

**RIIO-2 USER  
GROUP REPORT**

**NATIONAL GRID  
ELECTRICITY  
TRANSMISSION**

**DECEMBER 2019**

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## Executive summary

Effective stakeholder engagement and challenge during the Business Plan process is now a key element of economic regulation. Ofgem recognised this in developing its RIIO 2 methodology<sup>1</sup> requiring transmission companies to establish User Groups<sup>2</sup>, with the aim of ensuring that stakeholders' needs are at the heart of the RIIO 2 regulated business plans. The National Grid Electricity Transmission (NGET) User Group's remit covers two inter-related strands:

- I. Assessment of the stakeholder engagement the company has undertaken to inform its proposals.
- II. Direct input and expert challenge to the Business Plan.

The User Group is drawn from a wide range of different interests reflecting the perspectives and expertise of distribution networks, energy providers, the system operator, suppliers, end-consumers, direct customers, industrial and commercial users, innovation, new business models and the environment.

The User Group provided ongoing, detailed scrutiny throughout NGET's process of stakeholder engagement and compiling its Business Plan between July 2018 and December 2019, generating 165 challenges to NGET. The User Group considers that NGET has committed strongly to the enhanced engagement process, and the robustness of its responses to User Group challenges in key areas has led to a stronger Plan. Scrutiny into stakeholder engagement has revealed a comprehensive and systematic approach by NGET. This is reflected by the 'golden thread' of stakeholder engagement that runs throughout the Business Plan. Overall, the User Group is content that this is a stakeholder-led Business Plan with a good focus on outcomes for consumers.

In summary, the Business Plan leaves overall levels of charges similar to those prevailing in RIIO-1, and NGET has provided a clear explanation of historical spend information and also a good RIIO-3 narrative. Following significant scrutiny, the User Group has concluded that the extent and quality of justification provided is generally good, that cost proposals are generally robust and that NGET has presented a reasonable approach to ensuring that the plan is at an efficient level. In reviewing value for money, the User Group focused on the process by which the figures have been produced, and with an eye on the overall ambition on efficiency, which is fairly in line with previous regulatory processes.

In the high materiality area of reliability, the User Group has seen increasing granularity and is now content with the level of justification for the NGET total expenditure (totex) proposals, which NGET has demonstrated have clear stakeholder support. The User Group has seen a positive evolution of NGET's thinking on its role in whole energy systems, and it now provides a good story and a clear vision of its role in leading energy system change.

In other areas, however, the User Group remains unconvinced that NGET has fully responded to the expectations of its stakeholders. On responsible business practice and leadership in corporate social responsibility, the User Group found that NGET's stated level of ambition is not yet being followed through in practice. Following significant challenge on innovation, the business plan now reflects the company's commitment to adapt, and meet the needs and expectations of its stakeholders. However, NGET has more to do on innovation to demonstrate that it has an organisational culture that is fit for the future.

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<sup>1</sup> [Sector Specific Methodology](#)

<sup>2</sup> [Enhanced Engagement Guidance](#)

# Introduction

As part of the RIIO-2 price control, network companies established User Groups as part of a new model of stakeholder engagement. As the independent User Group for National Grid Electricity Transmission (NGET), this report represents the agreed, collective views of the members. These views were developed through independent and robust review of the Business Plan and associated development process.

This report is designed to help Ofgem, as the regulator for gas and electricity markets in Great Britain, understand the extent to which the Business Plan reflects, and will meet, the needs of stakeholders and deliver value for consumers.

## Enhanced engagement

### **Background and remit**

The objective of the RIIO framework that was introduced by Ofgem in 2011 was to place more emphasis on deliverables and innovation. The aim was to ensure that network businesses would deliver more tangible outcomes for stakeholders and consumers, beyond the traditional considerations of efficiency and financing requirements.

This framework has evolved further under RIIO-2 and Ofgem expects companies to demonstrate close involvement of, and with, stakeholders in the process of determining the Business Plan and implementing it in practice. This reflects the increasing complexity of what is required from regulated entities and is particularly important in the energy sector in view of the enormous changes that are envisaged in the transition to a low carbon economy and society.

With this in mind, Ofgem, in its *RIIO-2 Enhanced Engagement Guidance*, has required transmission companies to establish User Groups with the aim of ensuring that stakeholders' needs are at the heart of the RIIO-2 regulated Business Plans. The NGET User Group's remit covers two inter-related strands:

- Assessment of the stakeholder engagement the company has undertaken to inform its proposals.
- Direct input and expert challenge to the Business Plan.

Achieving these aims requires the clear and meaningful commitment of the network business to the process and outcomes of Enhanced Engagement as laid out by Ofgem so that the User Group can deliver its work.

### **Group membership and governance**

The User Group's Independent Chair, Trisha McAuley OBE, was appointed by NGET in line with the *Enhanced Engagement Guidance*. The Chair had the final say in appointments to the Group membership, which is drawn from a wide range of different interests to reflect the perspectives and expertise of energy providers, the Electricity System Operator, suppliers, end consumers, direct customers, industrial and commercial users, innovation, new business models and the environment. Full biographies for each of the members is provided in appendix 8. The User Group had a dedicated Technical Secretary provided by NGET, while NGET representatives attended meetings by invitation.

The User Group met for the first time in July 2018, agreed its terms of reference and set out its approach to governance and ways of working. As a priority, the User Group recognised and agreed that members had been appointed to represent the interests and perspectives of

their constituency, on the basis of their expertise and experience – and not their individual company. The User Group recognised its core responsibility to challenge NGET’s plans robustly on behalf of stakeholders to forge a version that will deliver the best consumer value in view of a more uncertain and complex set of demands. The User Group agreed a Charter that defined its purpose as: *“to enhance the voice of stakeholders and positively impact the NGET Business Plan, through critical review, to deliver a sustainable, ambitious and cost-effective outcome for consumers and stakeholders.”*

The appendices to this report contain the suite of governance documentation, including: terms of reference, User Group Charter, social media guidelines, link to independent website and Business Plan evaluation criteria. Throughout the process, the User Group remained cognisant of Ofgem’s RIIO-2 framework and methodology, together with the *Business Plan*<sup>3</sup> and *Enhanced Engagement Guidance* documents. The User Group challenge log (appendix 7) was established, and began to be populated, from the first meeting. At the same time, the User Group agreed its Principles of Good Stakeholder Engagement (appendix 6).

### **Approach to scrutiny and challenge**

Although representing a broad spectrum of stakeholders, backgrounds and ideas, the User Group quickly began to work as a collective and assumed collective responsibility for its decisions. In doing so, however, this inevitably meant that at different times, and on different elements of the Business Plan, user group members expressed and discussed a healthy level of contrast in their views. On the whole, the members embraced the different perspectives and, through the process of discussion set out in this report, agreed a common position. Where fundamental areas of contention and disagreement were voiced and remained unresolved, on behalf of different stakeholder constituencies, these are reflected in this report. The aim is to ensure that continuing divergences of opinion and perspective continue to be aired and discussed throughout the remainder of the price control process.

Between July 2018 and December 2019, the user group met, in plenary, fifteen times. The main body of work for the first six months focused on scrutiny and challenge of NGET’s stakeholder engagement processes. As the key outcomes of that work for the Business Plan began to emerge, the main focus of work transitioned into the second strand of the User Group remit, namely the close scrutiny of, and expert challenge into, the business plan itself, and also the degree to which stakeholder priorities had been reflected. The Group challenged NGET from the outset to demonstrate a ‘golden thread’ on stakeholder engagement and insight that could be seen clearly to flow throughout the Business Plan and its proposed outputs and outcomes.

In undertaking its work, the group was clear that its membership did not comprise regulatory experts and that it was not being required to replicate or replace the role of the regulator. The group also remained cognisant of Ofgem’s guidance that it was not expected to discuss or review financial topics, such as the cost of capital, treatment of debt or the level of gearing in the company.

As the breadth and depth of the work developed, the User Group, in order to make the best use of its resource, developed, and continued to review, the following guiding criteria to prioritise its work across the Business Plan:

- Cost materiality
- Importance of deliverables
- Stakeholder impact
- User Group ability to influence

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<sup>3</sup> [Ofgem RIIO-2 Business Plan Guidance October 2019](#)

- Extent of scrutiny best done by others e.g. Ofgem, Ofgem Consumer Challenge Group.

For each Business Plan core chapter, the User Group also identified a list of common ‘vertical threads’ that it would want to draw out, where relevant, in its report. These included innovation, incentives, consumer outcomes, trade-offs, costs/value for money, benchmarking and uncertainty mechanisms.

The final version of the NGET Business Plan was provided to Ofgem on 9 December 2019. Previous draft versions were submitted in July and October 2019 and the User Group provided particular challenge to NGET in detail at these stages, together with written feedback to the Ofgem Consumer Challenge Group.

The submitted version of the Business Plan consists of a 200-page document setting out the main areas of expenditure proposed by NGET. The Plan starts by setting out some overarching principles and context relating to the policy and regulatory framework for electricity in Great Britain. There is also a separate chapter setting out NGET’s overall approach to stakeholder engagement and how that has been used to construct the Business Plan by creating the ‘golden thread’ through the whole process, and also containing NGET’s ongoing strategy for stakeholder engagement during the RIIO-2 period.

There are then eight separate chapters based on an evaluation of key stakeholder priorities during an initial phase of consultation that was carried out between July 2017 and March 2019. This was followed by the next phase of engagement which built on the key stakeholder priorities identified. These chapters each have numerous annexes providing further granularity into specific expenditure areas. Behind these, are evaluation and justification of the proposed approach for individual assets. In addition, there are several further annexes dealing with horizontal questions such as NGET’s strategy on information technology, benchmarking and procurement.

Given the scale of the work, the Group organised its scrutiny of the material by assigning ‘sponsor’ members to review, in depth, particular areas of the Plan together with a support ‘buddy’ to provide an additional perspective where needed. For some areas, a process of sampling has been used when, for example, reviewing the justification documents for individual asset classes. This ‘deep-dive’ scrutiny and challenge happened iteratively throughout the course of 2019, with the whole group reviewing sponsor/buddy outputs on a regular basis, and according to the agreed priority level.

This report reviews the following core chapter themes as set out in the Business Plan. These are cross-referenced below to the Ofgem Business Plan Guidance requirements.

User Group core assessment	Ofgem Business Plan Guidance chapter
<b>Enhanced Engagement</b>	Giving consumers a stronger voice
<b>Consumer Value Proposition</b>	Business Plan incentive
<b>Energy system of the Future</b>	Enabling whole system solutions Managing Uncertainty Forecasting and Scenarios
<b>Net zero</b>	Forecasting and scenarios
<b>Connections</b>	What consumers want and value from networks Meeting the needs of consumers and network users Enabling whole system solutions Forecasting and scenarios
<b>Reliability</b>	What consumers want and value from networks Maintaining a safe and resilient network
<b>External Threats</b>	What consumers want and value from networks Maintaining a safe and resilient network
<b>Environment &amp; Communities</b>	What consumers want and value from networks Delivering an environmentally sustainable network
<b>Innovation</b>	Driving efficiency through innovation and competition
<b>Transparency</b>	Meeting the needs of consumers and network users
<b>Deliverability</b>	What consumers want and value from networks Maintaining a safe and resilient network
<b>Competition</b>	Driving efficiency through innovation and competition
<b>Value for Money</b>	Track record and Business Plan commitment Cost and financial Information

## NGET culture and Board commitment

An important role of the User Group has been to challenge NGET on its leadership commitment, and evidence of senior level buy-in, to the enhanced engagement process.

The User Group considers that, from the outset, NGET took the establishment of the Group seriously, undertaking detailed preparatory work and establishing the right level of resource. The independent Chair was given final say in the appointments of User Group members, with potential conflicts of interest being discussed and addressed by the Chair and NGET at the start of the process.

The User Group is content with the onboarding information that was proposed and provided by NGET.

The User Group considers that NGET has been fully committed to the enhanced engagement process, respecting and enabling the group's independence. The Group has been fully provided with the resources it needed to do its work. The Technical Secretary provided by NGET was appointed at the right level, with clear technical knowledge of the business and project management, leadership, secretariat and co-ordination skills to ensure that the Group received the support it needs from across the business, while maintaining an arms-length role from NGET. The Technical Secretary has worked to very high standards.

NGET provided immediate responses, at all times, to the User Group Chair's request for additional resources, including an independent report writer and a separate website. The quality, timeliness and relevance of information received from NGET has been consistently good, delivered responsively, and in line with the Group's expectations. The Group is clear that it was given sight of NGET's thinking on key business plan topics as early

as was possible and that NGET has been open and transparent in sharing information. The Group received good notice of when to expect the June, October and December Business Plan iterations, and these deadlines were adhered to. The Chair was kept informed throughout on the relevant NGET governance arrangements and milestones.

In content terms, NGET has been broadly responsive to challenge, although, in some key areas for example, innovation and Net Zero, it took some considerable time for the Group's challenge to be reflected adequately in the evolving Business Plan. NGET could also have been more proactive with regard to stakeholder engagement on output delivery incentives.

Generally, however, NGET has developed its approach from a 'show and tell' approach to one which is more discursive. The responses in the challenge log are comprehensive and detailed and the User Group agrees that NGET has been thorough in its responses, reflecting change in the Business Plan. The User Group is therefore confident that the robust challenge process has resulted in a better Business Plan.

The NGET Board commitment to the process has been good. The Executive Director for NGET attended every meeting and the Group has welcomed the direct ownership of engagement with the Group at that level of the business. The User Group Chair has had an agreed, structured programme for meeting senior leaders regularly, including the National Grid (NG) Group CEO, the NG UK Executive Director, the NGET Executive Director, and the UK Regulation Director. This programme has also included regular Chair attendance at the NGET Board and attendance at an NG Group Board meeting, where she set out the User Group's expectations for the Business Plan at key stages. At the Group's invitation, the NG Group CEO attended one meeting and the NG Group UK Executive Director attended three. The Sufficiently Independent Directors (SIDs) attended two meetings of the Group. The User Group has engaged with a range of NGET subject matter experts over the course of its work and has consistently had responsive access to business leads and to relevant NGET staff in the key Business Plan areas.

Overall, the result of these interactions has been positive for the User Group work programme. However, while assessing the October draft Business Plan submission, the User Group became aware of some issues. It identified gaps in assurance around NGET's commitment to embed an appropriate company culture in the crucial areas of innovation, stakeholder engagement, responsible business practice and Net Zero. The group considered that it needed to challenge the NGET Board to demonstrate visible leadership and tangible commitments to ensure change across the business that would deliver on stakeholder expectations in each of these areas in the RIIO-2 period. The NGET Board response forms part of the group's assessment of the business plan in these areas.

