more sustainable national energy solution.

2. Assessing the measurement options



Ofgem introduced a stakeholder engagement incentive for RIIO-1. The intention behind the incentive was to reward high quality stakeholder activities undertaken by GDNs and to encourage delivery beyond business as usual activities.

Part one of the RIIO-1 incentive requires GDNs to demonstrate that they have a robust engagement strategy in place including independent evaluation and audit, accreditation to relevant stakeholder and engagement schemes, provide results and feedback from stakeholder engagement surveys and demonstrate evidence of culture change.

Part two of the RIIO-1 incentive requires GDNs to provide a summary of the activities and outcomes resulting from its stakeholder engagement during the regulatory year in question.

2.1. How does current measure deliver against customer outcome / priority?

In Ofgem's 2017-2018 Stakeholder Engagement Incentive Decision they report on their expert panel's findings.

These findings include that, as a result of the RIIO-1 incentive, stakeholder engagement continues to be increasingly embedded within TSOs and networks with a number of companies demonstrating that a commitment to stakeholder engagement runs through all levels of the organisation.

Ofgem also report a growth in the culture of network companies working collaboratively, sharing information and best practice.

In addition, 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.

However, Ofgem's expert panel also felt improvements could be made to ensure stakeholder engagement and advisory panels are used more effectively, challenging companies' strategies. In addition, the lack of partnership approaches from some companies and a lack of understanding around who is considered 'hard-to-reach' were highlighted as opportunities for improvement.

We acted upon opportunities for improvement in 2018/19. This resulted in the 2018-19 Stakeholder Engagement (and Consumer Vulnerability) Incentives Panel reporting that we had *"improved significantly from last year"* and noted that *"It is clear that key investment in stakeholder engagement has led to this step change."*

While we are pleased to have been able to demonstrate continual improvement, despite the bar of expectations being raised each year, we recognise that there remain opportunities for further improvement as outlined by the 2018/19 Panel. This focus on continual improvement demonstrates the value of the scheme.

2.2. Our RIIO-1 engagement

During RIIO-1, we have engaged and worked closely with a wide range of stakeholders. Particular areas of focus have been supporting the energy transition and clean growth and support for customers in vulnerable situations (see Appendix 07.03.09 'Identifying your needs and joining up support services' for further details):

- Launching the Hynet North West scheme at an event attended by over 100 stakeholders.
- Undertaking significant research and stakeholder engagement to gain Health and Safety Executive approval for the UK's first hydrogen blending field trial.

- Co-ordinating a successful set of biomethane engagement events;
- Investing in projects jointly with partners, for example we invested with CNG Fuels in the first commercial high-pressure CNG refuelling station.
- Establishing the cross industry Safeguarding Customers Working Group to co-design and create new arrangements for customers in vulnerable situations.
- Working with partners such as other networks and charities to identify customers who may be in vulnerable situations and design the services we offer them.
- Setting up referral schemes with local authority services, to allow our engineers to link customers we meet with other services.

We also work with stakeholders across a range of other areas including:

- Affordable Warmth Solutions who act as a strategic deliver partner for our work to help tackle fuel poverty, who challenge our approach as well as delivering services.
- Being partners in Sustainability First's 'fair for the future' project, helping energy (retail and network, gas and electricity) and water companies better address the politics of fairness and the environment.
- Working with other parts of the energy industry, for example by sharing smart metering information with suppliers to help reduce the number of interventions we make (feedback from suppliers says we are leading the way in sharing information on smart meter issues and gas incidents).

In addition, we increasingly engage and collaborate with other networks through our membership of the Energy Networks Association, involvement in UKRN projects and sharing best practice (e.g. our approach to CO education, which is being used by other GDNs, or our involvement in the EmployAbility scheme, which has inspired schemes at other companies).

2.3. Review of how we currently engage with stakeholders in RIIO-1

In 2016, we commissioned Renuma, an expert consultancy, to perform a 360^o Relational Scan to identify how effectively we were engaging with key external stakeholders. It found we had many positive relationships with external organisations and groups (e.g. other distribution companies, local authorities, and service providers), although increased consistency was needed. Renuma also identified that we needed to increase engagement with organisations whose context was different to our own (e.g. innovators, shippers).

This was an important lesson in relation to our participation in whole systems approaches which we have been acting on this feedback in the intervening years. but also want to consider how regular assessments of this kind could be used to challenge our thinking and identify opportunities for improvement.

2.4. Best practice

A recent Citizens Advice report¹ assessed gas networks engagement to date as “informing” and “consulting” their customers and stakeholders. They identified that, moving forward, companies should be looking to improve and advance on the spectrum of engagement to “collaborate” with and “empower” customers and stakeholders.

The report also found that engagement had predominantly focused on, what Citizens Advice identify as, a narrow set of topics such as reliability, safety and service standards. As such, they have identified the scope to engage more widely on complex, long-term questions.

