

**RIIO-2 User Group
Report for National
Grid Gas
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 methodology¹ requiring transmission companies to establish user groups², with the aim of ensuring that stakeholders' needs are at the heart of the RIIO-2 regulated business plans. The National Grid Gas Transmission (NGGT) 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, suppliers, end-consumers, direct customers, industrial and commercial users, innovation, new business models and the environment.

The User Group provided ongoing, detailed scrutiny throughout NGGT's process of stakeholder engagement and compiling its Business Plan between July 2018 and December 2019, generating 196 challenges to NGGT. The User Group considers that NGGT 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 NGGT which is reflected in the Business Plan, demonstrating the 'golden thread' of stakeholder engagement throughout. 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 NGGT 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 NGGT 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 high materiality areas, such as asset health and the compressor investment programme, the User Group has seen a good, clear level of justification for the NGGT totex proposals, reflecting a set of work activities linked to the outputs that stakeholders want. NGGT has shown agile and stakeholder-focused proposals on information provision to support the efficient and effective functioning of a competitive gas market. NGGT has demonstrated an ongoing and iterative process of identifying and achieving further efficiencies as the challenge process evolved.

However, in other areas, the User Group remains unconvinced that NGGT has fully responded to the expectations of its stakeholders. In particular, in its leadership role towards the future energy system, working at pace to meet the Net Zero target and in facilitating whole energy system outcomes. On responsible business practice and leadership in corporate social responsibility, the User Group found that NGGT's stated level of ambition is not yet being followed through in practice. NGGT has shown a good level of intent, but has further work to do, on the formulation of a dynamic network capability approach throughout RIIO-2.

¹ [Sector Specific Methodology](#)

² [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 Gas Transmission (NGGT), 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, introduced by Ofgem in 2011 was to place more emphasis on deliverables and innovation. This would ensure that network businesses began to 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. 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. It is also 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 NGGT 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 NGGT 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 reflecting the perspectives and expertise of energy providers, suppliers, end-consumers, direct customers, industrial and commercial users, innovation, new business models and environment. Full biographies for each of the members are provided in appendix 8. The User Group had a dedicated technical secretary provided by NGGT. NGGT representatives attended meetings by invitation.

The User Group met for the first time in July 2018 and agreed its terms of reference, 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 NGGT's plans robustly on behalf of stakeholders to forge a version that would 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 NGGT 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 User Group 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 Plan³ and Enhanced Engagement Guidance documents. The User Group challenge log (published alongside this report) 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 NGGT'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 itself, and also the degree to which stakeholder priorities had been reflected. The group challenged NGGT from the outset to demonstrate a 'golden thread' on stakeholder engagement and insight that could be clearly seen to flow throughout the Business Plan and its proposed outputs and outcomes.

In undertaking its work, the User 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, made best use of its resource, by developing and continuing 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

³ [Business Plan Guidance Document](#)

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

The submitted version of the plan consists of a 200-page document setting out the main areas of expenditure proposed by NGGT. The plan starts by setting out some overarching principles and context relating to the policy and regulatory framework for the gas networks in Great Britain. There is also a separate chapter setting out NGGT'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 NGGT's ongoing strategy for stakeholder engagement during RIIO-2.

There are then eight separate chapters based on an evaluation of key stakeholder priorities during an initial phase of consultation that began in January 2018. 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 NGGT 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 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
Enhanced Engagement	Giving consumers a stronger voice
Consumer Value Proposition	The Business Plan incentive
Gas on and off	Maintaining a safe and resilient network
Network Capability	Maintaining a safe and resilient network
Output Delivery Incentives	Meeting the needs of consumers and network users
External threats	Maintaining a safe and resilient network
Safety	Maintaining a safe and resilient network

Environment	Delivering an environmentally sustainable network
Whole energy system	Enabling whole system solutions
Net zero	Forecasting and scenarios
Innovation	Driving efficiency through innovation and competition
Competition	Driving efficiency through innovation and competition
Information provision	Meeting the needs of consumers and network users
Connections	Meeting the needs of consumers and network users
Efficient and affordable	Track record and Business Plan commitment Managing Uncertainty Cost Information
Deliverability and workforce resilience	-

Table 1- Business Plan guidance mapping

NGGT culture and Board commitment

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

The User Group considers that, from the outset, NGGT took the establishment of the group seriously, undertaking detailed preparatory work and establishing the right level of resource. The Independent Chair had final say in the appointments of User Group members. Potential conflicts of interest were discussed and addressed by the Chair and NGGT at the start of the process.

The User Group is content with the onboarding information proposed and provided, including visits to a compressor station and the Gas National Control Centre (GNCC).

The User Group considers that NGGT 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 NGGT 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 User Group received the support it needs from across the business, while maintaining an arms-length role from NGGT. The Technical Secretary has worked to very high standards.

NGGT 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 NGGT has been consistently good, delivered responsively, and in line with the group's expectations. The group is clear that it was given sight of NGGT's thinking on key Business Plan topics as early as was possible and that NGGT has been open and transparent in sharing information. The User 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 NGGT governance arrangements and milestones.

In content terms, NGGT has been broadly responsive to challenge, although, in some key areas for example, whole systems and network capability, it took some considerable time for

the group's challenge to be reflected adequately in the evolving Business Plan. NGGT could also have been more proactive with regard to stakeholder engagement on output delivery incentives.

Generally, however, NGGT has developed its approach from an initial 'show and tell' approach to one which is more discursive. The responses in the challenge log are comprehensive and detailed. The User Group feels that NGGT 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 NGGT Board commitment to the process has been good. The Executive Director for NGGT 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 had an agreed, structured programme to meet senior leaders regularly including the National Grid Chief Executive, the UK Executive Director, the Director of Gas Transmission and the Director of UK Regulation. This programme also included regular Chair attendance at NGGT Board meetings and attendance at a National Grid Group Board meeting, where she set out the User Group's expectations for the Business Plan at key stages. At the User Group's invitation, the National Grid Chief Executive attended one meeting and the UK Executive Director attended three. The Sufficiently Independent Directors (SIDs) attended two meetings. The User Group has engaged with a range of subject matter experts from NGGT over the course of its work and has consistently had responsive access to business leads and to relevant NGGT staff in the key Business Plan areas.

Overall, the result of these interactions has been positive for the User Group work programme. However, in assessing the October draft Business Plan submission, the User Group became conscious of some gaps in the assurance around the embedding of an appropriate company culture in the key areas of areas of innovation, stakeholder engagement, responsible business practice and Net Zero. The User Group considered that it needed to challenge the NGGT 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 RIIO-2. The NGGT Board response forms part of the group's assessment of the Business Plan in these areas.

NGGT has been openly positive to the User 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 NGGT throughout this process. The company has accepted, and sought to address, the group's challenges positively at all times. The User 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

NGGT chapter – 'Giving stakeholders a stronger voice – how we have built a stakeholder-led plan'

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

others' 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. 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 NGGT can clearly demonstrate a strategic approach to stakeholder engagement, particularly through committing to assessment against the international recognised AA1000 standard⁴. The group was also pleased to see NGGT drawing on a range of good practice in other sectors, in particular water and aviation. NGGT has also been through a thorough process of stakeholder mapping, encompassing a wide range of stakeholder segments. NGGT 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 draft 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 NGGT commit to engaging with consumers and consumer representative bodies and to understanding 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 NGGT '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 NGGT had used a bottom-up approach to defining the priorities as opposed to using stakeholders as a 'sounding board' for pre-determined decisions.

The User Group was pleased to see the 'engagement logs' that NGGT 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, conclusions and outcomes 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

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

stakeholder feedback. The engagement logs are an important repository for the evidence underpinning a stakeholder led Business Plan.

Another positive aspect of NGGT stakeholder engagement was the publication of the 'February playback' document⁵. This is very good practice whereby NGGT 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.

NGGT 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) and also with Frontier Economics. The work with Frontier Economics included:

- Review of the strategic questions around part of NGGT's engagement programme.
- Helping to draw out the 'golden thread'
- Triangulation of stakeholder insights
- Monetisation of the Consumer Value Propositions.

National Grid led the joint TO (Transmission Owner) 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 and how the findings from this work were triangulated with other stakeholder insight and then tested for acceptability with domestic and business consumers. However, the User Group have not scrutinised in detail how the values from the willingness to pay work were interpreted and used.

Despite the range of aspects of good practice and commitment observed at an early stage, initial assessment by the User Group resulted in the 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. NGGT 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, NGGT was strongly challenged on its proposed consumer insight programme. When first presented to the User Group in November 2018, the User Group agreed that NGGT was 'behind the curve' with regard to the range of methods being used which was too narrowly focused on the willingness to pay work. NGGT was challenged to be clear about its policy objectives in conducting consumer research and to then adopt the best way of achieving those objectives, as doing consumer research for its own sake only would be inefficient and counterproductive. In that context, NGGT was urged to also consider deliberative research with consumers to understand their priorities. NGGT responded well by introducing interactive tool research⁶ and undertaking consumer listening events involving the NGGT senior leadership team, deliberative consumer research, cultural analysis, a focus group to look at the principle of 'pay now versus pay later' and a major energy user survey.

⁵ [February playback document](#)

⁶ Interactive tool research- NGGT 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 think they should make. This included showing the bill impact of the options chosen by respondents.

The User Group challenged NGGT in its July submission to more fully articulate the impact of proposals on industrial and commercial consumers as it believed that 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, NGGT 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, NGGT'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 NGGT to strengthen the 'golden thread' in the Business Plan narrative.

NGGT shared its forward strategy for stakeholder engagement in August 2019, at which point, the User Group raised significant concern. Members agreed that the document was too high-level and needed much improvement in both quality and depth. The strategy did not demonstrate continuity from RIIO-2 business planning and the good work, and lessons learnt, from that process. Most importantly, what the group did not see was a strategic vision for stakeholder engagement as an integral part of the business going into the RIIO-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.

The company responded to the challenge by significantly reworking the document to reflect the feedback including; ensuring the strategy reflects all the learning from the RIIO-2 business planning process, reference to ambition, plan for delivery and key parties for engagement. The User Group still required to see NGGT demonstrating Board-level leadership and tangible plans for embedding stakeholder engagement within the culture of the business at all levels of the organisation. This resulted in NGGT presenting a stakeholder engagement charter for sign off to the Board in November 2019. The NGGT SIDs also discussed, and answered questions on, the charter at the User Group's November meeting.

In October, the User Group remained concerned that NGGT had not demonstrated full inclusivity of approach, in particular towards hard to reach groups. NGGT 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 non-domestic consumers. The User Group did consider, however, that more could be done to bring out the views of business customers, for example, by expanding the granularity of the acceptability testing findings for this group and how these were reflected in the plan.