NGET has been openly positive to the Group about its value in helping it think and act differently and in creating a better Business Plan as a result. It engaged with the Group at an early stage on its commitment to an enduring role for the User Group.

Ofgem guidance requests that User Groups make clear in their reports the areas where the Group and the company have disagreed. The User Group has had no disagreements with NGET throughout this process as the company has accepted, and sought to address, the group's challenges positively at all times. The Group considers that any ultimate "disagreements" on content are now reflected where the conclusions, in this report, on the final Business Plan highlight any continuing areas of concern.

## Stakeholder engagement

**Ofgem output category:** Giving consumers a stronger voice



## **NGET chapter:** Giving stakeholders and consumers a stronger voice

Effective and meaningful stakeholder engagement stems from having clear objectives about what you are trying to achieve – it's not an end in itself. It's also about fully understanding who your stakeholders are and why engagement matters. A stakeholder is anyone who believes they are affected by your decisions, so companies have to think widely, and from other perspectives – and reach out beyond 'the usual suspects'." Good stakeholder engagement therefore starts with clearly understanding, defining, and comprehensively mapping, who your stakeholders are. It's also very important to start with the appropriate understanding of what is meant by 'engagement'. It sits near the top end of a spectrum where informing is a one-way process and engagement is a two-way process that influences decision-making.

So, the engagement process needs to be the right one and the outcomes need to be clearly reflected in a transparent line of sight, or golden thread – throughout the Business Plan so that stakeholders can see clearly why, how and where their input has made a difference.

Effective engagement enhances stakeholder understanding and trust. It brings efficiencies through getting the service right from day one. It improves the quality of decision-making by bringing wider perspectives to the table and, by doing so, provides a clearer rationale for the decisions that are taken. If trade-offs are necessary, the process has been transparent and evidence-based process. This makes for both sustainable decision-making and business benefits. But most importantly, it makes for a regulated monopoly that has its stakeholders and consumers at the very heart of its strategic focus and its delivery.

In the RIIO-2 business planning process, the User Group has a defined role to play through review and assessment for evidence of 'robust and high-quality engagement with stakeholders by the company in designing the Plan'.

The User Group believes that NGET can clearly demonstrate a strategic approach to stakeholder engagement, particularly through committing to assessment against the international recognised AA1000 standard<sup>4</sup>. The Group was also pleased to see NGET drawing on a range of good practice in other sectors, in particular water and aviation. NGET has also been through a thorough process of stakeholder mapping encompassing a wide range of stakeholder segments. NGET developed an early clear, systematic and structured process around stakeholder engagement for the Business Plan involving three stages – a 'listen' phase to establish stakeholder priorities, building plans on the basis of those priorities, and iterating a holistic plan with consumers and stakeholders.

Despite having no direct relationship with end consumers, the User Group was pleased to see NGET commit to engaging with consumers and consumer representative bodies and to understand what it might do to help fuel-poor or disadvantaged consumers.

The consumer and stakeholder priorities were formed prior to the establishment of the User Group and one of the first documents assessed by the Group was the NGET 'Listen' report which outlined how those stakeholder priorities had been arrived at. At this stage, the group was looking for, and was broadly reassured, that NGET had used a bottom-up approach to defining priorities, as opposed to using stakeholders as a "sounding board" for pre-determined decisions.

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<sup>4</sup> AA1000 is a Stakeholder Engagement Standard created in 2015 by AccountAbility. It is a globally recognised stakeholder engagement standard, supporting organisations to assess, design, implement and communicate an integrated approach to stakeholder engagement.

The User Group was pleased to see the “engagement logs” that NGET had started to develop. These comprehensive documents, for each Business Plan topic, have underpinned much of the User Group’s assessment of stakeholder engagement – describing the engagement aims, objectives, activities and conclusions for each of the topics within the Business Plan. The User Group considers the quality of these documents overall as high, showing a good, clear structure, and also a responsive iterative approach to stakeholder feedback. The engagement logs are an important repository for the evidence underpinning a stakeholder led Business Plan.

Another positive aspect of NGET stakeholder engagement was the publication of the *February Playback*<sup>5</sup> document. This is very good practice whereby NGET played its understanding of the engagement outcomes back to stakeholders to sense-check its conclusions, double-check for misinterpretation or errors and to give stakeholders early sight of the implications for Business Plan expenditure in the form of totex ranges.

NGET has taken welcome steps to obtain external assurance on a range of its stakeholder engagement activities including work with Truth Consulting, in October 2018, on an audit of engagement (stakeholder coverage, cognitive validity and accuracy of conclusions. It also worked with Frontier Economics on:

- developing material, including framing of questions, for the Environment Workshop with stakeholders.
- helping to develop the template for the golden thread single-page illustrations.
- producing an independent report, which further tested the golden thread across all the stakeholder priorities and identified tensions and areas for trade-off consideration.
- monetisation of the Consumer Value Propositions.

NG led the joint transmission owner (TO) willingness to pay research, learning lessons from other sectors to ensure a more cost-effective approach and comparable results across networks. The User Group is content with the methodology applied, as well as how the findings from this work were triangulated with other stakeholder insight and then tested for acceptability with domestic and business consumers. However, the Group has not scrutinised in detail how the values from the willingness to pay research were interpreted and used.

Despite observing many examples of good practice and commitment by NGET at an early stage, the User Group’s initial assessment led to its first entries into the challenge log. A number of common themes emerged around developing the strategic approach, identifying and reflecting consumer outcomes, presenting context to stakeholders, and stakeholder segmentation. NGET took positive steps to respond to these challenges and alter the programme of engagement activities and the structure and content of the engagement logs. One specific change was the inclusion of business as usual engagement activities and insights to provide the necessary context and additional stakeholder insight into each topic.

At an early stage, NGET was strongly challenged on its proposed consumer insight programme. When first presented to the User Group in November 2018, the User Group agreed that NGET was ‘behind the curve’ with regard to the range of methods being used which was too narrowly focused on the willingness to pay work. NGET was challenged to be clear about its policy objectives in conducting consumer research and to then adopt the best

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<sup>5</sup>. [February Playback Document](#)

way of achieving those objectives, as doing consumer research for own sake only would be inefficient and counterproductive. In that context, NGET was urged to consider deliberative research with consumers to understand their priorities. NGET responded well by introducing a mixture of online and face to face methodologies e.g. undertaking consumer listening events involving the NGET Executive team. The full list of consumer research undertaken is as follows:-

- Willingness to pay study: nationally-representative, 1,000 domestic (online and in-home), 600 business consumers
- Interactive online tool research study<sup>6</sup>, 1,000 domestic consumers (online and in-home)
- Acceptability testing, 1,200 domestic (online and in-home), 161 business consumers, plus 8 focus groups and 14 individual interviews
- 2x consumer listening sessions with the NGET Executive Team, one of which was conducted jointly with EOn.
- Cultural research to look at existing and emerging trends
- Deliberative research on the concept of reliability
- A focus group (Gas Transmission-led) to look at the principle of 'pay now versus pay later'.

The User Group challenged NGET, in its July submission, to more fully articulate the impact of its proposals on industrial and commercial consumers. The User Group felt these stakeholders had not been given sufficient attention. This resulted in an improved narrative - including on bill impact - in the October Business Plan draft.

Throughout the process, NGET was continually challenged to show how stakeholder engagement was threaded through its Business Plan and not simply undertaken as a standalone activity. The User Group has welcomed, as good practice, NGET's response in creating 'golden threads' as one-page illustrations, contained in the Business Plan chapter annexes, of how stakeholder engagement and priorities flowed through to the proposals, outputs, costs and consumer benefit. The User Group continually urged NGET to strengthen the "golden thread" in the its Business Plan narrative.

One key area of challenge that was raised by the User Group was a lack of a forward strategy post the July draft Business Plan submission. The User Group could see the development of the "golden thread" of stakeholder engagement and the evidence of NGET's commitment to building the Business Plan on that basis. However, what the Group did not see was a strategic vision for stakeholder engagement as an integral part of the business going into the RII0-2 period and beyond, and indeed for the wider benefits it would bring to stakeholders, society, the energy transition and a sustainable energy future and of course the business itself.

NGET sought to respond to this by including a 'forward strategy' section in the October Plan. The User Group, however, considered this not to be robust. The Group further challenged NGET to produce a fully comprehensive, standalone strategy for ongoing engagement; one which reflects the company's vision and strategic aims for stakeholder engagement together with the engagement principles in Ofgem's *Business Plan Guidance*. As outlined above, it was also posed as a direct challenge to the Board to demonstrate tangible commitments for embedding engagement within the culture at all levels of the organisation. This resulted in NGET presenting a stakeholder engagement charter to the Board, for sign-off, in November

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<sup>6</sup> NGET commissioned a nationally representative study of 1,000 domestic consumers, which used an interactive online tool as a more gamified way of explaining our plans and asking what choices consumers thought NGET should make. This included showing the bill impact of the options chosen by respondents. More details can be found in annex A6.05.

2019. The NGET SIDs also discussed, and answered questions on, the charter at the User Group's November meeting.

The User Group has consistently challenged NGET to articulate better the trade-offs between different stakeholder segments. Overall, by the time of the October submission, stakeholder priorities were well-evidenced through each chapter and golden thread, and a section on trade-offs for each priority had been included in the Plan. While this was very welcome, the User Group noted that Frontier Economics had, more recently, delivered a comprehensive assurance report on stakeholder engagement that identified a large range of tensions and areas for trade-off consideration. The October plan did not sufficiently reflect the findings of this report and the group challenged NGET, in the final submission, to set out clear, comprehensive and robust links between the report findings and the subsequent implications in the Business Plan for different stakeholder groups.

In October, the User Group remained concerned that NGET had not demonstrated full inclusivity of approach, in particular towards hard to reach groups. NGET had also been proactively exploring options for vulnerable consumers but the plan, at that stage, did not fully reflect this.

The User Group considers that the willingness to pay findings support the overall Business Plan, and consumer views have been identified and, the Business Plan validated, through thorough acceptability testing research. However, the October draft Business Plan had yet to reflect the additional consumer research that had been undertaken and the outcome of the triangulation of all consumer insights.

The October version of the Plan was still predominantly focused on domestic consumers, but there was now a clearer and more prominent reflection of industrial and commercial consumers. The User Group did consider, however, that more could be done to bring out the views of business customers. For instance, by expanding the granularity of the acceptability testing findings for this group and how these were reflected in the Plan.

### **User Group conclusions on NGET's stakeholder engagement process and on the final submission**

The User Group has scrutinised closely NGET's stakeholder engagement. The Business Plan narrative sets out the engagement well, and it is clear that there has been a comprehensive and systematic approach, in line with the User Group's principles of good stakeholder engagement. The User Group sees the Business Plan structure, which is framed around stakeholder priorities, as a key strength. It is underpinned by evidence and good practice, draws on third party assurance, and clearly shows the links between stakeholder priorities and the outputs and outcomes proposed in the Business Plan. There are areas where the demonstration of the golden thread of stakeholder engagement could be stronger. And there are some gaps in engagement that were not fully addressed, in particular hard-to-reach stakeholders. However, the User Group is content that this is a stakeholder-led Business Plan with a good focus on outcomes for consumers.

In terms of the main outstanding challenges from the October draft Plan, the User Group is now content that the complete range of consumer research undertaken has been triangulated with other stakeholder insights and the decision-making process is clear.

The Group would have liked NGET to reflect more the specific findings of the acceptability research in the main Business Plan narrative, specifically that the high levels of acceptability are subject to some limits, particularly in terms of changes in overall energy bills which the Group does recognise are not in NGET's control. There are clear affordability limits for consumers in vulnerable situations and the headroom of acceptability is narrower for business consumers than for domestic. NGET'S current proposals are, though, within these limits and

also within the 'switching point' between an "acceptable" vs. "unacceptable" bill impact for the transmission component.

The identification and treatment of stakeholder trade-offs, drawing on the assurance report from Frontier Economics is now stronger, but inconsistent, across chapters.

NGET has now set out its approach to inclusivity in research design and sampling. And this is consistent with good practice. However, NGET recognises, and the Group agrees, that it has more to do in this space if it is to engage meaningfully with the right consumers, in the right way, and on the right issues.

The process undertaken by NGET on stakeholder engagement on incentives started late on in the business plan development. The User Group evaluated the stakeholder engagement activities carried out predominantly between September and November 2019. The Group note that stakeholder feedback is broadly supportive, although the prioritisation and ranking of incentives is more varied. Stakeholders also note that incentives are complex to understand, and that it is difficult to ascertain what the right level of incentivisation is. The User Group believes that establishing with stakeholders if the level of reward is justified is important. The insight from the stakeholder engagement that NGET has undertaken so far generally supports the proposals in principle but also notes the difficulties of calibration. In November 2019, NGET outlined to the User Group its plans for more extensive, in-depth consultation with stakeholders early in 2020.

On Outputs, while not systematically engaged on the development of its performance commitments, NGET responded to the User Group challenge to engage with expert stakeholders on its environmental targets.

In terms of ongoing engagement, the User Group is now content that NGET has formulated a strategy that reflects all of the learning from the RIIO- 2 business planning process, and which references its ambition, aims, plan for delivery, strategy and key parties for engagement including staff, key projects and business as usual engagement. The User Group is content that the ambition in the strategy reflects the criteria set by Ofgem. The key, however, will be delivery and impact. In posing the User Group's concern around embedding stakeholder engagement into company culture and across the business, and direct challenge to the NGET Board on demonstrating leadership and commitment, the User Group Chair received a very positive reception. The Group welcomes the NGET Board response in committing to a Board Charter with tangible commitments.

From early on, NGET made it clear to the User Group that it was adding real value to the business planning process, and the outcomes that NGET would plan to deliver as a result. NGET confirmed, early in the process, its intention to retain the User Group on an enduring basis to hold it to account for delivery during the RIIO-2 period and beyond. The User Group welcomes this, along with NGET's plans for its annual Business Plan update process to be stakeholder-led. The Group has been involved in the very early planning of next steps. It is content that independence and challenge will be at the heart of the Group's governance, remit and activity.

NGET is proposing a bespoke reputational output delivery incentive (ODI) covering stakeholder satisfaction. The User Group discussed this intention and had initial concerns, given that stakeholder engagement should, very strongly, be business as usual for an electricity network company. However, the Group is now comfortable with the proposed ODI and the high-level text in the Business Plan. This is because NGET's intention is to discuss and ratify the metrics and targets for the ODI with the enduring independent User Group, rather than pre-determining them in detail in its December submission. This will ensure that NGET is fully held to account. The User Group, in its enduring role, looks forward to ensuring that

NGET has a stretching, ambitious, robust and measurable framework in place by the start of the RIIO-2 period.