¹ <https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-policy-research/strengthening-the-voice-of-consumers-in-energy-networks-business-planning/>

To achieve this Citizens Advice have proposed a targeted financial incentive to push gas networks to advance the quality and depth of their engagement activities and deliver better outcomes for consumers.

Water companies included several performance commitments relating to partnerships with stakeholders and whole systems thinking in their PR19 business plans. For example,

- Thames Water included a reputational incentive based on independent assessments of their engagement with a small number of key stakeholders.
- Yorkshire Water included a financial incentive based on the number of projects delivered in partnership with independent agencies, organisations or individuals.
- United Utilities included a financial incentive if they could increase their use of 'systems thinking' based on an independent assessment.
- South East Water included a commitment to co-developing a business as usual engagement strategy and creating dedicated resources and systems for stakeholder engagement. They have developed a 'partnership toolbox' to help other organisations work with them to address the challenge of reducing per capita water consumption.

Good practice examples of our own include stakeholder engagement in achieving HSE approval for the hydrogen blending trial and having been rewarded by HM Treasury in the 2018 budget for our evidence-based submission and collaborative actions with partners, as we sought the maintenance of the fuel duty differential on alternative fuels. In both instances comprehensive ongoing engagement was the key to success.

3. Assessing performance levels



The successes in customer engagement and partnerships during RIIO-1 enables us to approach RIIO-2 with a plan to continue our strategic delivery partnerships (e.g. our delivery partners for mains replacement, for fuel poverty measures) and to embed strategic customer and stakeholder engagement in our businesses as usual processes. So, in RIIO-2 we will continue the engagement and collaboration processes we have developed in RIIO-1.

However, those we serve should be able to contribute to, and influence, the decisions we make that will affect their lives, environment and energy bill. This is more important now than ever before with the challenges that face our industry in facilitating the energy transition.

Therefore, it is important that as an energy sector we challenge ourselves to go further by engaging more widely and deeply on the complex, long-term questions of the energy transition and its impact on affordability and vulnerability. These issues are discussed in further detail below.

3.1. The energy transition

The energy transition will impact all energy consumers. It could increase the cost of energy, require customers to change their consumption behaviours and install new appliances, create interruptions to supply, result in changes to work patterns, and require street works and other infrastructural work that will directly affect customers. As such, it is vital that customers, consumers and stakeholders are central to our decisions in facilitating the energy transition and responding to the associated affordability and vulnerability challenges it creates.

As the challenges of the energy transition increasingly require whole system solutions, we also need to approach problems by consulting with our peers and implementing the best solution for customers, regardless of who delivers it. This joint working is discussed in Output Case 07.02.07 Whole System Joint Network Planning.

3.2. Affordability

Fuel poverty remains a significant problem in Great Britain and National Energy Action (NEA) estimates that in the next 15 years 125,000 premature deaths will occur as a result of living in cold homes; £950m of fuel debt which will not be spent in local economies; and £22 billion spent by the NHS in treating cold-related conditions.

The Department of Business, Energy and Industrial Strategy (BEIS) estimates that fuel poverty affects 2.55 million households in England (2016) using the Low Income High Cost definition. This represents approximately 11.1% of all English households. This is an increase from 2.50 million households in 2015 (an increase of 2%). The energy transition, without positive interventions, has the potential to increase this further.

There are a wide range of stakeholders already involved in, and multiple discreet funding sources available to, tackle different aspects of fuel poverty. If these stakeholders and funds can be joined up, they have the potential to deliver an impact that is far greater than the sum of their parts. Our Fuel Poverty Output Case (Appendix 07.03.11) provides further detail regarding our commitment to trial a new joined up approach to funding in RII02.

It is also essential that we undertake specific customer engagement to develop a strong understanding of the likely impacts on, and views of, customers as the energy transition and the impacts of government heat policy begin to crystallise.

3.3. Vulnerability

With 11 million people in the UK living with a limiting mental or physical disability, a stronger consumer perspective is needed for these priority customers to adequately meet their needs.

We have engaged with our Stakeholder Advisory Panel and other key stakeholders who have expertise in dealing with customers affected by situations of vulnerability. With these stakeholders we have defined a clear definition of vulnerability:

Vulnerability describes a situation, be it transient or permanent, that can impact a customer at some point during their life. Vulnerability can arise through changes that can happen both inside and outside the energy industry. Those customers who find themselves in a vulnerable situation are more affected by our action or inaction than other customers.

Similarly, the impact of the energy transition is likely to have a greater impact upon customers in vulnerable situations. These impacts will relate to affordability, the requirement to adopt new energy sources or appliances and the risk that customers in vulnerable situations are left behind in the drive for proactive consumerism and with the rise of energy prosumerism.

