



An Coimisiún
um Rialáil Fóntas
**Commission for
Regulation of Utilities**

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Terms of reference of The Networks Stakeholder Engagement Evaluation Panel

(In accordance with PR4 Decision on Reporting and
Incentives CER/18/087)

Consultation Paper

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Executive Summary

The CRU published in May 2018 its Decision on Reporting and Incentives under PR4, CER/18/087, (the “Decision Paper”), setting out 20 decisions to improve reporting and incentives arrangements. One of the new incentives established by the Decision Paper is in relation to stakeholder engagement. The Decision Paper also provided for a panel to assess and score the TSO and DSO on the quality, good implementation and the effectiveness of their stakeholder engagement’s strategies during the previous year. The score given by the Panel will determine the level of financial incentive the TSO and DSO each receive for their respective performance, impacting directly on the incentive revenues earned. The TSO and DSO can get different scores, as the incentives apply to them separately. The purpose of this paper is to establish that Panel by seeking views on its terms of reference and expressions of interest from stakeholders who would be interested in becoming members of the Panel.

The intention of the new incentive is to provide a clear and transparent framework for the annual assessment of the measures taken by the network companies to understand and address the needs of stakeholders. The TSO and DSO will each be required to separately publish for consultation a report on their stakeholder strategy and its effectiveness over the previous year. The Panel will consider the submissions from the SOs and consultation responses before evaluating and scoring the performance of each SO. The CRU may also arrange for an expert in the area, perhaps a regulator in another jurisdiction with experience of a similar process, to present to the Panel to help advise the Panel.

It is proposed that the Panel consist of representatives from generators, suppliers, academia, and communities. The Panel will meet three times a year and will be chaired by the CRU. Once after the publication of the TSO and DSOs reports for consultation, where the SOs will present their reports. Once after the close of the consultation process, where the SOs will present the results of the consultation process and address any issues that were raised. And finally, approximately two weeks after this meeting the Panel will meet to decide on the score to award each SO. It is proposed that the Panel decide the score by consensus. These meetings are expected to take place between April and June.

In this Consultation Paper, the CRU is:

- 1) consulting on the proposed Terms of Reference of the Panel and;
- 2) seeking to appoint the members of the Panel, in accordance with the proposed Terms of Reference. Therefore, expressions of interest are requested.

Responses to this consultation should be submitted to Esther Fructuoso Márquez, Electricity Networks Team (efructuoso@cru.ie) by **17.00 on 15 March 2019**.

After the consultation period closes, the CRU will review and consider the comments received. A final Decision on the Terms of Reference of the Panel will be published shortly after. Also, the CRU will appoint the members, based on membership applications received and the selection criteria detailed in this paper.

Public Impact Statement

The CRU has implemented a range of new reporting obligations and incentives for EirGrid (the Transmission System Operator) and ESB Networks (the Distribution System Operator). One of these incentives is in relation to stakeholder engagement. The objective of this incentive is to promote cultures within the TSO and DSO that put stakeholders (i.e. customers, generators, and local communities) at the centre of what they do. This ensures that the System Operators deliver high quality outcomes for energy customers and the wider public.

The CRU has decided that a Panel made up of representatives from stakeholders will assess and score EirGrid and ESB Networks on the quality, good implementation and effectiveness of their stakeholder strategy in the previous year. This score will determine the financial incentive the companies receive, impacting directly on the incentive revenues earned.

Reporting and incentives are important instruments through which the CRU seeks to protect the interests of customers. Reporting gives visibility to what each company is delivering and improves accountability. Incentive mechanisms go a step further by attaching additional financial rewards or penalties to specific reported measures of performance.

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Glossary of Terms

Abbreviation or Term	Definition or Meaning
CRU	Commission for Regulation of Utilities
NSEE Panel	Networks Stakeholder Engagement Evaluation Panel
ToR	Terms of Reference
TSO	Transmission System Operator-EirGrid
TAO	Transmission Asset Owner-ESB Networks
DSO	Distribution System Operator-ESB Networks
DAO	Distribution Asset Owner-ESB Networks
Network companies	EirGrid and ESB Networks
TUoS/DUoS	Transmission/Distribution Use of System
SOs	System Operators (TSO and DSO)

1. Introduction

1.1. Commission for Regulation of Utilities

The Commission for Regulation of Utilities (CRU) is Ireland's independent energy and water regulator with the mission of protecting the public interest in energy, energy safety and water.

The CRU was established in 1999 and now has a wide range of economic, customer protection and safety responsibilities in energy. The CRU is also responsible for Ireland's public water and wastewater system. Further information on the CRU's role and relevant legislation can be found [here](#).