**Area of disagreement between User Group members**

Throughout the process, one User Group member had, and continues to have, a different opinion on the approach and proportionate level of consumer focus in the RIIO-2 stakeholder engagement process. The member, who represents the large user sector, believes that the stakeholder engagement process, and its reflection in the Business Plan priorities and outcomes, has been, and continues to be, unduly skewed towards end consumers. Their reasoning is that the impact of the transmission charge on the overall end-consumer bill is not material in comparison with the rest of the makeup of the average energy bill.

On the same basis, the large industry user representative believes that it is neither appropriate nor efficient for a transmission business to address the needs of fuel poor consumers and that this remit should be assigned solely to distribution networks who have the direct contact with consumers.

# Consumer value proposition (CVP)

**Ofgem output category:** Business Plan Incentive

**NGET chapter:** ‘Giving stakeholders a stronger voice’

Ofgem’s detailed criteria for the consumer value proposition (CVP) were published in its 31<sup>st</sup> October 2019 *Business Plan Guidance* update.

While the User Group notes that NGET has managed some stakeholder engagement – with Citizens Advice, the Major Energy Users’ Council and the User Group itself – given the short timescale, there has not been time for robust and sufficient stakeholder engagement.

The time available for User Group scrutiny has, therefore, been very limited. However, NGET has attempted to provide the Group with as much detail as possible and commissioned a third-party expert to assist with assuring the monetisation in the time available.

NGET took a three-layer approach to developing the CVPs, as described below:

1. **Layer 1 Monetised CVP:** CVP items for which there is a robust methodology for estimating the monetised benefits for consumers.
2. **Layer 2 Magnitude estimate CVP:** CVP items for which there is an estimate of the magnitude of the benefits for consumers.
3. **Layer 3 Qualitative CVP:** CVP items that provide benefits for consumers, but for which NGET has not found it possible to robustly quantify or estimate the magnitude of the benefits.

Given the limited time available, the User Group has scrutinised in detail only the shortlist of monetised CVPs. However, it provided general views on the wider CVPs, querying in particular the inclusion in the CVP of any activities that:

- a) are already business as usual (BAU) for National Grid (NG), such as STEM training
- b) are BAU for many utility companies, such as publishing performance data
- c) arguably have a commercial incentive for the company to deliver it and would be expected of an efficient company. For instance, embedding a culture of innovation or engaging on its role.

Ofgem provides guidance on matters which could be included for the CVP, and the User Group is content that NGET has applied the spirit of the CVP in its approach. The User Group notes that the CVP is somewhat subjective, in the sense that it can be interpreted differently by different stakeholders and perspectives. The Group felt the most obvious example of this was around what should be considered going above and beyond BAU. The User Group has different opinions on whether, in particular, examples of whole system working should be considered above and beyond. NGET’s proposed monetised CVP regarding whole system outcomes relates to better working with the distribution networks. This caused different views within the User Group on what “beyond business as usual” should look like in the context of a whole system approach. Electricity network representatives believe that the proposed CVP does demonstrate a new way of working that is not BAU activity. The majority of colleagues, however, believe that network companies should be working together in this way as a matter of course and would expect to see NGET working within a wider whole systems arena. This is an area of contention that might be explored further by Ofgem in the open hearings.

The User Group queried the opportunities for double-counting (where the CVP works in conjunction with an ODI) and how the company will monitor performance and return the reward to customers in the case of non-delivery. This is particularly the case for those CVPs where benefit is calculated beyond the five-year price control period.

In light of the challenge and scrutiny that the User Group was able to undertake, it is now content with the list of monetised CVPs in the final Business Plan. The Group is also content that the CVP annex in the Business Plan reflects its views on the CVPs.

The Group welcomed, in principle, an initial proposed CVP to commit 0.3 per cent of capital expenditure (capex) to local communities near construction sites for local employment opportunities, and to support the STEM Academy. Following a Group challenge for NGET to better justify that this target was comparable to peer benchmarks, or a step-up from current practice, NGET removed it as a CVP in the final Business Plan. The User Group also proposed that NGET's commitment on an Urban Improvement Scheme could be included as a monetised CVP – and the Group is pleased to see that NGET has responded positively to this challenge.

The User Group is not completely clear how NGET will measure the costs of the Electricity System Operator (ESO) / Transmission Owner (TO) interface mechanism and suggests that this be an area of further scrutiny by Ofgem.



# Enable the ongoing transition to the energy system of the future

**Ofgem output category:** Enabling whole system solutions, Managing uncertainty, Forecasting and scenarios

**NGET chapter:** We will enable the ongoing transition to the energy system of the future

This topic is about how NGET works towards achieving the UK's net-zero targets by advancing the decarbonisation of electricity supply, transport and heat at the lowest cost to consumers. Achieving the ambitious goals, which have been set by government, to enable Net Zero will require a collaborative approach across the industry to accelerate decarbonisation and ensure that the transition is fair for all consumers. This is an area of significant priority for stakeholders, who have been clear that they want NGET to play a more proactive role in making the transition happen.

While the baseline expenditure is moderate – at eleven per cent of baseline total expenditure (totex) – much of the expenditure in this chapter will be driven by uncertainty mechanisms rather than being proposed in the baseline. The Group considers this a positive response both to Ofgem's view on RIIO-2 planning and also to the expansion of the Network Options Assessment (NOA)<sup>7</sup> and expanding competition in solving system issues.

## **Stakeholder engagement**

The User Group considers that stakeholder engagement on this topic has been extensive and solid. Full details have been provided in three separate engagement logs, including specific logs on future energy systems and the electricity distribution networks.

The use of stretch scenarios for early engagement was positive and the Group welcomed the fact that NGET tested robustly the role of the transmission network, even in highly decentralised scenarios.

As part of the engagement process, NGET was challenged to ensure that there was adequate engagement with smaller stakeholders and new business models, particularly those it was not in regular contact with. An example of how NGET acted on this was through a workshop with demand side response (DSR) providers to discuss direct service provision.

## **The challenge process**

The User Group challenged NGET to demonstrate clear engagement on scenarios consistent with Net Zero that NGET will play a role in. The User Group considers Net Zero in the energy system of the future as a landscape in which the whole system operates.

An important challenge was for NGET to develop a strategic approach to anticipatory investment – along with a requirement to ensure that the baseline and load-related uncertainty mechanisms could respond to whatever arises through NOA during the RIIO-2 period.

The User Group also scrutinised the detailed development of output delivery incentives (ODIs) and challenged NGET on transparency and robust justification for the Unit Cost Allowance (UCA) rates proposed.

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<sup>7</sup> NOA is the ESO's economic assessment of future constraint costs versus network reinforcement costs provided by the TOs across all four future energy system scenarios. On an annual basis it indicated which reinforcements are likely to have net consumer benefit in each scenario, which ones the TOs should proceed with in that year and which projects meet the criteria for late CATO competition.

### **Changes to the Business Plan**

Throughout the process, the NGET team was very responsive to the Group's challenges and questions. By the time of the July Business Plan iteration, the Group had agreed that NGET was now providing a clear vision of its role in leading energy system change; one that was supported by stakeholders, and which underpinned the whole plan for RIIO-2 and beyond. The proposals for enabling energy transition are also well explained.

The materiality of the proposed anticipatory investment is significant, but the Group supported NGET's decision to put this forward in the Business Plan. However, given the future uncertainty in electricity transmission demand – arising from not only electric vehicles, but expansion of offshore wind and other forms of renewable generation– the Group found that the July draft Business Plan had an over-emphasis on the motorway service area charging point project. In general, more reasons for focusing on particular issues and projects, given the broad scope of this area, would have been helpful. Strong, proactive, anticipatory investment mechanism proposals, based on clear and transparent criteria, have now been developed, rather than the initial, much narrower and less well justified focus on the motorway service area charge point investment. The areas of focus for the anticipatory mechanism are positive and likely to be innovative, such as harmonic filtering and a more strategic approach to offshore wind connections.

The proposed suite of uncertainty mechanisms is, therefore, now more comprehensive, and the group is satisfied that it will meet whatever need arises in RIIO-2. It is clear that significant thought has now gone into the uncertainty mechanisms for load-related mechanisms (in particular, incremental wider works). However, in establishing the detailed regulatory framework for anticipatory investment, the Group urges Ofgem to scrutinise further the cost-effectiveness of these proposals.

### **Justification**

NGET has transparently set out the unit cost allowances (UCAs) and its assumptions for this area. NGET has put in a lot of work and been transparent about UCAs, which is positive. NGET's success in creating what are, in some cases, very complex UCAs (e.g. incremental wider works) makes it harder to communicate them clearly with people.

Following much challenge, the justification in the Business Plan is much improved. It is further supported, in the relevant annexes, by a number of investment delivery plans (IDPs).

### **Vertical themes**

Innovation NGET has clearly shown how innovation from RIIO-1 will become Business as Usual (BAU) in RIIO-2.

Trade-offs. In this chapter, the User Group is satisfied with the trades-off as described – noting that most refer to stakeholders, such as the other network operators and the Electricity System Operator (ESO), rather than consumer segments directly.

Uncertainty mechanisms The User Group also supports the proposed market mechanism to support ESO/NGET collaboration, rather than an ODI trying to mimic this operation and its value. This detail should, however, be interrogated further by Ofgem.

### **Conclusions**

With regard to whole systems, NGET is arguably in a good place, because the NOA already offers a clearer structure for whole system working and coordination. The participation in the NOA and the anticipatory investment mechanism mean that the Group is confident that a more strategic approach on whole systems is being adopted.

NGET has presented a good story on this and there is clear consideration of whole systems, although the focus remains primarily on electricity. The User Group has urged NGET to be clearer on its role in the wider energy eco-system.

**Areas of disagreement between User Group members**

There were differing views between electricity network representatives and other Group members on the extent to which NGET should develop its anticipatory mechanism proposals and net-zero roadmap ahead of further policy certainty from government.

# Net Zero

**Ofgem output category:** Forecasting and scenarios

**NGET chapter:** ‘The changing energy landscape towards Net Zero’

Net Zero has formed a significant part of the User Group’s scrutiny of the business plan. The Net Zero discussions brought together some common elements from both the energy systems of the future and environment chapters and formed a direct User Group challenge to the NGET Board.

The User Group’s assessment of Net Zero began with a challenge that NGET needed to demonstrate that it was anticipating credible future compliance issues, such as the Net Zero goal which was being passed through the UK Parliament in July 2019. In the October draft business plan, the leadership commitment ‘We will put forward innovative, whole system solutions to support policymakers achieve the UK’s emissions target’ was received positively but the User Group asked for more evidence that NGET could in fact deliver against this, and at pace when required. And while recognising the policy and political uncertainties that faced NGET, the User Group challenged the Board and the leadership to be “braver” and more tangible in its leadership ambition by grasping the agenda and setting out a “roadmap,” to Net Zero with decision points and triggers for action.

The road map subsequently presented in the final business plan has added clarity, however, neither the common scenario nor the FES modelling it relies on is Net Zero compliant. NGET’s harmonic filtering, offshore transmission, and EV charging proposals certainly help to fill the gap and are welcome, but the Group remains concerned that NGET has not yet fully met stakeholder expectations nor demonstrated sufficiently it can actually deliver these proposals at a pace required to meet the challenges the User Group expect to arise within the RIIO-2 period.

# Connections

**Ofgem output category:** What consumers want and value from networks, Meeting the needs of consumers and network users, Enabling whole system solutions, Forecasting and scenarios

**NGET chapter:** We will make it easy for you to connect to and use the network

This topic is about making it 'easier' for customers to connect and use the transmission system. This, in essence, boils down to making the process simpler and more predictable – and sharing some of the risk with customers/developers. It is an area of high priority for stakeholders and the proposed expenditure is seven per cent of baseline total expenditure (totex).

## **Stakeholder engagement**

Stakeholder engagement has been extensive and adequate, and the outputs of this are well summarised in the Business Plan. The engagement log fully details the extent of the engagement undertaken and all associated outputs. A positive theme of transparency and predictability has run throughout the engagement process. As has the ability to provide more certainty on connection timescales. There was, however, some sense that stakeholders wanted NGET to go further on improving the transparency and predictability of charging than it originally proposed. While the User Group recognised that much of this was out of NGET's hands – and driven by the charging methodology – it did challenge NGET that there are trade-offs around risks on connectees vs. risks on NGET that had not perhaps been fully explored. In response, NGET recognised that risk-sharing with customers was something to be developed.

## **The challenge process**

NGET was challenged to demonstrate the efficiency of the information technology (IT) investment in relation to its customer base. The User Group sought to understand how the Customer Relationship Management (CRM) system will improve NGET's culture and benefit customers in a sustainable way. There was also a challenge on how NGET was proposing to establish a mechanism to bring more certainty and transparency to the charging methodology, including working with Ofgem and others to do this. NGET was asked to ensure that any revised methodology for both connection charges and Transmission Network Use of System (TNUoS) charges was clearly explained in the Business Plan.

NGET was also challenged to demonstrate how it was incentivised to provide improved lead times.

By the time of the July Business Plan iteration, the User Group could see a clear narrative. The group welcomed the range of commitments being made in the Plan, but raised concern that there was insufficient information on how binding they will be, and how NGET would be held to account on delivery. Given the different size of connection projects, the Group was concerned that the current emphasis was on a uniform approach. The Group also felt that more was needed on bill transparency for customers, as well as any learnings from RIIO-1, for example, in relation to local planning processes.

## **Changes to the Business Plan**

Throughout this process, the NGET team was very responsive to User Group challenges and questions. NGET has elaborated on the CRM system and how it will benefit customers and improve culture, and this is provided in the Business Plan. Justification has also been provided in the IT system Health Reporting Investment Decision pack, Annex A14.12 and ET IT Investment Annex A14.07.

To address the challenge around improving connection lead times, NGET proposed an initial output delivery incentive (ODI) for connection lead times with a view to turning this into a financial ODI in year three. This led to further challenge from the User Group. There was a concern that NGET was procrastinating by seeking to justify that further data was required from the beginning of RIIO-2 before a financial incentive could be developed. The User Group, therefore, welcomes the action now taken by NGET to have the financial ODI in place from the start of RIIO-2. The Group is pleased to see that NGET has attempted to include a limited risk sharing model with customers. However, this is constrained by Ofgem's desire for low risk, low reward price control. The User Group is also pleased to see that NGET is developing an ODI for outages, rather than having only a narrower focus on satisfaction with connections.

### **Justification**

The justification in section five of chapter eight of the Business Plan is mainly focused on justifying the investment plans for RIIO-2. It does, however, address some of the main challenge areas (e.g. section 5.1 v. on connection ODIs, section 5.3 ii and iii on charging transparency and stability). Further justification has also been provided in the Generation Annex A8.02 and the Demand Annex A8.03.

Sufficient explanations of RIIO-1 learning and how this has been applied to RIIO-2 have been provided in the chapter.