User Group conclusions on NGGT's stakeholder engagement process and on the final submission

The User Group has scrutinised closely NGGT's stakeholder engagement. The Business Plan narrative sets out the engagement well. 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 framed around stakeholder priorities as a key strength, as 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. While not systematically engaging on the development of its performance commitments, NGGT responded to User Group challenge to engage with expert stakeholders on its environmental targets in particular. Overall, 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 User Group's key 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. The decision-making process is clear.

The User Group would have liked NGGT 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 NGGT'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. NGGT'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 is now stronger, but inconsistent, across chapters.

NGGT has now set out its approach to inclusivity in research design and sampling and this is consistent with good practice. However, NGGT 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 NGGT on stakeholder engagement on incentives started late on in the Business Plan development. The User Group evaluated the stakeholder engagement activities undertaken 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 NGGT has undertaken so far generally supports the proposals in principle but also notes the difficulties of calibration. In November 2019, NGGT outlined to the User Group its plans for more extensive, in-depth consultation with stakeholders early in 2020.

In terms of ongoing engagement, the User Group is now content that NGGT 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 NGGT Board on demonstrating leadership and commitment, the User Group Chair received a very positive reception. The group welcomes the NGGT Board response in committing to a Board Charter with tangible commitments.

From early on, NGGT made it clear to the User Group that it was adding real value to the business planning process and the outcomes that NGGT would plan to deliver as a result. NGGT 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 and NGGT's plans for its annual Business Plan update process to be stakeholder-led. The group has been involved in the very early planning on next steps and is content that independence and challenge will be at the heart of the group's governance, remit and activity.

NGGT 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 a gas network company. However, the group is now comfortable with the proposed ODI and the high-level text in the Business Plan. This is because NGGT's intention is that, in order to ensure that they are sufficiently stretching and can hold NGGT to account, the metrics and targets for the ODI should be discussed and ratified by the enduring independent User Group, rather than being pre-determined by NGGT in detail in its December submission. The User Group, in its enduring role, looks forward to ensuring that NGGT has a stretching, ambitious, robust and measurable framework in place by the start of the RIIO-2 period.

Areas 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. Specifically, the representative of 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 given 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
NGGT chapter – 'Giving stakeholders a stronger voice'

Ofgem's detailed criteria for the consumer value proposition (CVP) were published in its 31st October 2019 Business Plan guidance update. While the User Group notes that NGGT 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, thus, been very limited, although NGGT has attempted to provide as much detail as possible and commissioned a third-party expert to assist with assuring the monetisation in the time available.

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

Layer 1 Monetised CVP: CVP items for which there is a robust methodology for estimating the monetised benefits for consumers.

Layer 2 Magnitude estimate CVP: CVP items for which there is an estimate of the magnitude of the benefits for consumers

Layer 3 Qualitative CVP: CVP items that provide benefits for consumers, but for which NGGT has not found it possible to robustly quantify or estimate the magnitude of the benefits.

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

- a) Are already business as usual for National Grid e.g. STEM training
- b) Are business as usual for many utility companies e.g. publishing performance data
- c) Where there was arguably a commercial incentive for the company to deliver it and it would be expected of an efficient company e.g. embedding a culture of innovation, engaging on its role.

Ofgem provides guidance on matters which could be included for the CVP and the User Group is content that NGGT has applied the spirit of the CVP in its approach. The User Group notes that the CVP is somewhat subjective. It can be interpreted differently by different stakeholders and perspectives. In the group’s view, this was most obvious in what should be considered going above and beyond business as usual. The User Group has different opinions on whether examples of whole system working should be considered ‘above and beyond’. Where NGGT has put forward monetised CVPs about whole system outcomes and better working with the distribution networks, the User Group has sought further justification before being satisfied that the proposals do indeed go above and beyond NGGT’s current practice.

In assessing the proposed monetised CVPs, the User Group challenged NGGT to make it clear that there were no opportunities for double counting. The group also called on NGGT to demonstrate better how it would monitor performance and return the reward to customers in the case of non-delivery. This is particularly the case for CVPs with benefit calculated beyond the five-year price control period. The User Group positively noted that NGGT engaged with and took feedback on the outputs from two stakeholder organisations, despite the short timescales, as well as the User Group views. NGGT has clearly presented feedback and how this has been responded to.

The User Group views on NGGT’s proposals for monetised CVPs are as follows:

CVP reference	CVP item	User Group Feedback
CVP1	Resilience solution at Blackrod	There were varying views within the User Group, with some members supportive, while others were uncertain whether this proposal was beyond the baseline requirements. The User Group indicated that stronger justification was needed, and this was developed in the final December plan.
CVP2	Security innovation application	Similar to CVP 1, the User Group was not clear why this proposal was above and beyond.
CVP3	Business carbon footprint reduction - construction	The User Group supported this in principle, requesting that NGGT was clearer on how it compares with National Grid’s current practice.

CVP4	Natural environment improvements	The User Group was supportive of this CVP. NGGT was initially challenged to show that this went above and beyond current practice and to provide further justification of the 'cost to value' multiplier used.
CVP5	Community initiatives	The User Group was supportive of this CVP, subject to NGGT demonstrating a genuine step change and difference from cross sector business as usual. The User Group noted it was not clear if this is CVP was comparable to peer benchmarks or a step-up from current practice.

Gas On and Off the NTS

Ofgem output category - Maintaining a safe and resilient network

NGGT chapter – 'I want to take gas on and off the transmission system when and where I want'

This comprehensive and highly material area of the plan accounts for 51 per cent, £280m per annum of totex. The User Group has focused primarily on the asset health aspect of the chapter. This is also important in terms of outputs because failures lead to direct disruption for consumers. The unavailability of capacity leads to disruption to market function and network users that also feeds through to consumers directly.

The future energy landscape in the UK will be characterised by unprecedented change and uncertainty and the existing gas transmission network will need to adapt to changes in policy, regulation and consumer needs. The asset health costs relate to expenditure required to manage, maintain and invest in the asset infrastructure. This has consequences for the overall capability of the network which affects expenditure requirements in asset health and other categories.

NGGT's asset health plan represents a major step change in the level of activity and investment at some 50% of the RIIO-1 level. The User Group therefore considered this a high priority topic and undertook a comprehensive assessment through a series of deep dive sessions, and also to challenges to the draft Business Plan, beginning in November 2018.

Stakeholder engagement

Stakeholder engagement is an important element in developing the asset health programme because of the reliability-cost trade off. Overall, in terms of its core responsibility for the market and network, the User Group has seen evidence of extensive and broad engagement on this area of the plan.

However, while a comprehensive engagement process was followed, the group noticed from the start that the interpretation of views was quite complicated. NGGT was developing a good 'golden thread' of stakeholder engagement. However, the group also believed that some statements in the plan covering what stakeholders wanted were not fully evidenced or were misinterpreted by different project teams. For example, evidence that stakeholders require reliability was interpreted as stakeholders would not tolerate deterioration of assets on the network. The User Group believed that more granular evidence of engagement across the stakeholder spectrum would help. Granular context is essential to prove the case for robust stakeholder engagement and value for money.

Following deep dive scrutiny at the beginning of 2019, the group challenge focused strongly on the need for more robust evidence from inclusive stakeholder engagement. The group

challenged NGGT to make sure the Business Plan reflected an understanding that customers truly are at the heart of its decision-making process by demonstrating better an objective 'golden thread' based on insight rather than assumption.

The challenge process

The User Group observed, as late as July 2019, that the proposals still seemed quite 'standalone' with network capability remaining a work in progress. The User Group challenged NGGT to demonstrate how asset management is interwoven into network capability, whole systems, decarbonisation (future of gas) and innovation. The User Group was clear that it expected to see NGGT setting the scene regarding the asset groups being reviewed, their purpose and the consequence of failure etc. There needed to be a more coherent picture of the link between efficiency, network capability and future energy scenarios.

There was the feeling for a large part of the Business Plan development that the core narrative and annexes were disjointed and did not give a clear line of sight on costs and efficiencies nor that trade-offs had been considered. NGGT was also challenged to spell out the consequences of not doing something within the RIIO-2 timeframe, as well as doing it, and to promote that in its narrative. Between October and December 2019, the User Group reviewed the links between the resulting improved narrative and the tables in the annexes to ensure that a consistent view of the options was presented.

As the RIIO-2 totex proposal is very significant compared with RIIO-1, the group challenged NGGT to demonstrate and justify its significant planned increase in totex costs for asset health in RIIO-2 from £109m per annum to £167m per annum, including a new terminal at Bacton and some rebuilding at King's Lynn. To ensure transparency, the User Group stressed to NGGT that it should reference what has not gone well, as well as what has, when describing what it has learned during RIIO-1. NGGT's asset health delivery programme has a 10-year span, which is seen as positive. However, to properly assess whether the long-term risk and strategy meets stakeholder needs and the value for money test, NGGT was challenged to include more of the journey from RIIO-1 to RIIO-2 and beyond.

The User Group also challenged NGGT to think more about whether its resilience plans, for example the costs associated with minimising cyber security risk, should form part of a dual plan with asset health.

Changes to the Business Plan

NGGT's response to challenge has been good; both in terms of the explanations at deep dives and the resulting improved coverage in the Business Plan. By October 2019, the User Group had seen evidence of a much clearer presentation of the rationale, cost and efficiency assumptions. The addition of mini summaries in the October version brought greater justification. It also made the chapter easier to read even though it makes the main document longer.

Until the publication of the July draft plan, there was limited visibility of the detailed content behind the initial proposals covered at earlier User Group meetings. However, the July draft plan was accompanied by an extensive set of draft investment decision pack papers. These covered individual asset group replacement proposals, supported by cost benefit analysis where alternative options were available.

Between July and October 2019, the User Group saw an improvement in NGGT's level of detail on the sizeable asset health expenditure plans and a clearer rationale for its decision making. This included details of named projects and programmes. NGGT had also explained the Strategic Asset Management Plan (SAMP), how it is balancing risk, cost and

performance, and the ongoing transition of primary and secondary assets to equipment units.

Successive versions of the Business Plan have also shown a steady improvement in the granularity of the deliverables. Early on, the asset health plan was presented as an aggregate target for asset condition and health using NARMs (Network Asset Risks Metrics). Later, the User Group received a more detailed description of the factors that influence decisions on different types of assets and the deliverables for each. The User Group also asked NGGT give more examples of assessments by credible third-party organisations about the deliverability of planned activity. NGGT responded on this point between July and October 2019.

The User Group has noted that the different elements of the System Operator and Xoserve expenditure which feature in both the 'Gas On and Off the NTS' Chapter and the 'Whole Energy Systems' chapter are not clearly defined.