1.2. Purpose of this Consultation Paper

The CRU is seeking stakeholders' views on the proposed Terms of Reference (ToR) of the Network Stakeholder Engagement Evaluation (NSEE) Panel to be established by the CRU. This Panel will separately assess the TSO and DSO performance on their stakeholder engagement activities, as part of the PR4 Decision on Reporting and Incentives¹.

In addition, the CRU is seeking to appoint the members of the Panel in accordance with the proposed ToR of the Panel.

1.3. Responses Relating to this Consultation Paper

Responses relating to this Consultation Paper should be sent to Esther Fructuoso Márquez, Electricity Networks Team (Efructuoso@cru.ie) by **17.00 15 March 2019**.

The Commission will review all comments received. Respondents should be aware that the Commission intends to publish the responses received on its website. For this reason, confidential responses should be clearly marked as such, and where possible included in a separate appendix to the response.

¹ [CER/18/087](#)

2. Establishment of NSEE Panel to assess SOs performance on Stakeholder Engagement

2.1. Background

In May 2018, the CRU published its Decision on Reporting and Incentives under PR4 ([CER/18/087](#)), (the “Decision Paper”). This document sets out 20 decisions for improving reporting and incentives arrangements, covering the totality of the activities undertaken by the TSO, TAO and DSO/DAO on behalf of current and future customers and market participants. These decisions will improve outcomes for electricity customers and market participants during the PR4 period and create a robust platform for the continuing development of reporting and incentives for PR5 and beyond.

The overall objective of the Decision Paper was to ensure that network companies are focused on:

- Delivering better outcomes for customers,
- Using innovation to deliver services more efficiently, and
- Meeting key national strategic objectives

Among the 20 decisions included in the Decision Paper, Decisions 9 and 18, put in place new incentive mechanisms for the TSO and DSO, respectively, in relation to their stakeholder engagement activities. The intention of the new incentive is to provide a clear framework for the CRU to assess the measures taken by the network companies to understand and address the needs of stakeholders. This approach is seeking to promote cultures within the TSO and DSO that put stakeholders at the centre of what they do.

The incentive mechanisms will apply to the TSO and DSO separately. The TSO and DSO will individually submit their strategies for stakeholder engagement, and the achievement pursuant to those strategies over the preceding calendar year. The submissions shall be made to the CRU by the 31 March and will be consulted upon individually by the TSO and DSO.

Performance of the TSO and DSO will be measured through an annual ex-post assessment of the quality of the strategies, the quality of their respective implementation of the strategies and effectiveness of their stakeholder engagement’ strategies. The annual assessment will be undertaken by a Panel constituted and chaired by the CRU. The Panel will evaluate performance of the SOs and will give them, separately, a score linked to a financial incentive. The scores for the TSO and DSO can be different and will directly determine the incentive revenues they receive.

2.2. Overview of process and incentive revenue rewards

The CRU initial guidance for the TSO and DSO on the requirements and assessment criteria for submissions under the stakeholder engagement incentive is described below. Also, the incentive revenue rewards are detailed at the end of this section.

Objective of the incentive mechanism

To actively promote cultures within the TSO and DSO that put stakeholders at the centre of what they do.

Requirements of SOs' submissions

To demonstrate, with evidence, the presence of the following:

- A comprehensive, up-to-date stakeholder engagement strategy, and management systems and processes within the business to enable its delivery;
- A delivered set of channels and initiatives for engaging with stakeholders, consistent with the documented strategy;
- Demonstrable positive impacts on stakeholders, stakeholder groups or the business consequent to the delivered channels and initiatives.

Form of reporting and nature of evidence

The TSO and DSO shall by the 31 March following the end of the year being reported on submit a report to the CRU of no more than 15 A4 pages in length describing, with evidence, the following:

- What its stakeholder engagement strategy was during the year being reported on (the previous year); how the strategy relates to the identified needs of stakeholders, and the strategic or operational challenges facing the businesses; how the strategy is given practical effect within the business – including how stakeholders are identified and categorised, and accountability and management reporting in respect of the strategy works within the business;
- How well the strategy was implemented; what engagement channels and initiatives were deployed during the year being reported on; how these were tailored to the issue(s) and stakeholders involved; the range and diversity of issues and stakeholders involved; the innovative nature of methods used; and
- The effectiveness of the strategy; what impacts the deployed channels and initiatives had on stakeholders, and the business, during the course of the year being reported on.

The CRU will direct the TSO and DSO to separately consult on their stakeholder engagement strategies to seek views on these submissions. The consultations will be published by the 31 March.