### **Vertical themes**

*Uncertainty mechanisms* The uncertainty mechanisms proposed have now been better developed, with an improved explanation of what was learned from RIIO-1 and how this has shaped the proposals for RIIO-2. This is also reflected in the Managing Energy Uncertainty Annex ET.12.

### **Conclusions**

Although the User Group is unable to ascertain, at this point, whether connections for customers will end up being easier, the deliverables identified are positive.

# Reliability

**Ofgem output category:** What consumers want and value from networks, Maintaining a safe and resilient network

**NGET chapter:** We will provide and safe and reliable network

The main aim of this part of the Business Plan is to maintain reliability at a similar level to what is currently supplied, and in line with stakeholder priorities. The chapter also covers health and safety. Requirements here are driven by legislative and regulatory obligations to ensure a safe and reliable network. Reliability represents 62 per cent of the overall costs proposed in the Business Plan submission and is of high stakeholder importance.

It is clear that the outputs are to be measured in network risk points using the Network Asset Risk Metric (NARM) methodology, energy not supplied (ENS) and injury frequency rate. Costs have been categorised into lead assets, non-lead assets, maintenance and safety.

The Business Plan is backed by an extensive set of more detailed, proposed investment decision papers, which support the case for individual asset category replacements. The costs of maintaining assets are also included in this section and efficiencies identified in the RIIO-1 period are reflected in the Plan.

## **Stakeholder engagement**

The Group has seen good evidence of broad engagement and insight gathered by NGET to reinforce its planning. Early engagement showed that stakeholders are not prepared to accept any decrease in network reliability levels. The main priorities identified, therefore, were reliability now and in the future, and value for money. A detailed stakeholder engagement log has been produced, which identifies 12 topics and outputs that stakeholders were engaged on. Eight stakeholder groups were identified, and different channels were used to engage these groups, ranging from bi-lateral meetings to webinars.

The User Group was pleased to see a specific stakeholder engagement log for distribution network operating companies, which summarises the bi-lateral engagements with each company. The use of clear case studies here has also helped to show how aligned the transmission and distribution sides of the network are

## **The challenge process**

The User Group raised a range of challenges in this area and NGET sought to address all of them. An important area of challenge, posed to NGET early in the process, was the need for consumer engagement. NGET indicated that this was its biggest challenge, as it was finding it difficult to adequately articulate, for example, how increased reliability directly affected ENS. NGET reviewed its engagement approach and undertook the willingness to pay exercise, in collaboration with the Scottish Transmission Owners. This was further supported with acceptability testing, showing there is now a strong evidence base for consumer support for reliability.

Later in the process, following review of the July draft of the Business Plan, NGET was challenged to pull out the main material changes that had been made to the Business Plan as a result of stakeholder feedback – because the User Group felt it was not clear enough. Nevertheless, the golden thread summary for reliability clearly shows the links between engagement, outputs and costs and can be found in the Golden Thread Annex (ET.01 Golden Thread Summaries).

Some of the main challenges have been on the extent of some of the replacement programmes, such as overhead lines and protection/control; the deliverability of these components of the Plan; and the extent to which best practice/innovation has been reflected in the proposed costs.

### **Changes to the Business Plan**

Until the publication of the July draft Plan, the User Group had limited visibility of the detailed content behind the initial proposals discussed at earlier meetings. However, the July draft Plan was accompanied by an extensive set of draft investment decision pack papers on individual asset group replacement proposals. These were supported by cost benefit analyses (CBAs) where alternative options were available.

The User Group had raised earlier challenge around the need for a stronger narrative on the strategic context, and on RIIO-1 performance and outcomes. In particular, the Group wanted to understand the learning and efficiencies that had been baked into RIIO-2 and what the clear forward plan was for the next five years into RIIO-3. NGET responded by including a description in the July draft Business Plan of how its strategy aligned to stakeholder needs, which provided the golden thread through to its proposals for reliability. This narrative was further strengthened in the October Plan following further challenge from the User Group.

Another important challenge related to the deliverability of the proposed Plan. This has been challenged at a number of User Group meetings and assurances were provided at the highest level that this programme can be delivered – and that NGET does or will have the capacity to deliver the quantum of work outlined in the Plan. This has been clarified in the deliverability chapter (Chapter 16) of the Business Plan, which clearly shows how the critical resources for the increased overhead line and protection and control programmes will be sourced, so the outputs can be achieved.

The scale and cost of investment in asset management capabilities were also challenged. In its response, NGET indicated that costs were benchmarked through Gartner and the evidence has been strengthened in the Business Plan.

NGET had been challenged to improve its explanation of the transition from Network Output Measures (NOMs) to NARM. NGET explained that no like-for-like comparison could be made, given the fundamental difference in the methodologies; NOMs chooses interventions based on asset health, while NARM prioritises monetised risk and includes the probability of failure. NGET shared the Ofgem report on the NARM methodology and page 89 of the Business Plan now provides more context. A Plan Build Annex A9.19, which describes the approach to building the Plan with NARM, has also been provided.

NGET has also explained that the deliverable is NARM and that, as a result, it is largely not committing to deliver particular outputs at particular places. It was challenged on the reasons for this and explained that its asset base and investment drivers are mostly NARM-driven for a large amount of small, individual asset types. By contrast to the National Grid Gas Transmission (NGGT) Plan, there are fewer large projects or non-NARM investment drivers.

The longer-term view of network risk was incorporated between the July and October Plans. This showed the change in network risk in the RIIO-2 and RIIO-3/RIIO-4 periods and provided better context for the nature of the proposed scale of asset replacement investment in RIIO-2. NGET has also better indicated the benefits that consumers have received through its performance in RIIO-1 – and how much lower expenditure will be in RIIO-2 as a result of efficiencies being baked into the RIIO-2 plans.

Supporting evidence for this has been given in the RIIO-1/RIIO-2 Annex (A9.04 T1-T2 Interactions), which provides the context of what has changed between RIIO-1 and RIIO-2.



The October Plan provided more detail on the forward sweep of the model from RIIO-2 into RIIO-3 and RIIO-4. Overall baseline costs have reduced since the July version of the Plan.

### **Justification**

The investment decision papers improved between July and October, with more detail and supporting evidence provided in justification papers. Two non-load related RIIO-2 justification papers for transformers and protection were provided ahead of the October Plan revision. This provided another level of detail in support of the proposed investment, and showed what the level of risk associated with these assets was predicted to be at the end of RIIO-2 as a result of intervention.

### **Vertical themes**

**Innovation** The Plan now adequately reflects innovations that were identified and implemented in RIIO-1. Examples of innovation are provided in the Business Plan narrative, such as overhead lines, transformers and switchgear, with more detail in the individual investment appendices. These innovations have led to either a volume reduction through life extension, better scope management or cost reduction from more efficient contracting/resourcing.

**Benchmarking** The costs of the proposed Plan have been based on applying either the existing costs, where benchmarking shows that NGET is better than other transmission operating companies or, in activities where NGET's costs are higher, by applying an average of the benchmark costs. NGET references ITOMS as the benchmarking group for operating and maintenance costs. For capital investment, TNEI carried out benchmarking. The benchmarking methodology for capital costs is described in Appendix A14.02.

**Whole systems** A good whole-system thinking approach is clearly articulated in support of the three major cable replacement project case studies.

**Trade-offs** NGET highlighted the two main consumer trade-offs in its October Plan, following challenge from the User Group to clearly demonstrate this. The first related to maintaining reliability in order to allow more flexibility in the future. The second was to do with affordability versus reliability options in the period where stakeholders were engaged on a number of options to provide more affordability, but less reliability. Evidence was provided to show that stakeholders opted to maintain reliability.

**Incentives** The User Group challenged NGET to show greater justification for its proposed ENS incentive target, in order to be confident that it is pitched at the lowest reasonable level. NGET presented further detail to the User Group on the essence of the incentive, which is all about ensuring delivery of reliability at levels requested by stakeholders in an efficient manner – and also went through performance in RIIO-1. NGET explained that the target for ENS is based on a long-term average, to ensure that the incentive captures rare, high-impact, low-probability events. It was this aspect of ENS that was at the heart of NGET's intention to keep the methodology for RIIO-2. Due to its performance so far, the target has become tougher. Despite this, the User Group further challenged NGET to ensure that this was acceptable to stakeholders. As outlined in this report's chapter on stakeholder engagement, NGET will, early in 2020, undertake engagement with stakeholders on the more detailed design and calibration of incentives.

### **Conclusions**

NGET's proposals on reliability have developed since the July Plan, with changes to some of the volumes. Overall proposed costs have been reduced and the content of the justification reports better supports the individual investment decision papers. The User Group is also satisfied with the evidence provided by NGET to justify the deliverability of the programme.

## Protection from external threats

**Ofgem output category:** What consumers want and value from networks, maintaining a safe and resilient network

**NGET chapter:** We will protect the network from external threats

This priority focuses on the importance of both enhancing and maintaining resilience of the NGET network to ensure its assets are protected from unforeseen events, such as cyber and physical attacks. It represents eight per cent of NGET's baseline total expenditure (totex) and is of high stakeholder importance.

The UK government, in conjunction with the Centre for the Protection of National Infrastructure (CPNI) and National Cyber Security Centre (NCSC), set requirements for the appropriate levels of physical and cyber resilience to be achieved in the national interest. NGET has to work with these agencies to identify the most efficient way to meet these requirements.

The Security of Network and Information Systems (NIS) Regulations 2018 set out the requirements for a coordinated response across network companies. The aim of this is to minimise the risk of cyber-attack and the resulting impact on UK critical national infrastructure (CNI), the economy and consumers. The NIS regulations apply to a defined list of operators of essential services (OES), each with a relevant competent authority (CA) supporting and monitoring compliance. National Grid (NG) is a designated OES and, within the energy sector, the CA role is jointly held by the Department for Business, Energy and Industrial Strategy (BEIS) and Ofgem.

Growing security risks and increasing and evolving threats mean significantly increased costs. As part of the RIIO-2 business planning process, there is a need for confidential IT security and cyber resilience plans to be agreed with government and Ofgem through the framework described above. This means that the plans must adhere to national policy requirements, which are not in the public domain.

This priority also focuses on protecting the network from damage caused by extreme weather. NGET works in close collaboration with the ETR138 Task Group set up by the Energy Networks Association in 2007. This group, which includes NG, Transmission Owners (TOs), Distribution Network Operators (DNOs), Environment Agencies, Ofgem and BEIS (previously Department of Energy and Climate Change), aims to review the appropriateness of flood protection guidance, while considering latest threats information.

Another area of focus is on making sure that a resilient operational telecommunications (OpTel) network is maintained. This is essential to running a reliable energy network and providing physical security and Black Start capabilities, which is the final area of focus. Black Start is the worst-case contingency for the UK electricity supply industry. The probability of it occurring is very low, but consequences are severe. The seriousness of such an event is recognised by government and referenced in the National Risk Register.

This has been a challenging area for the User Group to assess, given the limitations imposed by the confidential aspects of the proposals. Hence, in January 2019, the User Group decided that, while this was a high materiality topic that was important to stakeholders, it was also an area where the Group had relatively little direct influence. The User Group's main focus, then, would be on obtaining necessary assurance from NGET on the process followed, and challenging NGET to demonstrate value for money and justify expenditure, in terms of optioneering and benchmarking where transparency was possible.

### **Stakeholder engagement**

On stakeholder engagement, NGET developed a detailed, golden-thread summary. This shows how the key stakeholder priorities links to engagement, through to outputs, costs and consumer benefit across five areas – cyber, physical security, OpTel, Black Start and weather resilience.

Further detail is provided in a comprehensive engagement log. This adequately sets out engagement with the industry through a number of working groups, including with key stakeholders BEIS, Ofgem, NCSC and CNPI on the detail of the plans. These groups focused on either an element of resilience, or an approach for holistic resilience management, such as the London Resilience Forum, E3C Cyber Resilience Task Group, and the Energy Networks Association Resilience and Emergency Planning Group.

### **The challenge process**

The User Group sought to assess how NGET had identified key future risks in relation to a sizeable increase in planned spending to £543 million. The Group challenged NGET to better articulate the impact of robust cyber security, highlighting that the level of external assurance sought by NGET and its wider security culture wasn't clear.

The User Group explored the degree of stretch above the minimum requirements set out by the CA, BEIS and Ofgem. It challenged NGET on its ambition and whether it should do more than the minimum regulatory requirement and take a confident step, or just be compliant. The User Group's view was that although the benchmark for a minimum government standard is very challenging, NGET could still better distinguish between hard requirements, meeting required standards, and its own judgement on what is resilient.

Where security concerns permitted, NGET was asked to better emphasise how it was delivering efficiency and value for money through optioneering, innovation, benchmarking and competition and to be clear, where applicable, on where and why transparency isn't possible.

Again, in the interests of transparency, the User Group challenged NGET to improve some of the detail in the Plan to give a clearer sightline on costs. For example, operational expenditure versus physical assets. The Group also wanted to see more on any overlaps with asset replacement. One example was around understanding the asset health interactions with the OpTel investment. Justification was also sought on the deliverability of the OpTel work.

The User Group asked NGET to articulate if and why assets were being replaced from RIIO-1 and challenged NGET to provide better RIIO-1 innovation information. NGET was also challenged to show more tangible examples of how it was thinking collaboratively about external threats. There was also a focus on NGET assurance, regarding compliance with process.

### **Changes to the Business Plan**

NGET has been continually open and responsive to challenges and the User Group has seen that reflected in the progression from draft iterations through to the final Business Plan. The User Group has sought and received assurance, in as far as possible, on the stretch and significant challenge in meeting the minimum standards – as well as the process of compliance and interaction with BEIS and Ofgem on what is an evolving threat landscape, substantially different and unforeseen at the beginning of RIIO-1. The User Group has received sufficient information and assurance to be content that NGET is focusing on criticality through risk-based interventions. It has also received sufficient information and assurance that NGET is futureproofing its investment.

### **Justification**

The final Business Plan has been well developed since July. NGET has answered the challenge to demonstrate value for money in optioneering, competition, collaboration and benchmarking by providing more detail and granularity, better context and better justification. NGET improved the detail in the Plan on cyber security and added an appropriate level of description of the type of assets within the programme plan, given security limitations.

### **Vertical themes**

*Innovation* NGET has provided better RIIO-1 innovation information and also provided more tangible examples of how it is thinking collaboratively about external threats.

*Uncertainty mechanisms* The User Group is content with the approach to uncertainty mechanisms, as far as it is able to assess, and agrees that it is the best way to deal with the increasingly sophisticated and evolving threat landscape. Price control deliverables are confidential for good reason.

*Benchmarking* Costs covering cyber plans for IT and operational technology (OT) were benchmarked by Gartner and included methodology and investments.