Justification

The investment programme is fairly well explained and a lot of background information provided in terms of justification and cost information. The User Group has been able to scrutinise detailed elements of this including verification of the process as a basis for developing spend. More work will be needed as part of the evaluation of plan by Ofgem.

On consumer trade-offs, NGGT has demonstrated how each of the four investment drivers is linked to consumer impact.

Conclusions

The December Business Plan now clearly explains the main drivers for increased expenditure and better defines the outputs in terms of NARMs as well as the specific Price Control Deliverables (PCDs) for some asset types. From being a very engineering-based asset programme which appeared to stand alone, NGGT has responded to the User Group's challenges. The evidence provided is very comprehensive, and many elements of the chapter are now underpinned with engagement and linked to other key areas. However, the proposed substantial increase in expenditure will, of course need closer analysis and scrutiny by Ofgem to confirm confidence in the proposal.

Network capability

Ofgem output category - Maintaining a safe and resilient network
NGGT chapter – 'Network Capability'

As part of its sector specific methodology consultation in December 2018, Ofgem set out the requirements of NGGT on the future capability needs of the network. NGGT was required to review the physical capability of the National Transmission System (NTS) to understand the future capability requirements of the network, and to develop an appropriate target level of network capability that will be delivered during RIIO-2. Network capability affects all the main expenditure items: asset health, compressors, physical and cyber security.

Stakeholder engagement

Network capability was first presented, at very high level, to the User Group in February 2019. The crux of stakeholder engagement was later in the overall process, although a number of webinars and engagement sessions have now been held since summer 2019. However, as this has been in the late stages of Business Plan development, the User Group queried how embedded it really was, particularly regarding the enduring model for the annual network capability review.

The User Group challenged NGGT to articulate the narrative of the financial consequences of network capability to stakeholders. The group also wanted NGGT to demonstrate that engagement had been undertaken in a systematic way, and questions framed with meaningful, objective context. NGGT was challenged to show third party assurance on the framing of the stakeholder engagement approach and questions. This was undertaken with Frontier Economics.

Challenges

By the time of the July draft Business Plan, the User Group agreed that the narrative was not strong, with confused evidence of thinking between asset risk and capability. This was much improved in the October Business Plan draft with a better flow of logic. The User Group was shown a much clearer understanding of interventions at individual asset sites. The narrative was now well-explained and developed in a logical way.

In addition to the ongoing challenges on stakeholder engagement, the User Group challenged NGGT to further develop the annual network capability process to show a structured process which takes account of current policy, Net Zero sensitivities and stakeholder engagement.

To reinforce evidence of managing uncertainty and risk, the User Group challenged NGGT to better promote the report by EY into consumer disruption models in the narrative. NGGT's role is to guarantee the balance of liquidity with disruption and constraint on the network. The EY report made some powerful conclusions, including the case for higher investment in network reliability, but NGGT did not initially bring the conclusions through into the Business Plan narrative. This was addressed in the December plan including the use of a case study example.

Changes to the Business Plan

NGGT's response to the challenges included a fairly large re-working of this section in the October draft Business Plan and albeit a bit late, a description of a new engagement process.

NGGT's assessment of the seven zones, indicating different system levels now shows a comprehensive approach to network capability and the User Group also heard good explanation of some of the factors that impact on 100% reliability, including outages, maintenance and asset reliability. The Business Plan shows some evidence of new approaches in this area, including the modelling being done on the basis of the Future Energy Scenarios.

One area where NGGT initially seemed reticent to respond to stakeholder needs is gas quality. Stakeholders have said they want changes to the various aspects of the regime for gas specification on the network going forward. However, the User Group acknowledges that NGGT is bound by legal requirements as things stand and notes that there is a HSE (Health and Safety Executive) led programme of work, with IGEM (Institution of Gas Engineers and Managers) to review GS(M)R (Gas Safety (Management) Regulations).

In summary, by October, the User Group was much more content with the chapter. However, it signalled to NGGT that it expected to see further information and a development of thinking on the enduring model for the annual network capability review in the final submission, which was then completed for December.

Conclusions

Despite being the foundation for other areas of the Business Plan, this chapter was late in being presented. However, since then, NGGT has significantly improved the content of the chapter, and has undertaken some very good analysis and engagement to underpin it.

The User Group therefore believes that, while not fully formed, NGGT has shown a good level of intent in terms of its plans to develop network capability through RIIO-2. Network capability cannot be altered abruptly. The User Group accepts that the development of a more dynamic capability approach will continue into RIIO-2. It is reasonable that NGGT has proposed to deal with the uncertainty through some form of uncertainty mechanism or reopener. As the gas transmission business enters a far more uncertain landscape, it is perhaps sensible for NGGT to adopt a rolling approach, not an all-or-nothing one as part of an adaptable framework during RIIO-2.

Gas System Operator Output Delivery Incentives

Ofgem output category - Meeting the need of consumers and network users
NGGT chapter - 'I want to take gas on and off the transmission system when and where I want', 'I want you to care for the environment and communities' and 'I want all the information I need to run my business and to understand what you do and why'

The 'Gas System Operator' incentives can be viewed as a necessary feature of the price control - a mechanism to ensure that the promised outputs are delivered. The behaviour is core to NGGT's role, and the function of an incentive is to ensure that performance is adequately incentivised and rewarded. Without these incentives, some other tool such as enforcement would be needed by the industry.

The User Group was first given the opportunity to consider the NGGT proposals on ODIs in August and September 2019. The suite of proposals included six system operator incentives (maintenance, demand forecasting, residual balancing, shrinkage, greenhouse gas incentive and constraint management). It was agreed the System Operator incentives merited further closer scrutiny in the form of sponsor deep dive review and challenge, given the importance of these incentives to the effectiveness of the system. This was particularly important for the NGGT proposals as all the gas system operator incentives are 'bespoke' rather than 'common' in the Ofgem definition.

Four deep dives were held with User Group representatives. These focused on the process behind developing the ODIs and the principles behind each. They also covered the stakeholder engagement undertaken (which is described in the stakeholder engagement section of this report).

The User Group concluded that, in principle, all the proposed incentives have the potential to benefit customers and consumers. However, the group did not undertake an assessment of the detailed design of these ODIs. This would be a highly technical calibration exercise including targets, incentive rates and caps and collars which will dictate whether, in practice, the schemes are value for money and will benefit customers overall. It is the calibration that will decide if rewards are provided only for performance that is beyond business as usual. This information has not been available to the User Group, and therefore the group believes that the design and assessment of detailed incentives calibration is out of scope.

The User Group note that the constraint management incentive is particularly important, but the development of this ODI has been late, in part due to the interlinkage with the network capability work. The group believes that NGGT could have been more proactive in this area.

External threats

Ofgem output category - Maintaining a safe and resilient network
NGGT chapter – ‘I want you to protect the transmission system from cyber and external threats’

Elements of the NGGT network are classified as critical national infrastructure (CNI). The UK Government, in conjunction with the Centre for the Protection of National Infrastructure (CPNI) and the National Cyber Security Centre (NCSC), set requirements for the appropriate levels of physical and cyber resilience to be achieved in the national interest. NGGT have 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 regulations seek to minimise the risk of cyber-attack and the resulting impact on UK 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 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.

The security risks and increasing and evolving threats means significantly increased costs. The total costs in the Business Plan are significant (£118m per year) and 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 the plans must adhere to national policy requirements, which are not in public domain and that Price Control Deliverables are confidential for good reason.

The topic of external threats has been assessed through the three iterations of the Business Plan submission process. It has been a challenging area to assess with 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, and one which was important to stakeholders, it was one where they had relatively little direct influence. The key element would therefore be obtaining the necessary assurance from National Grid on the process followed. Overall, **within the necessary confines of the User Group’s assessment**, the context and justification now in this chapter is broadly good, having developed since the July submission.

Stakeholder engagement

NGGT developed a detailed ‘golden thread’ which demonstrates how the key stakeholder priority links to engagement through to outputs, costs and consumer benefit. In its combined engagement report, (rather than a full engagement log due to the limitations imposed by confidentiality), it sets out adequately the engagement with BEIS, Ofgem and the HSE as the key stakeholders on the detail of the plans.

The challenge process

The User Group has noted the very high materiality of the costs in this topic, but full transparency on the detailed plans and justification is not possible for good reason. The full detailed annex and IT security and cyber plans will only be seen by Ofgem.

The User Group sought to assess how NGGT has identified key future risks in relation to a sizeable increase in planned spending to £118m per annum, approximately one fifth of the total budget. The group challenged NGGT to better articulate the impact of robust cyber security, highlighting that the level of external assurance sought by NGGT and its wider security culture was not clear. In a similar way, the User Group challenged NGGT to provide better RIIO-1 innovation information.

The User Group explored the degree of stretch above the minimum requirements set out by BEIS and Ofgem (Competent Authority). The group challenged NGGT on its ambition, on doing more than the minimum regulatory requirement in taking a confident step or just being compliant.

The User Group focused its core challenges on the areas it could influence. This included challenging NGGT on demonstrating value for money, looking at other network companies, developing options, benchmarking, competition, collaboration and leadership. The group also asked NGGT to show more tangible examples of how it was thinking collaboratively about external threats. Examples of work with gas distribution networks were discussed. NGGT was also asked to be clear where and why transparency was not possible, and the group challenged NGGT to improve some of the detail in the plan to give a clearer sightline on costs, for example operational expenditure versus physical assets. The User Group also focused on NGGT assurance regarding compliance with process.

Changes to the Business Plan

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

NGGT provided better RIIO-1 innovation information and the User Group subsequently reviewed a good innovation example of the Open Source SCADA (Supervisory Control and Data Acquisition) project. This is credited with 'revolutionising' how National Grid manages cyber security at compressor sites. The project also resulted in another innovative spin-off success for above ground installations, 'Secure AGI'. NGGT provided more tangible examples of how it is thinking collaboratively about external threats.

Justification

The October chapter had improved and developed since July, providing more detail and granularity, better context and justification on the challenge to demonstrate value for money through developing options, benchmarking, competition and collaboration. NGGT has improved the detail in the plan on cyber security. It has added an appropriate level of description of asset type within the programme plan, given security limitations and to ensure that there is no duplication with investment in the 'Gas On and Off the NTS' chapter. The User Group received examples of asset specific programming with different investment drivers in an Asset Health deep dive that gave the group some comfort that there is no double-counting, although the User Group recommend these be interrogated further by Ofgem. The User Group asked for the final submission to include an asset list to ensure there is no duplication across the 'Gas On and Off' chapter. NGGT has now responded and listed the categories of operational technology assets for which RIIO-2 costs are included in this chapter to improve transparency that there is no double-counting with the asset health topic.