It is therefore essential that we undertake specific customer engagement to develop a strong understanding of the likely impacts of the energy transition on, and related views of, customers in vulnerable situations.

3.4. Other whole system solutions

Our plan includes other areas of whole systems focus, including collaboration with transmission, entry arrangements for new, greener, connections Appendix 07.04.08.

3.5. Options for delivery in RIIO-2

Below we propose three options that could assist in engaging widely with customers and stakeholders to ascertain their views relating to whole systems approaches to addressing the energy transition and driving positive and timely action forward.

These options are not mutually exclusive, and it is our intention that, if enabled to through appropriate resourcing, we would pursue all these options alongside proposals from other GDNs and partners to ensure customers' needs resultant from the energy transition are addressed. While we believe delivery of an Enhanced Engagement Programme that focuses specifically on whole systems thinking and the energy transition is vital (option 2), we will continue to embed wider customer engagement into our business as usual activity (option 1).

The existence of the current SEIS incentive has encouraged and rewarded us to continually push boundaries, competing with others to demonstrate the value that we are adding through effective engagement strategies and approaches. Each year Ofgem's independent panel raises their expectation levels and continues to demonstrate huge value driven through these initiatives showing improvement year on year. We, as others, have now embedded a strong culture of engagement across the organisation (see our ongoing Stakeholder Engagement Strategy – Appendix 05.01) and therefore continuing with the scheme as today is not required. However, our experience to date and the insights of customers and stakeholders (described above) shows that a considerable ramp up is required in engagement (leading to tangible action) across a spectrum of whole system solution topics. This cannot be delivered by any one organisation in isolation and will require significant focus and resources and expenditure across the industry and beyond. The SEIS promoted this focus in RIIO-1 at a generic level and could do so at a more targeted level in RIIO-2.

Partnership approaches have been proven to work effectively in areas such as tackling fuel poverty, through the fuel poor network extension scheme. A greater focus on partnership working in RIIO-2 engagement (option 3) could provide a more holistic picture of the views of customers relating to whole systems approaches to addressing the energy transition. We will seek to develop engagement of this type alongside other energy companies and wider stakeholders such as water companies, transport providers and local authorities.

Table 4 Options for Stakeholder Engagement Incentive

Option	Description	Pros	Cons
1.	Continue with the current Stakeholder Engagement Incentive Scheme focussing on all aspects of customer and stakeholder engagement	In line with Ofgem RIIO-2 requirements	No specific focus on whole systems thinking and the energy transition
2.	Develop a new Stakeholder Engagement Incentive Scheme focussing on companies' Enhanced Engagement Programmes that focuses on whole systems thinking and the energy transition, vulnerability and affordability.	Will provide energy companies, Ofgem and the Government policy makers insights regarding customers views of the energy transition.	Could run contrary to energy companies' strategic interests Risk of losing focus on business as usual customer engagement
3.	Develop a new Stakeholder Engagement Incentive Scheme that focuses specifically on whole systems thinking and the energy	Will provide energy companies, Ofgem and the Government policy makers insights regarding customers views of the	Could run contrary to energy companies' strategic interests

	<p>transition vulnerability and affordability.</p> <p>Work to deliver aspects of this new programme alongside partner organisations / other energy companies.</p>	<p>energy transition.</p> <p>Demonstrates whole systems thinking in project rollout.</p> <p>Encourages collaboration and increase in the number of partnership relationships</p>	<p>Risk of losing focus on business as usual customer engagement</p>
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4. Customer testing



Throughout our engagement with customers and employees suggested that we can continue to improve our customer and stakeholder communication.

It is clear that there is a strong desire from customers, vulnerability experts and expert stakeholders that we undertake more joined up thinking in RIIO-2.

This feedback has covered thematic areas such as facilitating the energy transition, considering vulnerability in decision making and addressing fuel poverty. We also received more specific feedback regarding numerous aspects of our plan where customers believe that whole systems, joined-up thinking could address their individual challenges and assist in tackling the energy transition.

Customers were also clear with us during acceptability testing, recognising that there were areas of our plan, regarding energy transition, where they felt specialist expertise is required to make long term decisions.

This was borne out when we discussed climate change and global warming in our BOT quantitative research and only 30% of customers reported that they felt they really understood these subjects.

It is therefore very difficult to test the three options that we've described above, but we believe there is a huge degree of evidence that:

- a. The SEIS approach has demonstrated great success on overall engagement benefits in RIIO-1.
- b. There is insufficient incentive for network organisations to actively engage at the level that is necessary to drive effective and timely decisions and actions into a range of whole system thinking at present. This is evidenced by the lack of progress that has been made in RIIO-1 in these areas, despite demonstrable effort from ourselves and others. The future requirements in this space are huge and simply are unlikely to be met without an incentive to support this effort and cost.