### **Conclusions**

This part of the Business Plan has developed greatly since the July submission, providing better context and justification. There is improved evidence on optioneering and benchmarking, while further granularity has been provided on OpTel, which helps evidence the justification for the spend. The User Group is content with costs and value for money, as far as it is reasonably able to assess and/or influence. It now urges Ofgem to scrutinise carefully the information that has, for the correct reasons, not been made available to the Group.

There was an outstanding challenge to NGET to provide further detail and expansion of the work done on external benchmarking; specifically requesting more clarity on the outcomes of the benchmarking exercises – in other words, what has changed and why. NGET received the outputs of this assessment in November 2019. This challenge was addressed, with the inclusion of further information on the outputs of the Gartner assessment in the final main narrative and relevant annexes. The benchmarking demonstrated that the proposed cyber investments were aligned to market costs for equivalent capabilities, based on scale, scope, geography and complexity. Therefore, NGET was not required to make any changes to its planned outputs.

## Environment and communities

**Ofgem output category:** What consumers want and value from networks, Delivering an environmentally sustainable network

**NGET chapter:** We will care for the environment and communities

This part of the Business Plan is about enhancing the environment. It covers NGET's own performance in tackling climate change and ensuring a sustainable future. It's also about addressing the impact of its activities on the natural environment, and the visual impact of assets. In addition, this chapter covers NGET's role in making a positive contribution to society, by supporting local communities, wider society, and community prosperity (through education and employment).

NGET, and its related business activities, can be harmful to the environment in a number of ways. For example, it can contribute to: climate change; pollution of the local environment; resource waste; biodiversity loss; and, through the building of infrastructure, can adversely affect the look and feel of the landscape. Transmission network infrastructure has a long asset life and its environmental impacts can persist for many decades.

As a monopoly provider, NGET's infrastructure reaches into many communities. It employs 2,605<sup>8</sup> staff, procures services worth £935.45m<sup>9</sup> a year, and makes annual profits in RIIO-1 on average of £761m<sup>10</sup>. As such, the company is arguably well placed to have a positive impact on the lives and economies of many employees and communities respectively.

In relative costs, the materiality of this chapter is low as it forms four per cent of the baseline total expenditure (totex). Baseline proposals of £211.6m a year in RIIO-1 are increasing to £255m in RIIO-2. The bulk of that cost is fleet vehicle replacement and Visual Impact Provision (VIP). In addition, NGET is proposing two uncertainty mechanisms – £150m for an SF6 replacement programme and £50m on Urban Improvement Provisions (UIP) plus a Consumer value proposition (CVP) reward of up to £37.25m. The User Group has, therefore, particularly focused on these areas.

However, in general terms, environmental issues have risen up the public, business and political agendas. Social expectations on monopoly companies have also grown in recent years, making these 'relatively' lower-cost areas of higher importance. National Grid (NG) research, for example, found decarbonisation as being a top priority, along with reliability. Decarbonisation was the second highest consumer priority in the company's Populus study in 2018<sup>11</sup>. The impact of NGET's work on communities and the environment was deemed most important in one online survey, ranking above reliability and cost of the network.

Corporate social responsibility (CSR) is already established within NG. For example, Environmental Management System (EMS) ISO14001:2015 covers all aspects of operational

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<sup>8</sup> [National Grid Electricity Transmission Plc Annual Report and Accounts 2018/19](#)

<sup>9</sup> [National Grid Electricity Transmission Plc Annual Report and Accounts 2018/19](#)

<sup>10</sup> [National Grid Electricity Transmission Plc Annual Report and Accounts 2018/19](#)

<sup>11</sup> The Populus Study was a nationally representative consumer study, conducted in November 2017 among 2,081 household consumers. As part of the study, which also covered brand familiarity and brand image for NG, a max-diff exercise was included. This focused on a list of 17 of NG's main activities (current or potential future) across electricity and gas, and established their importance and relative priority among the respondent base. It was used as a source of data to check and confirm NGET consumer priorities.

and non-operational businesses in the UK and NG has signed up to the UN Sustainable Development Goals by 2030.

The User Group has held several discussions on this priority, initially focusing on the three engagement logs that relate to this area – community, environment and visual impact – which have now been combined into one log. This was followed by sessions on: early proposals for the Business Plan; the July draft Business Plan proposals; a review of outputs and the CVP. In addition, there were several deep-dive sponsor/buddy sessions with NGET. The Chair of the User Group also met twice with Chris Baines, the Chair of the VIP Stakeholder Advisory Group, and one member of the Group observed the relevant willingness-to-pay qualitative testing.

### **Stakeholder engagement**

The quality of engagement has been generally sound. The method has been strategic, proportionate and iterative, with gateways to review approaches, feedback and stakeholder insight, including the playback consultation, which took place in February this year.

There was an initial lack of visibility around how different views from different regions and types of stakeholders had been taken into account – including from domestic and, in particular, business customers, some of whom pay the most significant part of the costs. This has since been resolved. There is, however, little evidence of engagement on accelerating action to tackle climate change, or who should pay – current or future consumers. It is not always clear how NGET identified and responded to the needs of hard-to-reach groups and there seems to be little ongoing engagement, in areas outside of VIP, on communities.

Good feedback was received from the Chair of the VIP Stakeholder Group, and the stakeholder group itself, via a survey of its members, on NGET's engagement approach. NGET also worked with Scottish Transmission owners (TOs) to share best practice between their respective VIP stakeholder engagement approaches.

There is a relatively high consumer willingness to pay at £10-15. Acceptability testing found strong support for investment in the improved environmental outcomes: 87-91 per cent for household respondents and 87-90 per cent for business customers. It is seen to be almost as important as investment in safety and reliability by both domestic and business customers. The picture is more complex on combined environment and local community investment. This ranks mid to low, as "proposals are not as far reaching as they [customers] would prefer" and because social proposals are seen to only impact a handful of communities.

### **The challenge process and changes to the Business Plan**

NGET has been receptive to feedback. The inclusion of 'caring for communities' in its high-level commitments reflects stakeholder feedback and User Group challenge; as does the proposal for a UIP. An initial proposal for resilience advice was a clear response to the User Group and its discontinuation – and the reasons for that – are supported by the Group. However, the Group continues to encourage NG to explore how it can play its part in whole systems resilience. For example, South East Water explained that they would welcome resilience data from NG to help them with their prioritisation of works to communities with the most vulnerable customers.

The User Group challenged the company to adopt a more strategic approach to demonstrate how environment and, in particular, 'communities' fits within its wider corporate vision of: 'we will exceed the expectations of our customers, shareholders and communities today and in the future'. The company moved from what was effectively a list of things it was doing on social CSR to a more strategic approach – which it said sits within a societal contract strategy



covering heat, electricity, transport and communities. However, by the time of the October Business Plan iteration, the User Group was still unable to gauge the level of NGET's ambition.

Linked to this, the User Group challenged NGET to engage with stakeholders on what they thought the company's role should be on social and environmental issues, and then to clearly articulate this in an improved way. Again, the Group heard NGET express a strong rationale around its role, but by December some of the more innovative proposals had been removed from the Plan as they were not sufficiently developed. The Group welcomes the commitment to engage in RIIO-2 on what the company's role should be on important environmental and social issues, in particular affordability. But this should not be done in isolation. In the case of the latter, NGET could facilitate a nationwide discussion on this, which considers the company's role alongside other parties, including suppliers, network companies, BEIS and Ofgem. There are clearly some customers who think NGET has a role to play here.

NGET has responded well to the Group's challenge to become more transparent on historic performance.

The User Group generally pushed NGET to provide more detail and transparency on its approach to optioneering, including explaining where proposals were not taken forward and why, and responding to customer concerns. For example:

- Approach to VIP – while remaining cognisant that the regulatory framework sets the parameters for activity in this area, the Group challenged NGET to respond to customer concerns about the visual impact of its activities on sites that are not of outstanding natural beauty and in deprived areas. This led to NGET proposing the UIP – to improve assets or public spaces in disadvantaged, urban communities. This has been tested through acceptability research and in-depth workshops and has received an excellent response. The Group is supportive of NGET's proposal for independent governance on the selection of projects, similar to that in place for VIP. As outlined in the relevant chapter of this report, NGET has now included this as a CVP and this has the support of the Group.
- Regional differences – the User Group pushed the company to better demonstrate how it has understood and addressed regional differences, including those of the devolved Welsh government and city mayors. This has been the catalyst for an NIA-funded innovation project to map out an economically and technically suitable pathway for South Wales to decarbonise. It also takes into account the impact on local industries and the economy as a result of the energy transition.
- The Group challenged NGET to adopt a braver approach to addressing SF6<sup>12</sup> leakage. SF6 is the biggest part of carbon reduction and was the area the Group had most concerns about. The Group requested cost information and evidence that the proposal was ambitious. Benchmarking identified no mention of the use of SF6 alternatives. NGET said that technology is not available, despite innovation being under way. The User Group is pleased to see that NGET responded to its challenge by proposing a CVP, supported by the Group, to find an alternative to SF6 as noted in the innovation chapter. In its net-zero pathway, NGET has also outlined its plans for SF6.
- SF6 experts and consumers have, however, confirmed support for a targeted SF6 replacement approach for RIIO-2. The User Group, therefore, welcomes final proposals to evolve the SF6 uncertainty mechanism. This updated set of principles will be used to create a methodology to assess the 'best-fit' intervention for a particular asset leak, as well as to be able to deliver beyond 33 per cent.

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<sup>12</sup> Sulphur hexafluoride (SF<sub>6</sub>) is an organic, colourless, odourless, non-flammable, non-toxic but potent greenhouse gas

- Approach to carbon offsetting and the extent of its materiality – the User Group pressed NGET to better demonstrate its journey in this area throughout RIIO-1 and the level of stretch proposed for RIIO-2. Consumers are cynical about offsetting. A detailed outline of the options associated with carbon offsetting is now included in the Business Plan.
- NGET has changed approach to tackling vulnerability and affordability.

On costs, the User Group challenged NGET in a number of areas to demonstrate better how it is delivering value for money. It also pressed NGET to articulate and acknowledge where activities might save it money – for example, by reducing waste to landfill. This led to a clearer justification of costs; discretionary versus core.

The Group noted that the costs associated with the VIP provision are high, but acknowledged that the costs are set by Ofgem. The Group queried how best value for money on projects could be demonstrated. NGET explained that once a project has been approved by the VIP Stakeholder Advisory Group, it goes through a rigorous, bottom-up cost-assessment exercise with Ofgem. The Group is broadly comfortable with NGET's response, but Ofgem is best placed to carry out that assessment. Again, while recognising that the regulatory framework for VIP sets the parameters for NGET, the Group still believes that the company can do more to draw out the economic and wider social benefits of VIP projects.

On electric vehicles (EVs), the User Group pushed NGET to justify its proposed allowance for a fleet of EVs. Originally, the company said it was unlikely to need extra money for EVs, but now proposes £18m for a three-to-four-year payback period. The Group wanted to understand why NGET proposes to receive an allowance for this and not for petrol/diesel, particularly as it will see lower costs in future if it keeps EVs beyond three-to-four years. Since that initial discussion in May, NGET has performed a comprehensive cost analysis and forecasting exercise, which included engagement with all the mainstream (plus other non-mainstream) manufacturers. The analysis indicates that vehicle fuel is assumed 43 per cent cheaper for an EV (£390/y) compared to an ICE (petrol/diesel) vehicle (£1,368/y). However, vehicle hire is assumed to be 10 per cent more for an EV compared to an ICE vehicle, while purchase costs are also higher during this early adopter period. NGET's approach is, therefore, that until there is cost parity between ICEs and EVs (which they expect could happen in RIIO-3), it needs to make a request for funding to accommodate the additional cost for the new EV technology. This is standard practice for a price control.

On performance commitments, the User Group challenged NGET to better quantify and justify its proposed approach. It was asked to explain why the stated outputs had been selected, the measures chosen, and the targets proposed – and to demonstrate how they are stretching, specifically via third-party expert assurance. On performance commitments, NGET has undertaken some expert engagement. The User Group would recommend that Ofgem considers whether the targets are ambitious enough, all things considered.

Following User Group challenge, NGET undertook a benchmarking exercise on social and environmental proposals. This showed that the company was likely to be behind other utilities in a number of areas unless improvements were made. This led NGET to make a number of changes, such as creating a substation energy efficiency programme.

A number of outputs were cut following User Group feedback, potentially saving customers a maximum potential reward of £14.29m over five years had Ofgem accepted them. On EVs, NGET has revised down its target from 70 per cent to 60 per cent. However, the User Group would welcome Ofgem probing some of the assumptions that underpin this to make sure it is genuinely stretching.



Benchmarking, based on the proposals published in July by other networks, suggested that NGET's proposals are below Scottish & Southern Electricity (SSE's) published draft targets for waste recycling – zero waste to landfill plus 60 per cent recycling rate, compared to 70 per cent for SSE on all streams. A potential gap was also flagged on its proposals on pollution reduction. NGET has, however, undertaken an extensive review of all activities. The main area identified, albeit of low instance, was oil pollution. An oil management and containment strategy has been agreed with the Energy Networks Association (ENA) as detailed in the Environmental Action Plan (EAP). NGET is also, seemingly, leading on biodiversity by committing to increase the natural capital of non-operational land by 10 per cent by 2025/26.

The User Group queried why carbon reduction targets were not more ambitious. It challenged NGET that if it had a commercially viable solution to SF6, then the targets would be bolder.

On the draft EAP, the User Group had, by October, no material concerns. It felt that it had a clear and systematic methodology and had been reasonably quantified. Further clarity was required on the timings for some of the commitments. NGET was urged again to review the 60 per cent target for recycling, as this was not considered stretching enough.

By October, the User Group was clear about NGET's aim to provide climate and sustainability leadership in the widest sense to include responsible business practice. However, the Group had not seen this level of ambition supported by evidence of Board-level leadership, which would drive sustainable ownership across the business. Neither was there evidence that it would be measured via tangible commitments, that would hold NGET to account. As previously mentioned, the NGET Board has set out its net-zero roadmap in response and this chapter of the final submission now contains a clear set of tangible commitments. The User Group welcomes this response.

### **Conclusions**

The Group is more confident about the overall, broad approach and feels the Business Plan narrative and EAP are reasonably well justified. The honesty about poor performance on the target for 20 per cent reduction in SF6 leakage is good (p123) and the ambition on alternatives and the 34 per cent reduction (p127) is also strong.