Vertical threads

Uncertainty mechanisms The User Group is content with the approach to uncertainty mechanisms as far as it is able to assess. The group agrees that it is the best way to deal with the increasingly sophisticated and evolving threat landscape.

Conclusions

The User Group is broadly content with this chapter. It is much improved since earlier iterations and challenges on value for money and assurance have been satisfactorily addressed to the extent that NGGT can make this available to the group. As this is a complex compliance area, and the associated, very significant expenditure covers a range of confidential activities, the User Group urges Ofgem to scrutinise the full range of costs and justification.

Safety

Ofgem Output Category: Maintaining a safe and resilient network
NGGT chapter – ‘I want the gas system to be safe’

The safety chapter proposals are primarily related to direct expenditure on safety activities, the NGGT teams undertaking safety and assurance roles, and the National Grid corporate safety function. The topic is relatively low in terms of financial materiality (£14.5m per annum). Although there are additional safety activities accounted for in other areas of the Business Plan, especially asset health, it is critically important for stakeholders.

The chapter has been assessed primarily through challenge to the July and October draft Business Plan documents. Representatives from the User Group also spoke directly to the HSE to obtain some third-party assurance.

Stakeholder engagement

NGGT’s safety activity and performance are clearly driven by legislative compliance and a zero-tolerance desire to be best-in-class for the right reasons. As a result, the account of stakeholder engagement activity is relatively limited in the actual Business Plan narrative. However, the User Group received full feedback on that activity as it happened and as evidence clearly in the engagement log and ‘golden thread’ summary.

The feedback from the HSE was very positive in that NGGT is open, responsive and communicative and has a very good track record.

The proposals in the chapter align with the results of the stakeholder engagement and the ‘golden thread’ summary in the annex clearly shows the logical flow from this stakeholder priority through to proposals, costs, measures and benefit.

The challenge process

As part of the User Group’s assessment of the July submission, NGGT was challenged in a number of areas. There was specific focus on making its ambition very clear in the narrative, how it will deliver against this ambition and emphasising areas where it is leading and collaborating. More detail was required on delivering value for money, including through innovation. There was also the need for more detail underpinning the costs e.g. the split between capex and opex and an explanation of the spend profile.

NGGT makes reference to working with contract partners, but it was also challenged to demonstrate a more collaborative approach by articulating its engagement through HSE forums, contractor and terminal operator forums, and also to fully articulate the role of employees in driving safety forward.

Changes to the Business Plan

The User Group agreed that the October Business Plan iteration was much improved but identified some gaps to expand on work being done on behavioural safety and the application of innovation. NGGT has listened to the User Group feedback and been responsive to challenges. The section on behavioural safety has been expanded appropriately. More detail on innovation has been included but in a somewhat ad-hoc way with two examples. This reflects the User Group's wider concerns that innovation is not truly embedded across the business. For example, with respect to 'what good looks like', the narrative on NGGT's performance on HSE interventions and its injury rate, could have benefitted from more details. How NGGT is using innovation to improve and benchmark its performance? How has it demonstrated strategic understanding of the importance of innovation in this area? The User Group also notes that the expenditure in this chapter, on corporate safety for example, is not strongly linked to outcomes.

Conclusions

The Business Plan chapter on safety demonstrates a clear commitment to safety at a business and corporate level, with evidence that the NGGT systems are mature. The ambition to be world class is commended.

Environment

Ofgem output category -Delivering an environmentally sustainable network
NGGT chapter – 'I want you to care for the environment and communities'

This topic encompasses investment linked to compressor emissions compliance, NGGT's commitment to reduce its carbon footprint and demolition of assets. Overall, the materiality of the topic is high in absolute expenditure (£55m per annum) and it is important for stakeholders. For clarity, the activity assessed within this chapter broadly relates to NGGT's own emission impact from carbon dioxide, nitrous oxide and methane emissions etc. NGGT's contribution to the wider Net Zero objective is evaluated in the whole energy systems chapter.

The User Group considered environment issues in plenary four times, initially focusing on engagement logs in November 2018, then on early proposals for the Business Plan in April. Finally, the User Group assessed the July and October Business Plan proposals. This was supported by a series of sponsor/buddy deep-dive scrutiny sessions.

Stakeholder engagement

The User Group's first challenge session focused principally on the engagement log. The main challenge at this stage was that environment felt like an 'add on'. NGGT was asked to articulate a full narrative, explaining stakeholder support and input, specifically differentiating between activities which are legal obligations versus those which are discretionary. NGGT subsequently developed a 'golden thread' to fully articulate the topic and the information presented on stakeholder engagement has demonstrated improvement from its initial limited scope, though engagement on Net Zero and on the revised Environmental Action Plan has not taken place.

The User Group has noted gaps in the stakeholder engagement on key questions, such as future-proofing assets. For example, the group asked early on if NGGT could buy hydrogen-compatible turbines for compressor replacements as a future-proofing option. It may be that there were good technical reasons for or against doing that but, without the earlier assessment, NGGT has not had the opportunity to engage with stakeholders on a question they might feel strongly about.

The challenge process

From early in the process, the User Group asked NGGT to prove that its planning stood up to the current and planned legislative picture on Net Zero and emissions. This has been a fundamental challenge to NGGT as, up until the October draft Business Plan, the User Group felt that NGGT had not shown awareness, in its proposed investments, of credible future compliance issues such as World Health Organisation air quality limits proposed by the Secretary of State and the Net Zero goal.

Linked to this, NGGT's initial proposals relied on FES (Future Energy Scenarios) 2017 analysis and were then updated to be based on FES 2018 analysis. The Business Plan has not been fully updated to account for FES 2019 or any Net Zero sensitivity. There is therefore a risk, which has been consistently raised with National Grid, that the Business Plan will not reflect highly foreseeable changes to environmental rules, increasing costs to consumers unnecessarily.

On several occasions during the process, the User Group challenged NGGT to be much clearer on aspirations and commitments versus tangible, measurable, specific targets. Initially, the commitments were scattered throughout the Business Plan which made them hard to follow. For example, it appeared there was a 100% electric vehicle commitment but also an alternative fuel vehicles commitment for 2030. The relationship between the targets and their origin was also unclear - NGGT discretionary targets based on stakeholder views, such as 'environmental enhancement'; NGGT obligatory targets based on licence conditions or laws; and National Grid's corporate commitments which flow down to NGGT. Since then, these have been brought together into the Environmental Action Plan with the User Group then challenging NGGT on the specificity of targets.

On the proposed compressor investments, the User Group challenged NGGT to articulate whether the eight units proposed for replacement in RIIO-2 would need further investment in a 'Net Zero' world. In response, NGGT took on further cost value engineering activity which led to a reduction in the number of compressor replacements planned for RIIO-2. This thoughtful approach to deferring activity might give the company more options as part of a future Net Zero strategy is to be applauded.

The User Group challenged NGGT to explain whether tighter carbon targets would make the proposed level of investment in new gas-fired units insufficient or require additional future investment that could be foreseen or mitigated. Specifically, the group asked NGGT to articulate why electric compressors were not being used and whether or not upgraded compressors would be compatible with 100% hydrogen. The future energy system will see suppliers look increasingly to target off-peak usage and change the overall daily demand made on the network. The User Group therefore also challenged NGGT on whether it might need to think more about different assets and operational requirements as a result.

On the topic of responsible demolition, the User Group has issued a series of challenges to NGGT. These cover areas such as third-party sources, imaginative repurposing of assets and clarity on legal requirements versus discretionary activity. Most of these have been answered in a timely and satisfactory way. The User Group heard that NGGT had taken its advice to review third-party examples of decommissioning reports, including from the Netherlands, Highlands and Islands, and Western Australia. The User Group also commented positively to NGGT on the way it has clearly set out of the pros and cons of planned demolition and decommissioning activity. In terms of demonstrating efficiency, the User Group challenged NGGT for more detail on how its decommissioning decisions were made, including the materials used and associated environmental issues. The options provided gave a clear articulation of the pros and cons which the group found useful. On NGGT's explanation of the prioritisation of projects on a risk basis, the User Group queried

how risk was identified and defined, and whether all stakeholders had the same interpretation. However, the mention of the foreign comparators in this topic is positive.

Changes to the Business Plan

The NGGT plan now provides much more clarity on ambition and position, with a clear statement on decarbonisation that ‘we don’t envisage substantial change’ in RII02. The commitment to be ‘ready to start conversion to hydrogen in 2026’ was also included in the December plan and is a positive addition. NGGT has also provided more clarity on how the CCGT (Combined Cycle Gas Turbines) connections impact gas transmission asset requirements.

There are however a number of remaining issues. While the National Grid Group has adopted a Net Zero target, NGGT is still, in the substance of the Environmental Action Plan, operating to an 80% greenhouse gas reduction goal. It’s not clear why it will take NGGT three years to set a science based target, and the justification for such a long delay is not sufficient. Similarly, the new Net Zero uncertainty mechanism is welcome, but as this is a later addition to the Business Plan, the User Group has not tested the first trigger point (1% of cost, starting from 2022). NGGT has highlighted that there are compressors that are partly hydrogen compliant. However, there is no commitment to buy these, or to analyse whether doing so would avoid procuring stranded assets which the User Group sees as a remaining problem.

The recycling targets have suffered a significant regression between the October and December plans– from a 60% increase in recycling rate, to a 60% overall recycling rate. This is a big step backwards, and is below par.

Justification

One area where the narrative is very strong is NGGT’s work on compressors. Here, the option development and benchmarking detail is sophisticated and well thought through. This is the biggest item of planned expenditure within the chapter, so the User Group has challenged it robustly, including the future proofing of compressors.

Behind the rationale there is detailed modelling to support a clear plan and NGGT has been flexible in its planning, particularly in anticipating the change in demand on the network in a Net Zero scenario. NGGT has provided good evidence on the need and timing of upgrades and derogations as well as a good level of explanation on how long-term compressor investments account for a plausible view of future policies. The User Group commends NGGT for sharing its ‘work in progress’ transparently so the group could gain real confidence in the robustness of NGGT’s internal analysis that upgrades are necessary. NGGT’s approach to deferring compressor decisions in the light of significant uncertainty is positive.

Across the chapter, there is however, limited visibility of the trade-offs; options that have been considered but discounted, and why. The User Group noted conflicts in views from stakeholders, but the trade-offs made are not clearly articulated.

Conclusions

Overall, NGGT has demonstrated impressive commitment to the phasing and prioritisation of compressor upgrades as a result of User Group feedback, to innovation in Net Zero construction, and to biodiversity net gain. However, from the range of challenges and responses, the User Group believes the NGGT plans show some ambivalence to the energy future. The plan looks to be mainly based on minimising upfront costs to the gas system and winding down assets as gas demand decreases, not looking to facilitate a low carbon future.