Assessment

The assessment of the quality, good implementation and effectiveness of the SOs' strategies will be performed by a Panel established and chaired by the CRU. The Panel shall adopt a single score (separately for the TSO and DSO), on a scale from 1 to 10, for the following evidence presented by the TSO and DSO (A, B and C). The weightings of each category are also detailed below:

- A. Quality of stakeholder engagement strategy, and management systems and processes within the business to enable its delivery – **20%**;
- B. How well the strategy was implemented; quality of delivered set of channels and initiatives for engaging with stakeholders, consistent with the documented strategy – **40%**;
- C. Effectiveness of strategy; quality of demonstrable positive impacts on stakeholders, stakeholder groups or the business consequent to the delivered channels and initiatives – **40%**.

Once the single scores (scale 1 to 10) have been adopted by the Panel for each category (A, B and C), these will be multiplied by their weightings to obtain a final score. The final score will be a number between 1 to 10 and will be linked to a financial incentive. The TSO and DSO will separately obtain a final score that can differ from each other.

Higher scores (i.e. above 5) will only be possible where the quality and effectiveness of the SOs' strategies have been clearly demonstrated.

Incentive revenue rewards

The final score of the TSO and DSO will be a number out of 10, as detailed above. The SOs must achieve at least a final score of 5.0 in order to receive any incentive payment. Therefore, the incentive payment will be €0 for any score below 5.0. For scores equal to, or greater than 5.0, the incentive payment will be calculated with the following formula:

$$\text{Incentive payment} = z + (x - 5) \cdot \left(\frac{y-z}{5}\right)$$

Where:

x = the Panel's final score.

y = maximum incentive payment.

z = 10% of maximum payment.

- TSO

The maximum incentive payment for the TSO shall be 1% of its internal opex (upside only), per year. The scoring system is as set out above. An example is given below, considering a maximum incentive payment of €460,000 and a final score of 7.

$$z = 10\% \text{ of } \text{€}460,000 = \text{€}46,000$$

$$\text{€}46,000 + (7-5) \cdot \left(\frac{\text{€}460,000 - \text{€}46,000}{5}\right)$$

Therefore:

$$\text{Incentive payment} = \text{€}46,000 + (2 \cdot \text{€}82,800) = \text{€}210,000$$

Alternatively, it can be seen that a final score of 5 would result in an incentive of €46,000 i.e. 10% of the maximum payment.

- DSO

The maximum incentive payment for the DSO shall be €1m (upside only), per year.

The scoring system is as set out above, such that a final score of 5 is 10% of the available pot, and an amount of €180,000 is available for every point above 5.

An example is given below with a final score of 7 obtained by the DSO:

$$\text{Incentive payment} = \text{€}100,000 + (\text{€}180,000 \cdot 2) = \text{€}460,000$$

2.3. Proposed role of the Panel

The CRU proposes that the role of the Panel in evaluating the Network companies' stakeholder engagement would follow the approach set out below.

The CRU proposes that the Panel will meet three times a year between April and June to assess the quality of the strategies, the quality of the implementation of their strategies and effectiveness of the stakeholder engagement's strategies of the TSO and DSO, separately, during the previous year. Based on the SO's performance, the Panel will give the TSO and DSO a score, that can be different from each other, and will directly determine the incentive revenues the SOs separately earn.

The CRU proposes that the TSO and DSO would separately publish their strategies for consultation no later than 31 March each year.

First meeting

The purpose of the first meeting is for the TSO and DSO to separately present their stakeholder engagement strategies to the Panel. It is proposed that this first meeting would be held shortly after the TSO and DSO have both published their strategies for consultation.

Second meeting

The purpose of the second meeting is for the TSO and DSO to present their final submission and address the responses received to the consultation. It is proposed that this second meeting would be held shortly after the TSO and DSO respectively made their final submissions to the CRU.

Third meeting

The purpose of the third and final meeting is for the Panel to score the TSO and DSO on their submissions. The score provided by the Panel will determine the incentive revenue reward of the SOs as explained in the previous section. It is proposed that this meeting would take place approximately two weeks after the second meeting to provide members of the Panel time to reflect on the network companies' presentations. While the TSO and DSO would attend the first two meetings, it is not proposed that they would attend the third meeting of the Panel.

2.4. Terms of Reference

Purpose

1. At high level, the purpose of the Panel is to separately evaluate the performance of the TSO and DSO on their stakeholder engagement activities in the previous year. Based on the evaluation, the Panel will score the SOs' against the criteria set out in section 2.2. The final score decided by the Panel will determine the incentive revenue reward that the SOs will be entitled to receive (maximum revenue of 1% of PR4 internal opex for the TSO and €1m for the DSO).

2. For clarity, the Panel will only evaluate stakeholder engagement of the System Operators, focusing on the SOs' stakeholder strategies and their effectiveness. Therefore, the Panel will not consider complaints, or other such matters.
3. The Panel will not be a policy-making body, broader policy issues will not be discussed at the meeting. In addition, the Panel is not a forum for discussing individual projects.