There is a question among some members of the User Group around NGET's level of ambition. NGET identified supporting communities as a key customer priority for its Business Plan, and consequently this was reflected in its priority headings. In October, some innovative proposals on fuel poverty and resilience were put forward, but this has now changed. NGET is now narrowing the focus on skills and enterprise, which it says is a more strategic and robust approach. While the User Group understands this, it believes that there is more NGET could do, in its unique position, to address social issues. In particular, affordability at a national level, and the Group is disappointed with the lack of innovation here. The User Group encourages Ofgem to explore whether this is, in practice, an increase in commitment in this area since RIIO-1, and whether NGET is in line with relative benchmarks. This is particularly important given the current focus on trust and legitimacy for monopoly energy companies.

The User Group, nevertheless, welcomes the commitment to create a UIP and supports the proposal that the focus of this should be decided by the local communities themselves (within a broad scope agreed by NGET).

Generally, however, the Group considers there is evidence of a coordinated approach with wider business planning processes, but would not yet consider this a whole systems approach.

### **Disagreements between Group members**

Within the User Group, there remains a difference of view, specifically by the industry large user representative, on whether NGET should have a role on social issues.

# Innovation

**Ofgem output category:** Driving efficiency through innovation and competition

**NGET chapter:** We will be innovative

This priority is about NGET's innovation plans to help deliver its strategy for 2030. This aims to effectively respond to the need to transition to clean energy and drive down current and future consumer costs.

While in financial terms innovation does not, relatively, have a significant price tag for NGET, the User Group recognised that the company's approach to innovation is indicative of its culture and an ability to adapt and respond to the challenges it faces. Namely, the transition to a net-zero future and changing consumer and customer expectations.

The ultimate question from the User Group was whether NGET was fit and ready for the future. For NGET, this is critically important, because the company has an important position in Great Britain's energy infrastructure. Its customers, consumers and the wider stakeholder community increasingly expect it to take a leading role in the sector. The User Group recognises that without effective innovation, customers and consumers would incur a potentially exponential increase in cost. This, invariably, would have the greatest impact on the most vulnerable in our society.

## **Stakeholder engagement**

Although NGET has undertaken much needed innovation activity in RIIO-1, the User Group found that the lack of a framework – and absence of a clear innovation strategy – has made it challenging to achieve consistent, qualitative stakeholder engagement and feedback. While stakeholder events have taken place, the company has been unable to actively demonstrate the golden thread from stakeholder input through to business outcome.

As a result of User Group challenge, stakeholder engagement has become more systematic over the past 12 months. The company now has an innovation strategy and an engagement strategy, with clear commitments for RIIO-2, which will enhance stakeholder engagement significantly.

Given the rate of change in the sector, NGET has asked for a reopener in 2022 within the Business Plan. This will enable greater stakeholder engagement in 2021 to ensure that all stakeholders are able to clearly and consistently contribute to the innovation strategy and plan.

## **The challenge process**

The absence of an innovation strategy also made it difficult for the User Group to understand and assess the company's approach to innovation.

Throughout the business planning process, the User Group therefore raised considerable challenge in this area. The Group expected a clear innovation strategy, which showed a clear line of accountability and ownership for innovation running from the National Grid (NG) Plc Board to the NGET Board – and then through to operational activity. It has taken the company 12 months to show evidence of a strategy. The User Group was concerned at the apparent lack of a holistic framework for innovation, ambition or direction.

The User Group requested clarity around the wider company of NG and the value it brought to the regulated business. It appeared to the Group that the culture of innovation had not been embedded across the NGET business. It was apparent that a process of innovation was in operation in asset management, and through technical innovation, but not immediately evident

throughout the business. The Group also felt that, while NGET had innovated well with a small, closed community of stakeholders, it remained inaccessible to wider stakeholder communities.

NGET was asked for evidence of the value of innovation in RIIO-1 and how successful the company had been in rolling this out into business as usual (BAU). It also requested evidence of the savings baked into RIIO-2, with a view to reducing costs for customers and consumers.

The User Group felt that there was no correlation between NGET's statement to be an industry leader for innovation and the lack of clarity and ambition within the business for innovation.

### **Changes to the Business Plan**

NGET has been extremely open and responsive to all challenges the Group has made. All significant challenges have now been responded to. The company has listened to, and worked hard to understand clearly, the challenges from the User Group. It has done this with a genuine desire to address, positively and effectively, those challenges, which for the most part it has delivered on.

A main challenge to NGET was in relation to Board ownership and commitment to innovation, and to creating an organisational culture that fosters innovation. It was posed as a direct challenge to the Board to demonstrate tangible commitments for embedding innovation within the culture at all levels of the organisation. This resulted in NGET presenting an innovation charter for sign-off by the Board in November 2019.

NGET has also produced an innovation strategy that provides the vision and framework within which its activity and approach to innovation sits. This has provided the User Group with a greater degree of confidence in NGET's ability to deliver the commitments within the Plan. This will also facilitate much improved and consistent stakeholder engagement in RIIO-2. The innovation strategy also demonstrates ambition, energy and pace – and what the company intends to achieve through innovation in RIIO-2.

A further challenge was around the governance, outcomes, value and whole systems approach of the Deeside Innovation Centre. NGET has now confirmed the level of independence in the governance of this facility, which will ensure openness and transparency for the whole energy system.

### **Justification**

Justification on the benefits of innovation to the consumer has been provided in the chapter, with further detail in the annex NGET A12.02 Innovation on RIIO-1 performance. These also bring out the learnings from RIIO-1 into RIIO-2 and the most recent Network Innovation Allowance (NIA) proposals demonstrate the benefits into RIIO-3.

### **Vertical themes**

Uncertainty mechanisms The planned use of the uncertainty mechanism to manage unforeseen requirements for innovation – due to the fast-moving decarbonisation agenda – seems sensible and should ensure greater stewardship of consumers' money. Likewise, the reopener will allow NGET to revisit the assumptions a year into the price control, and ensure maximum value for all stakeholders.

Trade-offs The User Group has found a contrasting picture in terms of trade-offs in innovation in the Business Plan. Trade-offs have largely been made on innovation as part of the decision-making process in other areas. As a result, trade-offs are more clearly evidenced in areas where NGET is strong traditionally. For example, in engineering-led areas such as reliability, safety and connections activity. These areas of the Plan narrative show a clear line of sight in terms of optioneering and decision-making.

## **Conclusions**

Innovation has been a major area of concern for the User Group and, in response, NGET has made great strides in addressing the concerns and challenges of the Group. It has shown great humility throughout the process, seeking help and guidance on how to improve its approach to innovation. This is clearly reflected in the December Business Plan and shows the company's genuine commitment to adapt, and meet the needs and expectations of its stakeholders. This will ultimately make for a better business and increase value to customers and consumers.

In posing the User Group's concern around embedding innovation into company culture and across the business – and its direct challenge to the NGET Board on demonstrating leadership and commitment – the User Group Chair received a very positive reception. The Group welcomes the NGET Board response in committing to a Board charter with tangible commitments.

Although the User Group feels that the Business Plan does not consistently reflect the views of the widest stakeholder group, it is confident that the commitments and approach detailed in the Plan will provide a mechanism to ensure the company can be held to account in future years. This will help ensure that the approach and outcomes it delivers as a consequence of innovation represent value to existing and future consumers.

This longer-term, positive intent is reinforced by NGET's commendable commitment to an enduring role for the independent User Group – to continue to challenge the business on its delivery of innovation commitments in RIIO-2.

In terms of the detail, NGET recognises that, historically, innovation has been technically focused on the asset management of the business, and this is reflected in the Business Plan. Innovation has been embedded within the chapters of the Plan to varying degrees. Chapter 7 – transition to the energy system of the future, and chapter 9 – a safe and reliable network, include case studies along with clear, robust and systematic optioneering. This is supported by clear evidence of the savings achieved in RIIO-1, which are included as savings to the consumer in RIIO-2 through reduced costs.

Other chapters are, however, not as well developed in terms of innovation optioneering and cost savings. This reflects the level of maturation of innovation activity in non-technical business streams.

## **Disagreements between Group members**

In terms of innovation, the User Group had one fundamental disagreement between some of its members. The industrial large user representative queried whether NGET should have a role at all in innovation. They felt it was not a transmission company's role to be far-reaching and innovative, but to minimise all costs, provide a steady-state service to transport electricity, and ensure it can be taken on and off the system effectively.

In contrast, other members wondered whether, as a large infrastructure company facing Net Zero challenges, NGET was actually investing enough in innovation. Some benchmarks suggest an average of between three and five per cent of turnover should be invested in innovation. This is much higher than NGET's conservative investment of 1.2 per cent.

# Transparency

**Ofgem output category:** Meet the needs of consumers and network users

**NGET chapter:** We will be transparent

This priority is about how NGET demonstrates transparency in its financial and operational performance; how what it delivers is in the interests of its stakeholders; and how it will ensure transparency in how it delivers on the outputs and commitments that improve society.

As a percentage of NGET's overall RIIO-2 budget, this has low materiality at £16.75m. However, in reputational terms, it is recognised as increasingly important. Especially given the link between transparency and the wider debates around legitimacy and trust in the energy sector. Given the relative cost and ongoing nature of the proposals, the Group deemed this a low priority area. As a result, it undertook just one deep dive in August 2019, alongside reviewing the October and December Business Plan submissions.

## **Stakeholder engagement**

The User Group asked the company to clarify the customer segments interested in transparency and to show how it had responded to different concerns. This is now reflected in the golden-thread summary.

The Group welcomes a proposed increased range of metrics to be reported on, including key societal measures and the six capitals approach; alongside a dedicated webpage on environmental performance. However, the User Group has cautioned NGET not to confuse increased metrics with increased transparency – indeed, too much information can confuse and obscure. The Group encourages the company to continue to engage with stakeholders in the RIIO-2 period, to understand precisely what information different stakeholders want – and how and when they want it. The Group will be able to follow this up as part of its proposed, enduring role to make sure important information is transparent and accessible.

## **The challenge process**

NGET already publishes an array of information, as is good practice for a listed company. The Group challenged the company to demonstrate that its proposals were a genuine step-change improvement – and is comfortable that this is the case.

The Group pressed the company to ensure that transparency is embedded across the business and that there is evidence of this. For example, not only in the environment chapter, but also greater transparency in connections costs in the 'we will make it easy for you to connect and use the network' chapter.

From the engagement that NGET has undertaken, it is clear that consumers want 'easy to understand and accessible information'. NGET reports that its website and other channels conform fully to industry-wide accessibility standards, that it is a member of the Plain English Campaign, and that its website is Crystal Marked which is a trusted seal of approval for clarity. The Group encouraged the company to ensure that all of its communications are accessible.

The User Group raised concerns about the effectiveness of the proposed portal, given that a number of online portals have been built that have been expensive and time-consuming, and have not delivered the benefit required. Further clarity has since been provided by NGET, that its investment in the portal will allow it to structure its data in a way that supports Ofgem's energy data exchange service.

NGET was asked to recognise customers' concerns around tax in the narrative, and this has now been referenced in its approach.

### **Vertical threads**

**Benchmarking** The User Group asked NGET to demonstrate how it had benchmarked good practice in relation to transparency and how it had applied any learning to its approach. Two benchmarks were referenced: the Corporate Political Engagement Index and the Crown Estate. However, the Group noted that these appeared to have a pretty low bar – for example, simply putting information on the website and having an online report. The Group has since been provided with information about work undertaken by the Crown Estate, where it has compared NGET to other companies. This has been done in a number of different areas, including financial and people resources, NGET's network, and transparent reporting.

**Costs** The User Group queried the basis of the £16.75m baseline cost. NGET reports that the greater percentage of this – £13.75m which represents data population for the regulatory reporting pack (RRP) RIIO-2 and assurance – is an increase in operational costs to respond to Ofgem's step change in data reporting requirements. The Group, therefore, encourages Ofgem to scrutinise this further to ensure that it is a proportionate and efficient approach to its changing requirements.

### **Conclusions**

Overall, the User Group is satisfied that the transparency proposals have improved with challenge at each iteration of the Business Plan, and the staff rewards and incentives detail is positive. NGET has demonstrated a commitment to a step change in its levels of transparency in its business – and to ongoing User Group scrutiny. This gives the Group confidence that these proposals will deliver the ongoing outcomes needed by stakeholders.

## Value for money

**Ofgem output category:** Track record and Business Plan commitment, Cost and financial Information

**NGET chapter:** Our total costs and how we will provide value for money

A fundamental aspect of Ofgem's ambition for RIIO-2 is to make sure networks deliver the services stakeholders require, but at an affordable and value-for-money cost. The current baseline cost over the five-year period of RIIO-2 is £7.1 billion, excluding real price effects (RPEs), pass through costs, and non-baseline funded uncertainty mechanisms. Under this proposal, the forecast average annual revenue for NGET translates to a relatively small percentage of domestic consumers' bills, at around £23.60 a year. The implication of allowances being set at too high a level is unnecessarily increased costs for domestic consumers and non-domestic users.

There is a track record of networks companies – generally, but not exclusively – being able to spend less than the allowance given by Ofgem. This creates a perception that network companies 'pad' business plans to increase the likelihood of underspending. Setting the annual allowances at too high a rate would imply that activity is being included which is not necessary, or that the required activity is not being forecast at an efficient level. Therefore, there are two aspects impacting value for money. If the scope lacks justification, or there are inefficient forecasts, then the costs to consumers and users will be higher than necessary. The User Group's challenges to the scope and justification of NGET's proposals were underpinned by a focus on what's necessary and changed from RIIO-1 – and these have been primarily addressed through the topic-specific chapters in this report (e.g. those on external threats, reliability and connections). However, this chapter principally deals with the efficiency and affordability aspects of value for money.

In reviewing value for money, the User Group was not intent on interrogating efficiency to the extent that a regulator could do so. This is not seen as a core part of the User Group's role as it requires specific skills and would be a significant exercise, potentially replicating Ofgem's role. What the Group did focus on was the process by which the figures had been produced, as well as keeping an eye on the overall ambition on efficiency, which is fairly in line with previous regulatory processes. Efficiency commitments are reasonable, and, after User Group challenge, the business plan contains further contextual evidence. Nevertheless, the User Group urges Ofgem to test further whether the degree of stretch is sufficient. The operational expenditure (opex) productivity is more ambitious than comparable organisations but, at a time of great innovation across the industry, it is not clear how stretching it will prove to be.

### **Stakeholder engagement**

Stakeholder engagement for this priority has taken into account areas that are relevant to value for money, such as willingness to pay. More generally, NGET has undertaken acceptability testing on the draft Plan, with 89 per cent viewing it as acceptable. This is positive, although NGET does not seek to overplay the significance of this.

Explaining impacts on customer bills is important, as part of stakeholder engagement. It remains the case that the main focus for explaining this is the impact on a residential bill. It also remains, as the User Group has raised, that there is a disconnect between what customers will pay for transmission and what is presented here. This is due to transmission also including Scottish TOs, offshore, and other elements. Another factor is that charging arrangement reform is moving the allocation of costs between different user types.