Whole energy system

Ofgem output category - Delivering an environmentally sustainable network
NGGT chapter – ‘I want you to facilitate the whole energy system of the future – innovating to meet the challenges ahead’

The Whole Energy System topic was first discussed by the User Group in January 2019. The scope of assessment for whole energy systems includes the development of options for hydrogen, the decarbonisation of heat and the regulatory frameworks to support the gas industry through the transition to Net Zero. This chapter also includes investments in the balancing and capacity system and services, i.e. the Gemini system. Gemini is owned by NGGT but operated on its behalf by Xoserve, the gas industry central data service provider. Overall, whole energy systems, is an area of the Business Plan that is not highly material in terms of expenditure (£17m per annum) but is of significant value to stakeholders, in particular within the context of Net Zero.

As part of its December 2018 Sector Specific Methodology Consultation, Ofgem proposed two alternative definitions for ‘whole system’; a narrow scope limited to regulated sectors and a wider scope drawn broadly to encompass energy and additional sectors, such as waste, water, transport, heat and some activities from ‘behind the meter’. While Ofgem initially preferred the narrow scope, NGGT was supportive of the broader scope, which subsequently became the Ofgem agreed definition in their consultation decision.

This chapter links very closely with the following chapter on Net Zero.

Stakeholder engagement

At the time of initial discussions about whole energy systems in January 2019, NGGT was in the process of undertaking stakeholder engagement on the topic. The User Group challenged NGGT to demonstrate the correct framing of questions when undertaking consumer engagement. Inclusiveness of engagement was another key factor – in particular broadening engagement so small customers and stakeholder organisations as well as the gas distribution networks were represented properly and engaged with meaningfully. NGGT was asked to review what might help smaller organisations engage effectively and to be clear on the level of engagement it planned for determining its end solution.

The User Group has subsequently seen a wide range of engagement methods used, which it considers very positive. While there remains a lack of representation in places, the User Group believes that NGGT has done what it can. The series of regional events which have been well attended was positive. NGGT’s use of existing engagement programmes was also positive including, Future Energy Scenarios and the Future of Gas programme of work that began in November 2016.

The challenge process

The fundamental challenge to NGGT on the whole energy systems topic has been to demonstrate strategic and long-term thinking. One of the first challenges set to NGGT was, ‘what is the National Grid leadership role in setting the whole energy system narrative’. In assessing the level of ambition on whole systems in the July draft of the Business Plan, the User Group agreed that NGGT was unclear whether it wanted to lead the industry or just facilitate whole energy systems change. NGGT’s statement of intent to show leadership was, in effect, the existing Gas Markets Plan and the Towards 2030 plan with the Electricity System Operator (ESO). Later in the process, in September 2019, NGGT was therefore further challenged to define leadership in a clear and unambiguous way. It was also challenged to better articulate its leadership and collaboration proposals, explaining how these match with stakeholder expectations, and what the consumer benefit is.

A further area of discussion was the definition of whole energy system in a collaborative context. The User Group supported the National Grid decision to use the wide definition of whole systems solutions from the start. The User Group has also seen robust justification for investments against the narrow definition.

On future network requirements, the User Group challenged NGGT on the extent to which the Business Plan gave full enough evidence of its thinking on alternative gases, particularly hydrogen, in a whole energy systems landscape.

Changes to the Business Plan

NGGT's response to these challenges, albeit coming in October 2019, was positive. NGGT is now clearer about where it will lead and where it will collaborate for the RIIO-2 period. The User Group has seen more of the detailed work regarding hydrogen feasibility studies and pilots that NGGT intends to do through RIIO-2, and this is now clearly reflected in the Business Plan.

The User Group recognises that there is clear value in NGGT working with others (including the Energy Network Association (ENA) and the Hydrogen Programme). Stakeholder engagement clearly shows an appetite for NGG to take a clear leadership role, as described in this chapter's statement: 'Stakeholders have said they expect us to take a leading role in driving and delivering the future energy system'. However, the User Group also recognise that in a webinar in September 2019, 65% were happy with NGGT's proposed role, 24% somewhat happy and only 1% not happy. There were then 50% of respondents fully satisfied that proposals met their needs and 50% somewhat satisfied. For whole energy systems therefore, beyond collaboration with the ENA and ongoing work with individual Gas Distribution Networks (GDNs), the precise commitments to maximise a whole systems approach feel limited. Therefore, the User Group believes there remains a question about NGGT taking a stronger leadership role in whole systems.

Justification

There are several different cost items included within this chapter; including GSO (Gas System Operator) activities, decarbonisation activities and costs relating to Xoserve and the Gemini system. The User Group feels that, particularly for the GSO activities, NGGT should have more clearly set out how the budget lines relate to the commitments made and, in particular, how much of each budget line is dedicated to maintaining core activities. It is not made entirely clear in the chapter the level of efficiency being proposed and the level of investment in new activities.

The choice to invest in enhancements to Gemini is supported by stakeholder engagement. The User Group had challenged NGGT to demonstrate the Gemini cost benefit analysis is value for money across RIIO-2 and RIIO-3, particularly given that as NGGT notes, by the start of RIIO-3, the Gemini system will be 21 years old. NGGT has now provided clearer evidence that the decision to do more enhancements, rather than a full upgrade, will not pass costs onto RIIO-3 and result in higher overall costs for consumers.

Vertical threads

Trade-offs NGGT has not clearly shown how willingness to pay is reflected in the whole energy systems work. The trade-offs set out in the chapter about decarbonisation and innovation do not directly address any specific trade-offs.

Uncertainty mechanisms – the User Group supports the proposed Net Zero uncertainty mechanism but considers that further scrutiny may be needed to assess if it is specific enough at 1% materiality threshold in year two of RIIO-2.

Conclusions

The presentation of the chapter is generally well thought out and accessible, with a comprehensive narrative. The chapter includes some good evidence of stakeholder engagement and clear definitions of where NGGT will lead and facilitate in the whole energy system. National Grid has put forward clear and positive commitments about how it will build the evidence base and support policy-making regarding the future role of the NTS ready for RIIO-3 in 2026; in particular, through its work through the Hydrogen Programme Development Group chaired by BEIS. However, the User Group remains unconvinced that NGGT has fully responded to the expectations of its stakeholders in its leadership role towards the future energy system and in facilitating whole energy system outcomes.

Differing Views

There was discussion within the User Group regarding achieving Net Zero and how whole systems thinking applied. NGGT gave an example of working with a gas distribution network on some works, but this was seen as business as usual by some User Group representatives.

The large user and GDN representatives held the view that it is difficult to set targets without a clear pathway, although setting a target could be a stimulus for rising to the challenge and exploring different ways to deliver. There were also differing views among the same constituencies on the clarity of outputs of the proposed expenditure.

Net Zero

Ofgem output category – Forecasting and scenarios

NGGT 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 whole energy systems and environment chapters and formed a direct User Group challenge to the NGGT Board.

The User Group’s assessment of Net Zero began in April 2019 with a challenge that NGGT needed to demonstrate that it was anticipating credible future compliance issues, such as the Net Zero goal which was passed through parliament in July 2019. In the October draft Business Plan, the leadership commitment ‘The path to Net Zero will only become clear over time, but we stand ready to deliver’ was received positively but the User Group asked for more evidence that NGGT could in fact deliver against this, and at pace when required. And while recognising the policy and political uncertainties that faced NGGT, 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 is Net Zero compliant. While the User Group recognise that government policy on gas and heat decarbonisation is currently unclear and some members of the User Group, in particular large user and GDN representatives, hold the view that the policy landscape has not been straightforward for gas, it still remains the case Net Zero was addressed unnecessarily late in the Business Plan process. The Net Zero uncertainty mechanism is positive, but there isn’t much detail to support it and the User Group believes that NGGT could have developed this much further.

NGGT needs to show it can respond quickly and strategically during the RIIO-2 period. The User Group feels that NGGT has not fully met stakeholder expectations nor has it

demonstrated sufficiently that it can act at a pace required to meet the challenges the User Group expects to arise within the RIIO-2 period.

Innovation

Ofgem output category – Driving efficiency through innovation and competition
NGGT chapter – ‘I want you to facilitate the whole energy system of the future – innovating to meet the challenges ahead’

It is notable that the specific innovation content in the NGGT Business Plan is presented as a sub-topic in the Whole Energy System chapter, which also contains the NGGT Innovation Strategy. The User Group assessment of innovation has focused on the NGGT RIIO-2 innovation strategy but also, importantly, the complete thread of RIIO-1 and RIIO-2 innovation throughout all topics in the RIIO-2 Business Plan. Innovation was a high priority area for the User Group, particularly noting evidence of innovation culture within the business and the ambition to embed innovation into business as usual in RIIO-2 as particularly important factors.

From the initial meetings of the User Group, the innovation thread has been discussed as part of each topic review. The RIIO-2 innovation strategy was first discussed and challenged in April 2019 and there was subsequent review through the July and October submission drafts and a deep dive in August 2019.

Although innovation has a relatively low materiality in financial terms, the User Group recognises that the company’s approach to innovation is indicative of its ability to adapt and respond to the challenges it will face in the future. Ultimately, innovation is the User Group’s indicator as to whether the business is fit for the future.

NGGT presents innovation as critically important; a key element of the UK’s energy infrastructure and its customers, consumers and the wider stakeholder community have increasing expectations of it as a business. The User Group is supportive of this ambition and is confident in NGGT’s strategic approach to innovation and its collaboration with other GDNs, as this is well evidenced.

However, the User Group, together with other stakeholders, believed that NGGT should have greater ambition and take a leadership role in the de-carbonisation of heat, which ultimately links to its approach and ambition to innovation. NGGT has increased its ambition and the December plan now clearly states that it intends to take a leadership role in this area.

Stakeholder engagement

NGGT has developed a collaborative innovation strategy with the GDNs, and it is apparent that extensive work has been ongoing in seeking the views of stakeholders and in seeking new ways of connecting with an increasing and wider stakeholder community. NGGT has shown awareness of the potential for ‘stakeholder fatigue’, hence engagement has been undertaken at an individual company level and extensively in a collaboratively way with GDNs as the company tries to reduce its demands on stakeholders whilst increasing its stakeholder insight and influence on NGGT. The ‘golden thread’ however is not consistently evident.

The challenge process

Throughout the process, the User Group has been confident in NGGT’s draft innovation strategy, which was initially shared with the group in April 2019. The strategy clearly outlined the journey the company had been on in RIIO-1, which had created a strong foundation to build upon for RIIO-2 all of which was well evidenced. It was clear the journey that NGGT

was on and the process of maturation that the company was undergoing in relation to embedding innovation culture. The strategy and plan had a number of iterations and clearly incorporate many of the challenges from the User Group.