5. Our Commitments



For the RIIO-2 period we commit to applying the best practice learnt through RIIO-1 stakeholder engagement via the establishment a new Ofgem common output, an Energy Transition Stakeholder Engagement Incentive.

This new Financial ODI should be targeted at engagement relating to the impact on customers of the energy transition and should further encourage whole systems approaches by placing further emphasis on:

- The energy transition.
- Customers in fuel poverty and/or vulnerable situations.
- Undertaking engagement in partnership.

The requirement for this new output measure is threefold:

1. Engagement on whole systems approaches is of importance to customers

It is of significant importance that stakeholder engagement is undertaken to develop an understanding of how whole systems changes, will impact upon customers, the challenges customers will face as a result and any benefits they might receive. This is of particular importance to fuel poor customers and customers in vulnerable situations who are most likely to be negatively impacted by fuel price rises or disruption resulting from changes to how their homes are heated. The results of this engagement will be of significant importance to Government policy makers, Ofgem and energy companies.

2. Ofgem's proposed funding model for RIIO-2 engagement

It is important to recognise the significant achievements the RIIO-1 Stakeholder Engagement Incentive has facilitated to date. This provides great opportunity to build on that engagement in RIIO-2. However, we recognise that due to the progress that has been made Ofgem have stated the intention to remove funding for such measures in RIIO-2 and require companies to undertake engagement as business as usual.

3. The lack of strategic benefit to energy companies

Whole Systems thinking necessitated by the energy transition is not a traditional business as usual activity for energy companies. The benefit some companies may gain from spending on enhanced engagement relating to whole systems thinking is very limited and such engagement could, in fact, be detrimental to their long term strategic interests. For example, is not in the strategic interest of gas networks to undertake stakeholder engagement if that engagement was to identify widespread customer support for electrification of heat. Similarly, it would not be in the strategic interests of electricity networks to undertake stakeholder engagement if that engagement was to identify widespread customer support for hydrogen injection into the gas network to the detriment of the electrification of heat.

6. Delivering our commitments



We propose that delivery of enhanced engagement on whole systems thinking is assessed in the same manner as the RIIO-1 Stakeholder Engagement Incentive whereby an independent panel assess companies' performance on an annual basis. Such assessment should be based upon a revised set of assessment criteria as proposed below.

Table 5 SEI assessment criteria

Existing RIIO-1 SEI assessment criteria	RIIO-1 Weighting	Proposed RIIO-2 SEI assessment criteria
Initiatives which are part of a holistic approach embedded in their business	15%	Initiatives which are part of a holistic approach embedded in their business
Initiatives which reflect innovative thinking in responding to needs of stakeholders	25%	Initiatives which reflect innovative thinking in responding to needs of stakeholders and are related to the energy transition
Initiatives which best serve specific interests of challenging groups of customers/communities/future stakeholders and result in measurable benefits	25%	Initiatives which best serve specific interests of vulnerable and/or fuel poor customers/communities/future stakeholders and result in measurable benefits
Initiatives which are supported by robust project management processes and appropriate resources	10%	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	25%	Initiatives resulting from stakeholder engagement activities relating to whole systems thinking, the energy transition and/or undertaken with partner organisations and which may be recognised as smart practice and could be replicated across the industry

We propose that, as under the current incentive mechanism, that the independent panel's assessment results in a reward as a percentage of revenues.

Given the importance of customer engagement on whole systems thinking and the energy transition, and the lack of strategic benefit to companies in undertaking such engagement, the reward such be retained at 0.5% of company's revenues.

ⁱ <https://www.nic.org.uk/news/utility-regulators-must-have-new-powers-if-uk-is-to-tackle-climate-change/>

ⁱⁱ https://www.sustainabilityfirst.org.uk/images/publications/fair_for_the_future/24071_F4TF_Fair_STRAWMAN_v8a_WEB_MID-SIZE1.pdf

ⁱⁱⁱ <https://www.nic.org.uk/news/utility-regulators-must-have-new-powers-if-uk-is-to-tackle-climate-change/>

iv October RIIO-2 Business Plan Guidance (https://www.ofgem.gov.uk/system/files/docs/2019/10/riio-2_business_plans_guidance_october_2019.pdf) paragraphs 2.48 and 2.50.

v October Business Plan Guidance, page 58.

vi Sector Specific Methodology Decision (SSMD) paragraph 8.31.

vii SSMD paragraph 8.37.

viii Sector Specific Methodology Consultation paragraph 5.36-5.37.

ix <https://www.sustainabilityfirst.org.uk/images/publications/other/A%20new%20low%20carbon%20incentive%20for%20RIIO2%20-%20Guest%20blog%20for%20Ofgem.pdf>

x https://www.sustainabilityfirst.org.uk/images/publications/other/Sustainability_First_Low_Carbon_Incentive_in_RIIO2_Discussion_Paper_FINAL_web.pdf