However, in terms of explaining the consumer impact, the User Group agreed that NGET was overly focusing on the domestic bill, without due consideration to industrial and non-domestic users of the transmission system. The Group challenged the company to show fuller evidence that it understood the needs of all stakeholders, industrial as well as domestic.

### **The challenge process and changes to the Business Plan**

#### *a. Efficiency*

A large number of the challenges, and the scrutiny, from the User Group related to efficiency. For example, how could NGET provide assurances that the unit costs were efficient; how well could these be described to stakeholders (including, but not limited to, cyber security as there was less opportunity for the User Group to scrutinise in this area); and how stretching was the assumption about productivity/ongoing efficiency improvements. Approaches to benchmarking efficiency, both inside and outside of NGET, were also challenged.

These questions have generally been answered satisfactorily. NGET ran a number of detailed sessions to explain how the costs for the Business Plan were constructed. These were able to resolve the detailed queries raised, including how the period between unit costs being derived and the start of RIIO-2 will be treated.

NGET's approach, by making sure all costs are either market-driven or benchmarked, should provide a reasonable view of the efficient current level of costs.

Further challenge related to the ambition of the ongoing efficiency assumptions. Justification was provided for the productivity assumption of 1.1 per cent a year and offered sensible comparisons. It should be noted that this only applies to opex (and labour-related capital expenditure – capex – costs). For the remaining capex costs, the Plan maintains unit costs when lower than the industry mean. When unit costs are higher, they are lowered to the industry mean. This provides the ambition for reduced capex costs. This is at a lower rate than the four per cent commitment in National Grid Gas Transmission. However, NGET has indicated that current expectations are that costs are rising, which would make the Plan more ambitious – unless these increases are captured by RPEs.

#### *b. Trade-offs*

There was a further challenge about how stakeholder engagement had influenced costs. In other words, what trade-offs between cost and delivery had taken place. NGET has now detailed trade-offs in specific chapters.

However, the treatment of RPEs is a specific example where trade-offs had not been fully explored. RPEs have the potential to be a substantial cost. NGET's choices about how different RPEs should be treated were not fully explored in the October document. For example, while giving NGET an allowance for labour, RPEs protect customers from the risk of outturn labour costs and open them up to the risk of over-forecasting.

In response to late challenge by the User Group, trade-offs around RPEs have been more fully discussed in the final Business Plan. However, they remain largely unexplored as part of the challenge process. The User Group recognises that the treatment of RPEs in the business planning process may have been led by, and reflects, Ofgem's guidance. Nevertheless, the RPEs total more than £300m. And the User Group is clear that, when stakeholders assess costs as part of willingness to pay, the propositions should reflect the actual costs to be incurred, including RPEs.



c. *Presentation*

NGET responded to the challenge to explain the bill impact on industrial and commercial (I&C) customers, and the impact on wider Transmission Network Use of System (TNUoS) charges, by presenting analysis in the October document. This is helpful – it is potentially not NGET’s job to explain why TNUoS charges are increasing, but the context is useful.

d. *Project management efficiencies*

NGET was asked to explain how the project management process is different across the spectrum of different project sizes and to provide assurance around the efficiency of the project management structure applied and the support costs (the number of people involved to deliver the project). The Group is now content with the information provided by NGET.

e. *Business support costs and shared services*

Common business support functions across the National Grid (NG) Group (£0.5bn) are operated on a shared services model. So services such as IT, property management, human resources (HR) and finance are provided to all of the NG Group businesses. Third-party benchmarking studies have been carried out to compare support function costs with those of other industries. Normalised simple cost driver metrics have been used when making comparisons for all functions by looking at e.g. cost per FTE or as a percentage of revenue. In aggregate NGET’s costs were below (better than) the “world class” Hackett study benchmark which represents the upper quartile in both cost and effectiveness across industry and company size. In breakdown, the costs of almost all individual functions were also below (better than) the upper quartile on cost performance and where they were not, additional efficiencies have been included in the plan.

User Group challenges on ensuring sufficient ambition for efficiency improvement were consistent throughout this process. It may not be as a direct result, but NGET did commit to further efficiencies as the process went on.

The justification provided is generally good and the User Group found the Annex A14.14 RPE and ongoing efficiency particularly useful.

**Conclusions**

NGET has taken a reasonable approach to ensuring that the Plan is based on an efficient level of current unit costs – and it has been helpful in working through the detail of this. NGET has also presented a reasonable approach to ongoing efficiency, with a level of ambition that is justified to different degrees depending on category:

- a. The opex productivity assumption is more ambitious than the comparators provided (which appear to be sensible). Although, at a time of great innovation across the industry, it is not clear how stretching this will prove to be.
- b. This is also applied to labour-related capex costs.
- c. Equivalent ongoing assumptions, and, in turn, comparators, are not used for capex more generally. Commitments are made, instead, to bring the unit costs currently above the industry mean down to the industry mean. This is a reasonable approach to ensuring that unit costs are below the industry mean at the current time, but it is not forward-looking.

## Deliverability and workforce resilience

**Ofgem output category:** What consumers want and value from networks, Maintaining a safe and resilient network

**NGET chapter:** We are ready and able to deliver

NGET has presented plans for a significantly larger workload during RIIO-2. For example, in delivering reliability outputs and addressing external threats. The User Group has therefore assessed, within the scope of its remit, NGET's proposals in terms of overall deliverability and workforce planning. The User Group wanted to see more evidence that NGET will be in a position to deliver from year one, while noting the possibility of being part way through the price control period, and finding that the overall programme is running at, for example, 50 per cent of expectations.

NGET shared its initial workforce planning annex as part of its July 2019 draft Business Plan submission. The User Group strongly challenged NGET to provide evidence of a much broader business vision, including all elements of the workforce. The User Group specifically asked NGET to articulate a number of factors in developing its strategy, such as turnover, diversity, horizon scanning and innovation, staff feedback and insight. The Group also urged NGET to give a more detailed view of how much will be delivered by internal versus third-party teams during RIIO-2.

The October submission was much improved, and the User Group was, and is now, generally content with the proposals on deliverability.

# Competition

## **Ofgem output category** Driving efficiency through innovation and competition

In line with Ofgem's requirements, NGET has to demonstrate the effective use of competition in its Business Plan to deliver consumer value. This is to be based around the three types of competition outlined by Ofgem: (i) native competition (competitive tendering), (ii) late competitively appointed transmission owner (CATO) competition for high value (>£100m), new and separable projects and (iii) early CATO competition for specific projects or system requirements >£50m in value with scope for innovation. In the case of the early CATO approach, this could produce real benefits for consumers by revealing new or innovative ways of solving network problems. However, the User Group is aware that NGET is still working through the detail of the competition models with Ofgem, alongside other stakeholders.

Generally, the User Group was disappointed with the level of justification in the NGET July draft Business Plan – and competition was one important area that the Group agreed was weak in terms of demonstrating value for money. NGET was challenged to bring this out more in subsequent iterations. This resulted in a stronger narrative around native competition in the October version of the Plan. The User Group positively noted NGET's descriptions of native competition in each chapter and within Annex A14.06 – Delivering competitive value through procurement.

In light of the ongoing development of CATO models of competition, the User Group focused on those parts of the Business Plan that it could influence. For instance, where the Plan could be improved to increase the transparency of potential projects for early or late competition, or where NGET could do more to engender confidence through evidence that it is embracing competition in the consumer interest.

NGET has now clearly highlighted all projects that meet the £50m and £100m thresholds for early and late competition within each of the relevant chapters of its main Business Plan narrative. It has also provided its assessment against competition criteria and a view of whether these should be flagged or unflagged. The Group notes that an additional annex, listing all projects >£50m (ET.14 – Projects above £50million), was created for the final Business Plan submission. NGET's proposal to define a new output, a consented project, and to progress four contestable projects ready for a late CATO tender, was also seen as a positive sign by the Group.

# Appendices

## Appendix 1 - User Group Terms of Reference

### Version 1.0 – Final

Reference to “National Grid” shall mean UK Gas Transmission (GT) and the UK Electricity Transmission (ET) business entities.

Reference to the National Grid Stakeholder Group shall mean the Ofgem User Group.

#### 1. Context

Creating a truly stakeholder-led submission is at the centre of our RIIO2 business plan preparation. To support in this endeavour, the National Grid Stakeholder Group has been convened for National Grid Electricity Transmission (excluding Electricity System Operator) and National Grid Gas Transmission. These Terms of Reference have been developed in accordance with Ofgem’s published guidance on enhanced engagement arrangements<sup>13</sup>.

#### 2. Purpose of the Stakeholder Group

The purpose of the Stakeholder Group is to:

- Monitor, challenge and input into National Grid’s engagement programme with stakeholders to inform their proposals.
- Scrutinise and provide expert input and challenge to National Grid’s business plan.
- Submit a report to Ofgem, and the RIIO2 Challenge Group.

#### 3. Membership

The Stakeholder Group comprises the following:

Chair	Small customer
Large Energy User	Consumer
Large customer (x3 for Gas and x3 for Electricity)	Electricity distribution network – Electricity only
Public interest	Gas distribution network – Gas only
New/alternative business model (x2)	Electricity System Operator – Electricity only

Additional attendees:

Technical Secretary - Electricity	Technical Secretary - Gas
Director of Gas Transmission	Head of Gas Transmission Regulation
Director of Electricity Transmission	Head of Electricity Transmission Regulation

National Grid will provide additional attendees as required to facilitate the smooth functioning of the meeting.

Ofgem will be invited to Stakeholder Group meetings where appropriate.

#### 3.1 Chair

The Chair will be appointed first (as ratified by Ofgem) and must act as an individual and not as a representative of a particular organisation, or group of stakeholders. Ordinarily, the Chair shall convene the Stakeholder Group meetings.

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<sup>13</sup> <http://www.ofgem.gov.uk/publications-and-updates/riio-2-enhanced-stakeholder-engagement-guidance>

Once the Chair is appointed, National Grid cannot dismiss the Chair unilaterally without first notifying both members of the Stakeholder Group and Ofgem. Ofgem must understand the exact reasons for dismissal and may require further information, including through direct contact with the Chair and other members of the Stakeholder Group, ahead of any dismissal.

The Chair will be in place, as a minimum, until Ofgem has issued draft determination (estimated for Q3 2020).

If the designated Chair is not available, then a formal nominee shall be agreed in advance of the meeting with all Stakeholder Group members. The Acting Chair will be responsible for convening and conducting the Stakeholder Group meetings and for informing the Chair as to the salient points / decisions raised and agreed to at the meeting.

The Chair will keep under review the membership of the Stakeholder Group.

The Chair will attend National Grid Electricity and Gas Board meetings at least once a year to provide an update on the Stakeholder Group in addition to any meetings with Ofgem and any potential open hearings.

### **3.2 Technical Secretary**

The Technical Secretary shall support the Chair in ensuring the smooth functioning of the Stakeholder Group. The Technical Secretary will act as an independent support for the Chair and the Stakeholder Group, ensuring arm's length interactions with wider National Grid employees.

The Technical Secretary shall make all materials available to the Stakeholder Group members in accordance with section 5.2 below. The Technical Secretary will receive notices of absence and shall be responsible for producing the minutes and actions in accordance with section 5.3 below.

### **3.3 Role of Stakeholder Group Members**

Members of the Stakeholder Group are responsible for scrutinising and providing input and expert challenge to the business plan(s). Members will represent individually and make every endeavour to attend all scheduled meetings.

In practice, this means individual members will:

- Bring their expertise, new insights and engagement skills.
- Consider and review all documentation referred to the Stakeholder Group.
- Identify areas of agreement and disagreement, and input into the Stakeholder Group's report to Ofgem and the RIIO2 Challenge Group.
- Provide representation as an individual based on their experience and knowledge.
- Sign on to agreed programme of work/forward agenda for the Group. This will be discussed and adjusted with agreement from the Group as requirements change or are further understood.
- Be required to formally approve the Stakeholder Group's Terms of Reference.

### **3.4 Terms of Office**

Members will be appointed as a minimum, until Ofgem has issued draft determination (estimated for Q3 2020).

Members will advise the Chair of any change in their circumstances at the earliest available opportunity.

National Grid member positions shall be held for as long as the relevant position is held within the organisation.

Membership will be kept under review annually and if necessary adjusted to ensure suitable representation from across our diverse range of stakeholders in accordance with the agreed purpose of the Stakeholder Group.

#### **4. Outputs**

1. Independent report to Ofgem and RIIO2 Challenge Group.
2. Stakeholder Group Log capturing challenge and points of clarification during the ongoing business of the Stakeholder Group.

#### **5. Governance**

##### **5.1 Confidentiality and conflicts of interest**

All members must sign an agreement containing undertakings on confidentiality and conflicts of interest. National Grid will provide the agreement for signature in advance of the first meeting any new member attends. Any potential conflicts which arise following appointment of members should be identified to the Chair at the earliest opportunity.

##### **5.2 Agenda Items**

The Stakeholder Group agenda and all associated papers will be circulated by the Technical Secretary to all attendees not less than 7 Working Days ahead of the meeting date.

At the beginning of each meeting the Chair shall ascertain with the assistance of members the existence of any conflicts of interest or business separation issues arising. The agenda and circulation of materials will be managed to ensure that these issues are managed appropriately. Where a conflict of interest or business separation issue is identified those affected members or representatives will not participate in that part of the agenda or otherwise receive relevant papers or materials.

The agenda will be based on the agreed forward work programme. The meeting shall run with separate Gas and Electricity sessions with members attending their relevant session. The Chair has the right to refuse to list an item on the formal agenda, but members may raise additional items under 'Any Other Business' if necessary and as time permits.

The standard agenda will include time for a closed session with members, without National Grid representation.

##### **5.3 Minutes & Actions**

The minutes and actions of each Stakeholder Group meeting shall be prepared by the Technical Secretary.

Full copies of the minutes and actions, including attachments, shall be provided for comment to all Stakeholder Group members after being approved by the Chair no later than seven working days following each meeting.

The minutes should anonymise or redact any commercially sensitive information.

At the beginning of each meeting the Technical Secretary shall seek approval that the minutes and actions from the previous meeting are a fair reflection of the discussions which took place.

The Technical Secretary shall ensure that the list of action items is annotated with progress milestones and required completion dates.

Minutes of meetings shall be published on the National Grid website including any other documentation, such as log of challenges raised and National Grid’s response.

#### 5.4 Meeting frequency

The Stakeholder Group shall meet as scheduled, broadly following a timetable of once every two months and notice of attendance should be confirmed 14 working days prior to the proposed meeting date.

#### 5.5 Quorum Requirements

In order for the Stakeholder Group to be recognised as an authorised meeting, and for any recommendations to be valid, a quorum must be present. A quorum shall be defined as a minimum of four Stakeholder Group members and must include the Chair, or the Acting Chair.