NGGT is proposing a Net Zero reopener in 2022 within the Business Plan. This would enable greater stakeholder engagement over the next two years and ensure that all stakeholders are able to clearly and consistently continue to contribute to the overall Business Plan and the innovation strategy. This is sensible given the pace of change as we work towards Net Zero.

The primary challenge to NGGT related to the culture and ambition of innovation within the company. It is evident that innovation practice has grown out of technical innovation and while NGGT has a clear strategy and aspiration for RIIO-2, it was not evident that innovation was embedded across the whole business. As a result, the User Group raised a direct challenge to the NGGT Board to visibly demonstrate its commitment to innovation, its leadership role and involvement in supporting NGGT to develop a holistic innovation culture across the business.

The User Group raised a number of other challenges including whether NGGT was able to meet the challenge of being able to effectively manage a proposed 100% increase in innovation spend, given its performance in RIIO-1 where allowances are currently underspent. The User Group also challenged the timescales in the innovation strategy in developing the proposed innovation portfolio which would meet Net Zero carbon targets.

Changes to the Business Plan

NGGT has been extremely open and responsive to all of the User Group challenges. NGGT has listened and clearly understood the challenges from the User Group and shown a genuine desire to positively and effectively address those challenges.

In relation to Board ownership and commitment to innovation and its support, and direction in creating a culture within the organisation which fosters innovation, Board members responded extremely positively. They also signed a charter and associated commitment in relation to innovation which are included in the Business Plan. NGGT has made a commitment to an enduring role for the stakeholder User Group which can independently hold the company to account in delivering on those commitments.

The innovation strategy details those commitments, providing greater transparency, and the User Group is confident that it enables the future User Group to hold the business to account in RIIO-2 for delivery of those commitments, ensuring customer and consumer value. The company has opened itself up to a higher degree of scrutiny by proposing an additional Innovation Panel if it is necessary to ensure delivery of customer and consumer value which is extremely positive.

The User Group also welcomes the innovation strategy's clear statement of ambition to lead on heat decarbonisation and that there is clear intention of extending and building upon its already positive approach to collaboration, another factor which will enable the company to be held to account in RIIO-2.

Justification

The innovation justification is good; with sufficient detail and information provided on RIIO-1 and RIIO-2 innovation in the core Business Plan narrative and the innovation strategy annex. NGGT could have gone further in articulating the RIIO-1 savings being carried forward into RIIO-2. However, the User Group feels that NGGT is building on a solid RIIO-1 programme and has the right pace and drive behind its ambition to deliver in RIIO-2.

Conclusions

The User Group is confident in the strategic approach to innovation proposed by NGGT in the RIIO-2 Business Plan. Although there have been a number of challenges, and there is a degree of immaturity in its current processes and culture, NGGT has been very clear and ambitious on its RIIO-2 commitments and its proposals to use the independent User Group to challenge on an enduring basis, provides a satisfactory framework going forwards.

Competition

Ofgem output category – Driving efficiency through innovation and competition
NGGT chapter – ‘Our plan is efficient and affordable, providing value for money’

In line with Ofgem’s requirements, NGGT has to demonstrate in its Business Plan the effective use of competition to deliver consumer value. This is to be based around the three types of competition outlined by Ofgem: native competition (competitive tendering) and early or late competition for specific new, large and separable investment projects. This approach could produce real benefits for consumers by revealing new or innovative ways of solving network problems and avoiding expensive reinforcement. However, the User Group notes that this form of competition is new for gas transmission and is aware that NGGT is still working through the detail of the competition models with Ofgem.

Generally, the User Group was disappointed with the level of justification in the NGGT July draft Business Plan and competition was one key area which the Group agreed was weak in terms of demonstrating value for money. NGGT 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 the NGGT descriptions of native competition in each chapter. The group also welcomed further information on track record where 82% of all external expenditure in RIIO-1 followed this native competition process.

In the light of the ongoing development of the new models of competition, the User Group focused on those parts of the Business Plan that it could influence. These were where the plan could be improved to increase the transparency of potential projects for early or late competition or where NGGT could do more to engender confidence through evidence that it is embracing competition in consumers’ interest. NGGT has now clearly highlighted works that may meet the early and late competition criteria from a cost perspective (of value greater than £50m) and has provided its explanation and an initial view of whether these should be flagged or unflagged and the reasons behind this.

Information provision

Ofgem output category - Meeting the needs of consumers and network users
NGGT chapter – ‘I want all the information I need’

The information provision topic describes the functions that provide value for consumers by supporting the efficient functioning of the gas market. It facilitates market competition by:

- allowing market participants to make informed commercial decisions
- enabling the efficient physical operation of the network
- allowing connected parties to optimise their activities based on network conditions.

The scope includes operational data and decision making in the time horizon from week ahead through to after the operational day. It excludes any medium to long-term information.

The gas industry faces uncertainty and ongoing change. This means more effective information could be of growing use for customers and stakeholders, helping them to manage their activities and to make the right choices.

This topic potentially has a high impact on direct users and therefore, albeit not a huge cost in relation to the Business Plan (£8m per annum), it has the potential to deliver high value to the market by reducing risk and increasing competitiveness of whole and retail markets. Also included is transparency of reporting performance and proposals focus on the role of the enduring User Group, which is covered in the chapter on stakeholder engagement in this report.

The topic was assessed through deep dive sessions with the sponsors as well as challenges against the July and October Business Plan drafts.

Stakeholder engagement

In September 2018, the User Group held its first session on the information provision topic. As NGGT was undertaking stakeholder engagement at this time, this meeting generated a number of challenges specific to the topic but also some more high-level recommendations, applicable across all topics in the Business Plan. The main high-level themes included the need to provide more context to each topic, more information on business as usual (operational) insights and explanation of links to RIIO-1. Further challenges were raised on stakeholder segmentation. The User Group also requested more detail on partnership and collaboration opportunities to be presented in the engagement logs.

This topic now has a detailed 'golden thread' summary in the annex which demonstrates the key stakeholder priority linking engagement through to outputs, costs and consumer benefit. There is also further detail justified in a comprehensive engagement log.

The User Group noted that stakeholders value the information provided and see the data as crucial in managing their commercial processes. For the future, stakeholders would like to have more information, as well as continued improvements in data quality. They want to be able to extract the data they need as required. NGGT targeted specific stakeholder segments based on their high level of interest, influence and impact. However, the User Group was concerned about the engagement with smaller and harder to reach stakeholders, challenging NGGT on whether the company had tried hard enough. The User Group saw evidence of a combination of multi-channel direct engagement (telephone, LinkedIn, online contact forms), and efforts to engage smaller shippers, ultimately rendered inviable by data protection restrictions.

The challenge process

The User Group had a positive view of NGGT's work in this area of the plan from the start of the process. Areas of strength include the conceptual approach and new web portals to provide information, displaying an impressive agile approach which responds flexibly to stakeholders.

However, NGGT was challenged in a number of areas, asked to articulate clearly the core service and also the added value that is provided. NGGT was further asked to articulate further the 'push and pull' requirements of different stakeholders, make clearer the link between running the network and the information provided and to provide more quantitative data to explain the background.

Challenges also included the allocation of costs and whether there is any crossover between cyber security and information provision, to which NGGT gave evidence that there is not. A similar challenge from the group centred on the scope of information covered in the chapter. NGGT responded, noting that the chapter focuses mainly on commercial and operational

information. However, the company added that information that might be useful for other stakeholders, such as government and academic groups, is covered within its 'efficient and affordable' chapter. NGGT was asked to expand on the role of the open data working group and include more detailed narrative on commercial sensitivities including why not all data is in the public domain.

A core challenge from the July and October Business Plan drafts however, was for NGGT to say how it will define and measure success. It was also challenged to describe how it will set metrics through which stakeholders can assess whether it has delivered during RII0-2, and how it will respond to 'controversial' requests for information.

Changes to the Business Plan

The NGGT response to challenges in this area has been positive. Through the User Group deep dive session, and the information given in answer to further challenges, the group was impressed with NGGT's coverage of the 'push and pull' by different stakeholder groups. It was also impressed with the first-hand feedback from customers to prove that their needs were being put front and centre, particularly in relation to the use of the online Gas Operational Data Community, comprising 150 users. The conceptual approach and new web-based information portals are very strong. NGGT also provided information on an annual process to evaluate and prioritise stakeholder requirements, responded to a challenge to articulate how commitments will be affected if there are competing priorities.

Justification

The User Group considers the chapter is well evidenced and justified and that NGGT has responded well to the challenges set.

Vertical threads

Innovation On this topic, NGGT has clearly shown a pro-active use of innovation to meet stakeholder needs.

Conclusions

The User Group has a very positive view of NGGT's work in this area of the Business Plan. Its agile approach is impressive and flexible around stakeholders' needs and the overall articulation of the data community in the plan is good.

NGGT has been serious about broad engagement activity and its importance in helping to develop proposals anchored to customer outcomes. NGGT recognised that it needs to do more to widen the reach to smaller and harder to reach stakeholders.

The User Group is therefore broadly content with this topic.

Connections

Ofgem output category - Meeting the needs of consumers and network users
NGGT chapter – 'I want to connect to the transmission system'

The connections chapter relates to connections, modifications and disconnections for gas transmission customers. Base costs in this area (£2.5m per annum) relate to the management of processes and systems that customers use to reserve capacity. A load-related reinforcement project to deliver additional capacity is covered by an uncertainty mechanism. NGGT's customer satisfaction commitments are also presented in this chapter.

The connections chapter is relatively low in terms of overall financial materiality, but important from a stakeholder perspective. Having completed this challenge and assessment,

the chapter has progressively improved throughout the User Group's engagement including one deep dive session.

Stakeholder engagement

The User Group has seen a good 'golden thread' on this topic. The stakeholder insight on this topic was predominantly carried out as part of the innovation Project CLoCC (Customer Low Cost Connections) and carried forward into the RIIO-2 proposals.

The challenge process

In line with the prioritisation assessment of this topic, the connections proposals were not covered in detail in advance of the July Business Plan. However, a sub-group held a deep dive discussion with NGGT in May, which allowed further clarification in some areas. This resulted in a clearer explanation of proposed costs, especially the way NGGT manages costs and charges them back to the party requesting connection.

The User Group challenged NGGT to explain what help is given to new parties, when there is little clear, straightforward information provided to those not familiar with the industry process and jargon. NGGT was cautioned to ensure that the language used in its guidance and information for new parties is uncomplicated and transparent. However, it was also noted that information in NGGT's 'prevailing view' webpage is useful for those wanting to connect.