Operating Principles

4. The Panel will meet three times each year. The first meeting will be shortly after the SOs' consultations are published; the second meeting will be after the consultations have closed and the SOs have submitted their final proposals; and the third meeting will be two weeks after the second one. Ad-hoc meetings may also be held as required.
5. The meetings will be chaired and minuted by the CRU. The meetings will be held in Dublin at the CRU's offices.
6. The CRU will send a proposed meeting agenda to the Panel members at least seven business days before each meeting. Each member has until three business days prior to the meeting to suggest amendments or additional agenda items. The CRU will then circulate the final version of the meeting agenda to all members within three business days prior to the meeting.
7. After the meeting, and within five business days, the CRU will circulate draft minutes from the meeting to all members by email. The Panel members will share their comments by email within five business days. The final minutes will then be approved at the following Panel meeting or by correspondence, as appropriate. After approval, the final minutes will be published on the CRU website. The minutes of the last meeting will be agreed and approved by correspondence.
8. The minutes shall include a summary of the discussions, an overview of key views expressed by the Panel members and a list of agreed actions.

Membership

9. The CRU intends to gather the appropriate representation of market participants impacted by the stakeholder engagement practice of the network companies. The CRU will be flexible in the appointment of the members to achieve an overall composition of the group that is fit-for-purpose. The CRU also intends to invite a relevant expert to present to the Panel at the first meeting to provide advice and guidance. The CRU seeks to reach an appropriate balance in the membership of the group, therefore, the CRU considers the following indicative, not definitive, membership to be appointed:
 - A CRU Commissioner (chair);
 - Two CRU staff members;
 - Two representatives of Generators (conventional and renewable);

- Two representatives of Suppliers;
 - One or two representatives of Large Energy Users;
 - One or two members from Academia,
 - One or two Community representatives and small customer representatives;
 - One or two representatives of Small Generators;
10. The membership shall consist of a fixed term of two years. The members of the Panel will be required to name an alternate, preferably from the same organisation, who can attend the meetings in case of unavailability of the appointed members. However, the CRU would like to highlight that the process will work best if the appointed members are able to commit to attend all meetings during the two years' membership to ensure continuity.
11. In selecting the membership of the Panel, the CRU will have regard to their ability to discharge the functions of a member of the Panel:
- The members will be asked to identify potential gaps within the SOs' proposals;
 - The members will be required to understand key concerns of the respondents of the consultations and key issues in relation to the SOs' strategies;
 - The members will be expected to share relevant views at the meetings and provide with potential solutions to issues and/or concerns;
 - The members will be invited to make proactive and constructive contributions to discussions;
 - The members will be asked to be impartial and fair when scoring the SOs.
12. After the appointment of members, a circulation list with contact details of all participants will be created and shared by the CRU. Only the names and organisations (not contact details) of the appointed members will be published on the CRU's website.

Governance Structure

13. The role of the chair:
- The chair will provide all members with the specific dates for the meetings at least 15 business days prior to each meeting;
 - Administration and general time keeping during meetings;
 - Intervention in discussions as required to move things forward and to provide guidance during the meetings;
 - The score of the SOs will be decided by consensus where possible. Where this is not possible, the CRU will record the views of the members of the Panel and will make a final decision.
14. The Secretariat will be a CRU staff member. Its role:
- Preparation and circulation of all relevant material to the Panel members;
 - Preparation and circulation of initial draft minutes, gathering of comments by members. circulation of final version and publication of minutes once approved;
 - Creation and maintenance of the Panel email circulation list;

- Organisation of each Panel meeting, including equipment, conference call dial details etc.

Meetings Timeframe

15. The indicative Panel meetings (subject to changes) are:

- The SOs are required to publish their stakeholder engagement's strategies for a 4-week public consultation by the 31 March. It is anticipated that the first meeting will take place the second week of April, shortly after the SOs publish their consultations;
- The second meeting could be expected at mid-May after consultations have closed and final submission has been made by the SOs to the CRU (including responses to the consultation);
- The last meeting is anticipated two weeks after the second meeting, to evaluate and score the SOs' proposals.

3. Consultation questions

- 1) Do you have any comments on the proposed Term of Reference of the Network Stakeholder Engagement Evaluation Panel?
- 2) Would you like to be appointed as a member of the Panel?

Responses to this Consultation Paper should be sent to Esther Fructuoso Márquez, Electricity Networks Team (Efructuoso@cru.ie) by **17.00 15 March 2019**.

4. Next steps

After responses are received, reviewed and considered, the CRU will publish its Decision on the Terms of Reference of the Panel. Also, the CRU will appoint and contact the members of the Panel.