#### 5.6 Review Timetable

The Stakeholder Group will review these Terms of Reference and the effectiveness of the Stakeholder Group every six months as a minimum with the next review occurring January 2019.

## Appendix 2 - User Group Charter

<b>Objective</b>	
Enhance the voice of stakeholders and positively impact the National Grid business plan(s) through critical review to deliver a sustainable, ambitious and cost effective outcome for consumers and stakeholders.	
<b>Areas of Responsibility</b>	<b>Success Criteria</b>
<ol style="list-style-type: none"> <li>1. The company's overall priorities and approach</li> <li>2. Direct input to identifying investment requirements and outputs</li> <li>3. TOTEX budgets</li> <li>4. Stakeholder engagement including best practice principles</li> <li>5. The company's approach to innovation,</li> <li>6. The range of scenarios to anticipate future network requirements</li> <li>7. What alternatives to the investment proposals has the company considered</li> <li>8. Any issues of particular relevance to a local region</li> <li>9. Transparency</li> <li>10. Deliverability including company culture where relevant</li> <li>11. Recommendations and influencing of Ofgem</li> <li>12. Incentive areas and principles</li> </ol>	<p>Deliver an authoritative report that results in tangible, consumer-focused outcomes that demonstrate value for money for consumers and customers. The report will also give a strong emphasis to the need for future-focused, whole industry outcomes.</p> <p>The Stakeholder Group contributions are seen as challenging and comprehensive by broader stakeholders, and result in changes to the business plan.</p> <p>Stakeholder priorities are fairly reflected in the business plan, including current and future consumers, customers and public interest groups.</p>
<b>What we will do as a team?</b>	<b>How we will behave as a team?</b>
<ul style="list-style-type: none"> <li>Add value</li> <li>Maintain independence</li> <li>Challenge constructively and provide specific feedback</li> <li>Bring a diversity of views</li> <li>Focus on outcomes and keep within scope</li> </ul>	<ul style="list-style-type: none"> <li>Show empathy</li> <li>Appreciate diversity of views</li> <li>Will make effective use of time</li> <li>Contribute to good quality discussion and challenges</li> <li>Help restore confidence and trust in industry and regulation</li> <li>Respect National Grid's ethos and principles</li> </ul>

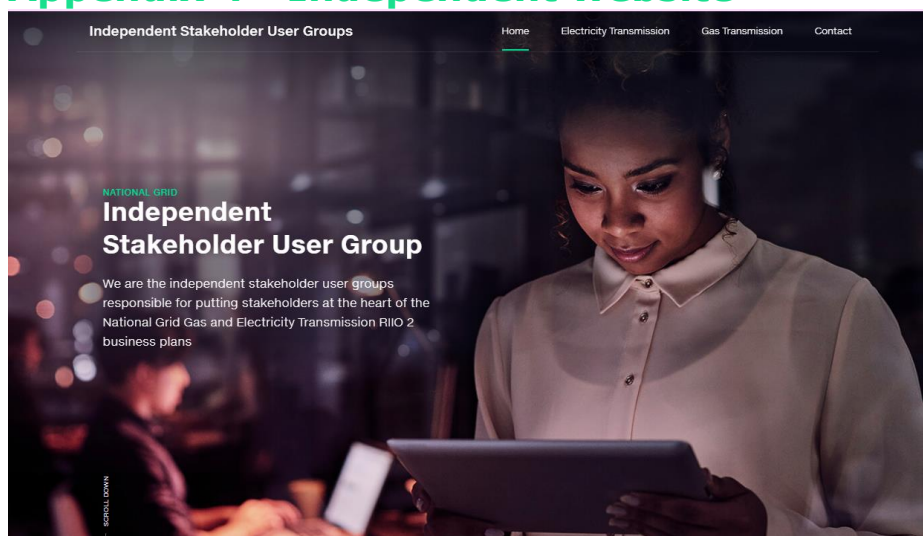
## Appendix 3- Social media guidelines

### Social Media Guidelines for the Stakeholder Group

- Social media posts are fine if they are agnostic to meeting content (e.g. highlighting meeting attendance, etc.) or, if including content, are recorded in the meeting agenda item: “Agree what will be published following the meeting”
- Social media posts should be made from individual accounts
- Be sensible and responsible, for example:
  - Don't post personal, sensitive or confidential information
  - Don't include any information that is copyrighted
  - Don't publish any views on behalf of National Grid or other member company
  - Don't make false or derogatory statements about anyone's business practices, character, financial status, morals or reputation



## Appendix 4 - Independent website



<https://isug.nationalgrid.com/>

## Appendix 5 – User group business plan evaluation criteria

National Grid RIIO2 Stakeholder Challenge Groups Business Plan Evaluation Criteria

These (non-exhaustive) criteria will be considered in conjunction with [Ofgem RIIO-2 Business Plan Guidance October 2019](#)

Stakeholder Group Evaluation Area	Stakeholder Group Evaluation Criteria
RIIO requirements	<p>Is the business plan well justified, with a clear rationale, and includes supporting evidence for the company’s proposals?</p> <p>Has the company demonstrated whether its proposals for expenditure efficiency / service quality improvement are sufficiently stretching?</p> <p>What evidence has the company provided to allow them to assess how the output targets and expenditure proposals: compare to historic levels of performance; compare to other network companies; compare to other industries?</p> <p>Has the company considered a range of scenarios (including extreme scenarios) to anticipate future network requirements?</p> <p>Has the company developed an appropriate approach to managing uncertainty and associated risk?</p> <p>Has the company tested the business plan against an appropriate range of scenarios?</p> <p>Has the company considered any alternatives to the investment proposal including options from parties offering alternative and non-network based solutions?</p> <p>Has the company considered issues relevant to their particular region [sector]?</p>
Stakeholder Engagement	<p>Has the company undertaken robust and high quality stakeholder engagement and how has this been demonstrated?</p> <p>Has the company demonstrated stakeholder engagement best practice in line with the 18 principles?</p> <p>Has the company demonstrated and evidenced the “golden thread” of stakeholder engagement, throughout the business plan and in the business plan priorities, plans, outputs and outcomes?</p>

	Has the company demonstrated a robust and high-quality plan for stakeholder engagement on an enduring basis?
Business Plan Approach Priorities	Has the company considered all their stakeholder priorities with appropriate weighting? Has the company robustly demonstrated all the interactions between stakeholder priorities, with evidence that interlinkages have been considered appropriately with input from stakeholders and historical performance? Has the company appropriately considered the balance between investment and innovation throughout the plan?
User Group Feedback	Has the company taken full account of feedback from the User Group and addressed all the challenges raised? Is the User Group feedback clearly reflected in the business plan?
Innovation	Is innovation strongly reflected in the business plan? Has the company incorporated innovation into Business as Usual? Has the company included innovative approaches and initiatives from leading global network companies?
Governance and Leadership	Has the company demonstrated leadership buy-in at all levels within the organisation? Has the company demonstrated robust governance and transparency in developing all the options within the business plan?
Consumer Bill Impact	Has the company considered the overall impact on consumer bills? Has the company considered the consumer impact of all options in the business plan? Has the company demonstrated value for money for consumers by taking account of Willingness to Pay research? Does Willingness to Pay research support the overall business plan? Have consumer preferences been identified and are these addressed in the plan? Is there evidence that different consumer categories are considered in assessing the impact of business plan options?
Quality of presentation	Is the business plan written clearly and concisely? Is the business plan (narrative, evidence and rationale) written in a way that is accessible to all stakeholders? Are all costs and assumptions clear and well evidenced? Has the company used sign posting to assist with overall clarity of the plan?
Long term planning	Is there evidence of a long-term view, beyond the price control period? Has the company considered market developments and scenarios that may occur beyond the price control period?
Deliverability	Is there evidence the company has human resources and an appropriately skilled work force to deliver on the business plan? Is there commitment to the plan from the vision down to detailed delivery and monitoring? Has the company presented a sustainable workforce strategy for the RIIO-2 period and beyond?
Regional Issues	Has the company tailored the plan to address specific regional issues of areas of contention? Has the company considered regional issues, including working with neighbouring networks and identifying issues that are only / particularly relevant to the company?

## Appendix 6 – User Group Principles of Good Stakeholder Engagement

1	Define and map your stakeholders - anyone who believes they are affected by your decisions. Recognising the different threads of the public interest – stakeholders, customers, consumers, citizens, communities (geographical and interest)
2	Be clear what you want to achieve with “engagement” – have clear policy objectives and measures of impact; (incl. where you most need to engage)
3	Understand the “spectrum of participation” and difference between each part of that spectrum: inform, consult, involve, collaborate, empower
4	Engage early in the process, review and improve throughout
5	Leadership – effective stakeholder engagement must be led from the top of the organisation
6	Commitment – to listen to stakeholders’ views and act on or respond to them
7	Objectivity – an open approach to obtaining stakeholders’ views and to interpreting them. Seek to understand views on a range of topics and on all aspects of the business plan, rather than pre-determining their priorities or seeking to endorse your own priorities
8	Transparency – to build stakeholder trust and show that you take their views seriously (incl. how we’ve considered views, weighted and managed trade-offs)
9	Be inclusive: work with stakeholder groups to gather the fullest range of interests. Understand and balance the differences between different segments. Understand and balance the differences between existing and future stakeholders
10	Be aware that those who often participate i.e. the “usual suspects” are not always representative
11	Be accessible to all (e.g. in consideration of the tasks, timelines, contact person, tech., locations, challenges of communication, etc.)
12	Use targeted approaches to tailor engagement to suit the knowledge and awareness of different groups
13	An ongoing process that is embedded across the business – not just a stand-alone business planning/price control review exercise.
14	Evidence based – use a full range of available sources of info to identify priorities, views and challenges (e.g. operational insight, bespoke research,
15	Gather evidence through a range of methodologies and tools including willingness to pay, qualitative research, surveys, complaints intelligence, market data
16	Be responsive – seek to adopt a flexible process to engagement, responding to the information revealed as the process progresses
17	Demonstrate impact of engagement – ensure that the engagement design process plans for and allows evaluation of success
18	Innovation – trying new and innovative ways of engaging

## Appendix 7 – Challenge Log

The challenge log is published separately alongside this report on the User Group website.

## Appendix 8 – User Group biographies

### **Trisha McAuley OBE, Independent Chair**

Trisha is an experienced chair and non-executive director, with experience in the public, private and voluntary sectors. She was a senior executive in UK and Scottish consumer organisations. Widely recognised as a national consumer expert, Trisha was awarded an OBE for services to consumer affairs in 2015 and since then she has built a successful non-executive and board portfolio.

### **Eddie Proffitt, Technical Director of the Major Energy Users' Council (MEUC)**

Eddie is a chartered engineer, with more than 30 years' experience in various roles within the industry. He was previously the UK Head of Procurement for Pilkington Glass Group and served as a non-executive director of an NHS Trust as Chair of the Audit Committee. He is currently the Ofgem-nominated representative for industrial and commercial (I&C) consumers on the gas UNC modification panel.

### **Will Webster, Energy Policy Manager for Oil and Gas UK (OGUK)**

Will has worked in a variety of different roles in energy and regulation for 20 years, and is currently Energy Policy Manager at OGUK. Previous roles included serving in electricity market regulation at RWE and Npower, and as an official at the European Commission. Will also spent part of his career as an economic regulator, including at the Civil Aviation Authority, where he set up the competition team.

### **Andy Manning, Director of Network Regulation, Forecasting and Settlements for Centrica**

Andy is a regulated sector specialist with more than 15 years' experience in network costs, regulatory policy and economics. He is a member of numerous industry groups focused on network issues, such as Ofgem's Price Control Review Forum and Charging Futures Forum. He is currently Chair of the Energy UK Networks and Electricity Charging Coordination group.

### **Jade Kirk, Head of Vulnerability with Robin Hood Energy**

Most of Jade's 20-year experience has been within the energy industry, but she has also worked in various government initiatives aimed at helping vulnerable communities. She was instrumental in setting up a one-stop shop for E.ON's vulnerable customers and is currently part of the Robin Hood Energy senior management team tackling fuel poverty.

### **Dustin Benton, Policy Director with Green Alliance**

Dustin holds an MA in Political Thought and Theory from the University of Birmingham and in International Relations and French from the University of St Andrews. Before joining Green Alliance, Dustin worked for the Campaign to Protect Rural England. He has spent the past 10 years working in energy, designing policy for work on energy efficiency, resources and the natural environment.

### **Caroline Bragg, Head of Policy at the Association for Decentralised Energy (ADE)**

Prior to her current role, Caroline was a Grid and Regulation Policy Officer at RenewableUK. She has experience in power connections, balancing services and regulation, and represents the breadth of the ADE's membership to government. She is an active participant in the Open Networks Programme and other industry forums.

### **Denise Massey, Managing Director of the Energy Innovation Centre**

Denise has been MD at the Energy Innovation Centre since it was founded in 2008, leading the company from start-up to a successful not-for-profit business. Denise has brokered energy investments of more than £22.6m and built an exclusive global energy innovation community

of more than 2,000 SMEs. She also works closely with energy network operators, Ofgem and BEIS.

**Zoe McLeod, Independent Consumer Advocate**

Zoe is a consumer champion with more than 20 years' experience in communications, advocacy, policy and regulation, including 10 years in the energy sector. Zoe's current roles also include Director of the Consumer Watchdog, Chair of Cadent Customer Engagement Group and associate with the think tank Sustainability First, where she has a focus on innovation and vulnerable customers.

**Barry Hatton, Director of Asset Management, UK Power Networks (UKPN)**

Barry joined the electricity industry in 1981 after graduating from Imperial College and has more than 35 years' experience in the operations and management of electricity distribution networks. In his current role, he is responsible for the development and deployment of network and asset strategies for optimising investment and performance for UKPN's £6bn regulated networks asset base. He is Chair of the Power Networks Demonstration Centre Management Board, a Chartered Electrical Engineer, and Fellow of the Institution of Engineering and Technology (IET). He has previously been Chair of the Advisory Board for the Energy Innovation Centre, executive on the IET Power Academy, and member of the Electricity Networks Strategy Group and ENA board.

**Julian Leslie, Head of Network Capability Electricity – Electricity System Operator, National Grid**

With a good understanding of the Great Britain transmission network, Julian and his team make recommendations to the Transmission Owners (TOs) regarding which boundary and large transmission investments should proceed through the Network Options Assessment (NOA) process. They also look at alternatives to asset investment through the use of non- or low-build asset solutions.

**Andy Paine, Chartered Mechanical Engineer at Vattenfall**

Andy is currently responsible for Vattenfall's UK offshore wind business development work. His background is strategy development and the development and delivery of generation projects in both the renewable and conventional generation sectors. Andy has many years' experience of working as a customer of National Grid.