The User Group asked how the connections process is administered, whether it is wholly the responsibility of a physical team or if there are areas that could benefit from automation using automated intelligence or robotics. Following further discussion, it was noted that the fluctuation in volume and variability of connection requests can limit the extent to which automation is cost-efficient. The User Group noted this could initially have been explored further.

The User Group discussed with NGGT the extent to which good progress is being made with Project CLoCC and how it has to be a catalyst to deliver new customer requirements along with a range of other improvements (e.g. gas quality, code/rule changes and fees). The evidence of pre-screening work undertaken for Project CLoCC, which allows customers to see an instant online view of potential connections points at above ground installations, is a good, tangible example of where innovation has delivered a benefit to customers.

It was beneficial to see the positive customer experience scores, and that it is being led at director level. The associated annex now provides a narrative on NGGT's next steps into RIIO-2.

NGGT was challenged to articulate how it would respond to a request to connect a new source of hydrogen, should one become available. It was also challenged to show better how speculative user commitments would be challenged to avoid NGGT starting work on new connections for low-credibility projects.

Changes to the Business Plan

NGGT has reacted very well to User Group challenges, which were responded to in the final submission.

Justification

NGGT costs account for the inherent uncertainty around load-related works in RIIO-2, with reference to the processes and systems that underpin the Planning and Advanced Reservation of Capacity Agreement (PARCA) process. This is positive given the uncertain picture of consumer requirements within the future energy landscape.

Vertical threads

Innovation Project CLoCC, a RIIO-1 innovation project, has been effectively embedded, with benefits to customers.

Incentives NGGT initially highlighted a possible connections ODI in August 2019. User Group members noted that there was little time for developing new incentives as the four new incentives proposed, including connections seemed to be at the 'ideas' stage, and defining unambiguous Key Performance Indicators (KPIs) in these areas would be difficult. NGGT took on board this feedback and this ODI was not taken forward in a further short list in September 2019.

Benchmarking The detailed customer score is eight out of ten, but the gas distribution networks are above nine. NGGT has articulated the next steps in RIIO-2 to improve on their score.

Uncertainty mechanisms The group welcomed the proposed uncertainty mechanisms. There is further evidence in the chapter and annex signposting the reader to the proposed construct of these mechanisms to ensure the balance of risk between customers and the company are appropriate.

Conclusions

Overall, the User Group believes that this topic has been well covered in the Business Plan; the process is professional and strong.

Efficient and Affordable

Ofgem output category - Meeting the needs of consumers and network users
NGGT chapter – 'I want you to be efficient and affordable'

A fundamental aspect of Ofgem's ambition for RIIO-2 is to ensure that networks deliver the services stakeholders require, but at an affordable and value for money cost. The current annual cost proposal over the five-year period of RIIO-2 is £553m (excluding real price effects, pass through costs, and non-baseline funded uncertainty mechanisms). Under this proposal, the forecast average annual revenue for NGGT is £967m (based on its assumed financial package). Although this translates to a relatively small percentage of domestic consumers' bills (at around £9 per annum), the implication of allowances being set at too generous a level results in unnecessarily increased costs for domestic consumers and non-domestic users.

Setting the annual allowances at too high a rate would imply that activity is being included that is not necessary, or that the required activity is not being forecast at an efficient level, thus 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 NGGT'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 asset health, network capability and external threats). However, this chapter deals mainly with the efficiency and affordability aspects of value for money.

In reviewing value for money, the focus of the User Group was not intent on interrogating efficiency to the extent that a regulator could do so. This is not viewed 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 is 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. 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 opex productivity is more ambitious than comparators but, at a time of great innovation across the industry, it is not clear how stretching it will prove to be.

The User Group notes that there is a significant increase in annual costs (+ £167m per annum) in comparison with the RIIO-1 plan but that the annual consumer's bill is shown to be almost flat or reducing slightly; this is due principally to two factors:

- the reduction in the financial return allowed to NGGT on its regulated asset base of circa £6bn
- a forecast increase in domestic demand over the RIIO-2 period in comparison with RIIO-1.

Stakeholder engagement

Explaining impacts on customer bills is an important part of the engagement with stakeholders. NGGT has considered the overall impact on consumer bills in terms of its own role in facilitating a competitive and diverse energy market and an understanding of the energy bill impact on domestic consumers.

NGGT has undertaken stakeholder engagement in the various specific areas of spend relevant to value for money, including willingness to pay. Acceptability testing was undertaken, with over 80% of business consumers and almost 90% of household consumers stating that the overall plan and bill impact was either 'acceptable' or 'very acceptable'. This is positive, although NGGT does not seek to overplay its significance.

However, in terms of explaining the consumer impact, the User Group agreed that NGGT 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, following which there was more information in the October Business Plan submission on bill impact for these groups. NGGT was asked by the group to do further work again to bring out the views of business customers, for example, by expanding the granularity of the acceptability testing findings and how these are reflected in the plan.

Early in the process, the User Group challenged NGGT to demonstrate that it had managed the future needs of stakeholders appropriately to ensure that future consumers are not left with unaffordable costs. This issue mainly relates to the network capability assessment (i.e. what is the size of the network that has to be maintained?) and the whole system discussion (i.e. are new assets being installed 'hydrogen ready'?).

At this stage, it is worth pointing out the apparent contradiction that the capability, and therefore asset health requirements, are driven by the steady progression scenario (FES 18) which has high usage of the system, whilst the proposals for depreciation of assets is over a shorter life because of a reduction in the future use of the system. A different approach to recovering the cost of new assets means that approximately three quarters of the cost of an asset is recovered half way through its life, which increases the domestic bill by around 2.3%. NGGT considers that this is the best approach on the basis of intergenerational fairness, to protect future consumers assuming that their numbers will diminish (post RIIO-2) as we proceed on a path to Net Zero.

The challenge process

Initially, the full spending story over the RIIO-2 period was unclear; with increasing totex while the consumer bill stayed the same. The User Group challenged NGGT to robustly give

a greater justification for the increase in overall costs in the plan and consumer bill impact. NGGT responded with an explanation of how charges are forecast to remain reasonably flat on the bill for domestic consumers.

After a series of other challenges, including the User Group challenging NGGT to reveal its cost culture and explain whether it is targeting the same outputs for lower cost in RIIO-2, the User Group is satisfied that most of the core costs in the plan have been adequately market-tested. In particular, the asset health costs detailed in the 'Gas On and Off the System' chapter are the largest proportion of planned expenditure. These costs are principally derived from historic costs i.e. what did it cost NGGT the last time to do the work? The User Group challenged how that would deliver improvements and embed innovation efficiencies. In response, NGGT explained the Richmond Programme – a database of works and costs, gathering data on historic experience on lifecycle costs and work scopes, for benchmarking and comparisons between sites and companies. Aside from this more disciplined way of cost estimation, NGGT is proposing a 4% efficiency on capital investments.

A large number of the challenges and scrutiny from the User Group related to efficiency: how can NGGT provide assurances that the unit costs are efficient; how well have these been described to stakeholders; how stretching is the assumption about productivity/ongoing efficiency improvements and how have the past innovation successes been reflected in the future RIIO-2 cost estimates.

NGGT was challenged to present a clearer like-for-like financial comparison between RIIO-1 and RIIO-2 Business Plan costs, especially in terms of uncertainty mechanisms and also Real Price Effects (RPEs). RPEs have the potential to be a substantial cost and in large part they are expected to neutralise the bill reduction arising from the embedded production efficiencies for operating and capital costs. NGGT's choices about how different RPEs should be treated were not finalised in October, but the intention remains that there should be a fixed 1.3% uplift relative to CPIH (Consumer Prices Index including owner occupiers' housing costs) for labour costs on the assumption that this type of cost can be better controlled and managed by NGGT. This protects customers from the risk of higher outturn labour costs, although it could also provide a windfall to NGGT if labour costs are lower.

Changes to the Business Plan

NGGT has been helpful in working through the detail of the challenges in this area. The User Group noted positively the efficiency commitments in the plan and the evidence for the efficiency programme has become stronger over time. After User Group challenges, improvements from the July submission that became evident included evidence of external assurance, native competition, market testing, benchmarking, and savings. One example of this is the Gartner report updated in October 2019, on IT forecast spend which showed that NGGT's forecast is within an expected range, albeit at the upper end. NGGT has now shown some good evidence of changes at an organisational level to focus on driving efficiency and capability to benefit customers and stakeholders.

This evidence included the Gas Transmission Change Programme and Project Richmond, the cost analysis process outlined above to develop and collate historic data on projects and provide a robust data bank from which to estimate costs. This was shared with User Group representatives in a deep dive session. Later in the process, the User Group saw much stronger presentation of the broad scope of the project to drive improvements and efficiencies across business assets and structures, policies, processes, data, technology and capability. NGGT also pointed to changes made after the UK Operating Model (UKOM) review in 2013. Taken together, the group believes that the business is increasingly becoming fitter for the needs of stakeholders and customers ahead of significant changes in the energy system to come.

NGGT is going to carry out much more work with an increased RIIO-2 budget and the User Group has challenged the validity of the increased scope, which is driven principally by NARMS, HSE, environmental concerns and cyber security. Having challenged the cost information presented in July, the User Group had a 'deep dive' session to understand more on the cost build-up. A proportion of these costs do not pass the cost benefit analysis, but they are required because of legislation or the safety case. On 'non-lead' assets the spend is justified by reference to NGGT's internal policies and, in the annexes to the plan, NGGT has provided justification reports for compressor cab infrastructure and structural integrity. In September 2019, the User Group was shown a useful heat map of the compressor fleet strategy analysis. This showed priorities for asset health spend, based on running hours and priorities for spend on e.g. compressor train, cyber or emissions. This highlighted how NGGT is focussing on critical areas of spend for key assets. The User Group would however expect these reports and the benchmarking efforts to be further examined by Ofgem.

NGGT was also challenged to show how the efficiencies generated in RIIO-1 form a baseline for stretch in RIIO-2. Justification was provided for the productivity assumption of 1.1% per annum. It should be noted that this only applies to opex (and labour-related capex costs). The productivity growth of 1.1% in terms of cost reduction does look impressive compared with the forecast UK average (which latterly has been negatively impacted by BREXIT uncertainty). However, productivity should be measured in terms of volumes of gas transported for an overall cost and how this progresses over time. The upward pressures on opex are principally on IT run costs which as noted, are at the high end of benchmarked ranges, and also the costs of 'resilience' which is referred to as cyber and physical security costs. The increasing costs of cyber security have been challenged by the User Group, as outlined in the 'External Threats' chapter of this report.

There is a good RIIO-3 narrative looking at how a ten year plan might evolve to help provide context. The level of information on historic spend has significantly improved with a RIIO-1 performance section in the Business Plan with a helpful narrative on overspend and a RIIO-1 section in each chapter. In terms of continued learning between RIIO-1 and RIIO-2, NGGT has also shown some strong evidence of how commitments and efficiencies gained during the RIIO-1 period are influencing plans for RIIO-2.

Justification

The RIIO-2 costs are driven primarily by an increase in costs for asset health (driven by NARMS and legal and HSE requirements), for emissions reduction at compressor sites, and for cyber security and the Business Plan cost justification has much improved over the July to December submission process.

A continuous commitment to reduce the cost of delivery is pivotal to ensuring value for money throughout the RIIO-2 period. The plan includes some good examples of how collaboration will drive efficiencies, for example through innovation. Overall, efficiency commitments are satisfactory but do not seem to be particularly stretching (4% on direct capital investments). They can be considered reasonable when judged against the backdrop of UK infrastructure projects and in the context of the projects NGGT needs to deliver during RIIO-2.

There is a good balance between baseline funding and uncertainty mechanisms. Uncertainty mechanisms are essential to provide flexibility and to protect the consumer from overspending on the network unnecessarily. The current scope of the uncertainty mechanisms appears to the User Group to be adequately defined with expected trigger points and materiality thresholds set appropriately, save for a couple of exceptions. Those relate to the Net Zero re-opener where the scope is, possibly inevitably, rather broad, and the whole systems re-opener which has yet to be defined.

However, NGGT has not sufficiently explained the likely impact of digitalisation on e.g. asset health and maintenance or articulated if there are savings to be made and reflected in the Business Plan. The Ofgem Business Plan Guidance dated 31st October 2019 introduced a requirement on companies to submit digital strategies. Accordingly, a digitalisation strategy has been included in the December Plan. The User Group has not had sufficient time to scrutinise this in detail. However, it is not clear how the value which can be delivered from digitalisation and the efficiencies that it may bring, for example on maintenance, will be reflected in the Business Plan.

The group also received good evidence in response to challenges on how NGGT tailors its project management process to drive more cost-effective delivery, including the number of people deployed on larger and smaller projects.

Vertical threads

Innovation A continuous commitment to reduce the cost of delivery is pivotal to ensuring value for money throughout the RIIO-2 period. The NGGT plan includes some good examples of how collaboration will drive efficiencies, for example through innovation. The User Group was told the company routinely discusses investment requirements with the gas distribution networks as part of its routine business. However, innovation as part of NGGT's overall digitalisation strategy is not well articulated as noted above.

Trade-offs NGGT was challenged to articulate how stakeholder engagement had influenced costs and clearly explain what trade-offs between cost and delivery had taken place. NGGT has now provided information on trade-offs in specific chapters.

In response to late challenge by the User Group, trade-offs around RPEs have been more fully discussed in the final Business Plan, but 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 £26m per annum 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.

Benchmarking Several challenges have been made to gain a picture of NGGT's benchmarking activity. Early on, the User Group heard from NGGT on some of the difficulties in benchmarking for gas transmission. However, a discussion in April 2019 focused on the new, simpler standard for asset health unit costs which would make benchmarking more straightforward. NGGT described the equipment unit hierarchy that aligns with industry standards (ISO 14224) and so should make industry comparisons and benchmarking of reliability and maintenance costs easier in future.

The User Group has also challenged NGGT on any useful comparisons between benchmarking conducted by the US and UK sides of the business and on delivery of synergies across the regulated businesses. NGGT's explanation was that although there is no direct comparison between the US and UK gas operations, efficiencies have been made by sharing some engagement on core activity by National Grid across the gas and electricity transmission businesses. NGGT's response did not clearly articulate the level of cost sharing and joint developments within National Grid's businesses for cyber security and investment.

It is also positive to see NGGT continue with the AA100 and annual benchmarking reviews. However, the User Group would like to have seen more evidence on how the business will continue to scan for wider good practice and learning.

Common business support functions (£75m per annum) are operated on a shared services model with services such as IT, property management, HR and finance provided to all of the National Grid 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 NGGT'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.

Uncertainty mechanisms The User Group noted the balance between baseline funding and uncertainty mechanisms, and, on the whole, believes that this is a good approach. However, the User Group challenged NGGT to better define uncertainty mechanism in some areas with trigger points and timelines. This has largely been reflected in the December plan.

Conclusions

The Business Plan is much improved in terms of the justification from the earlier drafts. Chapters with material expenditure are typically better justified. However, the User Group did find evidence gaps in some chapters with lower financial materiality, but high stakeholder value and impact and these are outlined in the relevant chapters of this report.

NGGT has presented realistic cost efficiencies in its Business Plan, the combination of the Richmond programme and a productivity growth delivering a circa 13% reduction in underlying costs. However, the benchmarking shows that there may be greater scope for productivity improvements, and the upward pressures (especially regarding IT costs) have to be adequately controlled. Also, the efficiencies are in large part neutralised by the impact of RPEs over the RIIO-2 period.

In addition, while efficiency commitments are reasonable, the User Group recommends further analysis by Ofgem to establish whether the degree of stretch is sufficient. It could be argued that although the opex productivity is more ambitious than comparators at a time of great innovation across the industry, it is not that stretching. Similarly, capex savings are based on extending current innovation to more projects.

The scope of the capital and asset health programme is much greater than that for RIIO-1. The 4% capital efficiency through efficient planning and innovation should be deliverable, although NGGT has to remain focussed on effective delivery.

Deliverability and workforce resilience

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

NGGT shared its initial workforce planning annex as part of its July 2019 draft Business Plan submission. The User Group strongly challenged NGGT to provide evidence of a much broader business vision including all elements of the workforce. The User Group specifically asked NGGT 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

NGGT 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, generally content with the proposals on deliverability. The key outstanding challenge, which has now been addressed, was for NGGT, to better reflect the key messages in its Workforce Strategy annex within the main narrative in the plan.

Appendices

Appendix 1 - 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 RIIO-2 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 arrangements⁷.

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 RIIO-2 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.

⁷ <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 RIIIO-2 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 RIIO-2 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 seven 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 and 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

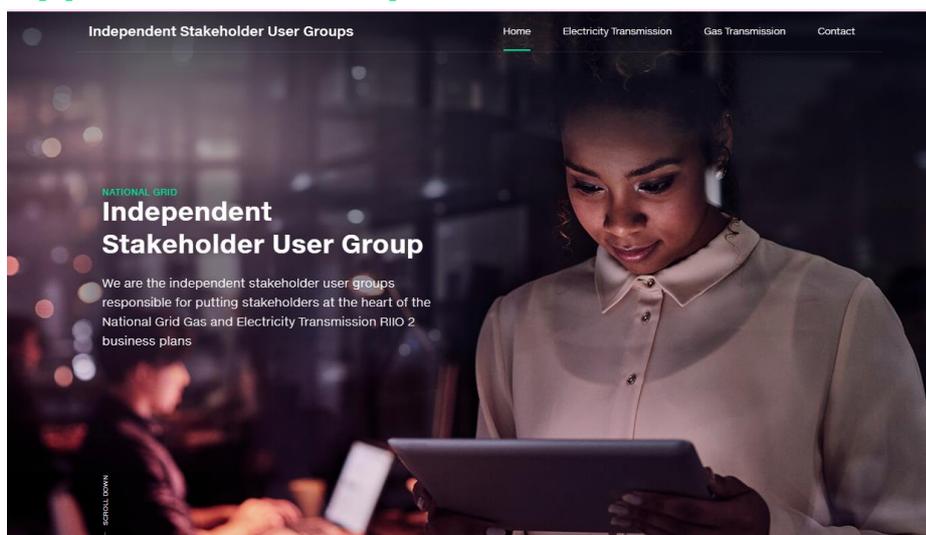
Objective	
Enhance the voice of stakeholders and positively impact the National Grid business plan(s) through critical review to deliver a sustainable, ambitious and cost effective outcome for consumers and stakeholders.	
Areas of Responsibility	Success Criteria
<ol style="list-style-type: none"> 1. The company’s overall priorities and approach 2. Direct input to identifying investment requirements and outputs 3. TOTEX budgets 4. Stakeholder engagement including best practice principles 5. The company’s approach to innovation, 6. The range of scenarios to anticipate future network requirements 7. What alternatives to the investment proposals has the company considered 8. Any issues of particular relevance to a local region 9. Transparency 10. Deliverability including company culture where relevant 11. Recommendations and influencing of Ofgem 12. Incentive areas and principles 	<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>
What we will do as a team?	How we will behave as a team?
<p>Add value</p> <p>Maintain independence</p> <p>Challenge constructively and provide specific feedback</p> <p>Bring a diversity of views</p> <p>Focus on outcomes and keep within scope</p>	<p>Show empathy</p> <p>Appreciate diversity of views</p> <p>Will make effective use of time</p> <p>Contribute to good quality discussion and challenges</p> <p>Help restore confidence and trust in industry and regulation</p> <p>Respect National Grid’s ethos and principles</p>

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



Appendix 5 – User Group Business Plan evaluation criteria

National Grid RIIO-2 Stakeholder Challenge Groups Business Plan Evaluation Criteria
 These (non-exhaustive) criteria will be considered in conjunction with [Ofgem’s Business Plan Guidance document](#)

User Group Evaluation Area	User Group Evaluation Criteria
RIIO requirements	Is the Business Plan well justified, with a clear rationale, and includes supporting evidence for the company’s proposals? Has the company demonstrated whether its proposals for expenditure efficiency / service quality improvement are sufficiently stretching?

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

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 – User Group 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 I&C consumers on the gas UNC modification panel.

Will Webster, Energy Policy Manager for Oil and Gas UK

Will has worked in a variety of different roles in energy and regulation for 20 years is current Energy Policy Manager at OGUK. Previous roles include roles 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 over 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 EON'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 last 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

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.

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 over £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.

Paul Denniff, Network and Safety Director, SGN

Paul is a chartered mechanical and gas engineer and fellow of both the Institution of Mechanical Engineers and IGEM. He joined British Gas in 1990 after working for the Central Electricity Generating Board and AMEC. He has extensive knowledge and experience in running a gas network covering transmission and distribution operations. Paul is a council and trustee member of IGEM and is also board member of the Gas Industry Safety Group.

Campbell Murdoch, External Affairs & Government Relations Manager, Total

Campbell has extensive experience in the oil and gas industry in the UK and abroad. He creates and develops strong working relationships with key external stakeholders at an executive level. Campbell holds a Law degree and is a member of both the Institute of Chartered Accountants of Scotland and Chartered Institute of Taxation.