

**NATIONAL GRID ELECTRICITY TRANSMISSION (NGET)
AND NATIONAL GAS TRANSMISSION (NGGT)
INDEPENDENT USER GROUPS (IUG)**

**RESPONSE TO OFGEM'S RIIO-2 DRAFT
DETERMINATIONS – GAS AND ELECTRICITY
TRANSMISSION, NGET AND NGGT**

September 2020

NATIONAL GRID ELECTRICITY TRANSMISSION (NGET) AND NATIONAL GAS TRANSMISSION (NGGT) INDEPENDENT USER GROUPS (IUG)

RESPONSE TO OFGEM'S RIIO-2 DRAFT DETERMINATIONS – GAS AND ELECTRICITY TRANSMISSION, NGET AND NGGT

The NGET and NGGT IUGs welcome the opportunity to respond to the Draft Determinations (DD). This is a joint response from both Groups as we have identified, and set out in this response, many areas and issues that are common across both electricity and gas transmission. Where it is relevant, we have identified topics that only apply to one sector. Our response highlights the broad areas in the DDs where we have questions and concerns, or express support. As such, we have not answered the specific consultation questions. The exception to this is in relation to the DD proposals on the enduring roles of User Groups and Customer Engagement Groups (CEGs) – our answers to the consultation questions form the later part of this response.

Our response focuses on the implications of the DD for NGET/NGGT's stakeholders, covering the stakeholder priorities in the companies' business plans and also the IUG reports that we submitted to Ofgem in December 2019. We do not therefore address, nor comment on, the detailed content of the regulatory cost assessments and efficiency challenges in the DD as they are best addressed by Ofgem and NGET/NGGT. However, we have commented on the underlying assumptions behind the approach used where we think that has implications for stakeholders. Nor do we comment on the section on financing proposals as this is beyond our scope and remit.

Firstly, we welcome and support Ofgem's objective to reduce costs to consumers and enhance the efficiency of networks.

However, we would like Ofgem to provide clearer evidence, and a proper thread in the Final Determination (FD) narrative, demonstrating the source of the headline £20 reduction in consumers' bills over the RIIO-2 period and recognising that bills are made up from a number of different elements including outcomes in wholesale markets and the interface between retail suppliers and end users.

The DD is also not clear on the extent and thoroughness of Ofgem's insights into the needs of future consumers, leaving us to question the longer-term consumer bill impacts and therefore the real value to consumers rather than the value at the end of the five years. Generally, apart from the headline overall bill reduction, the DD does not make clear the distributional bill impacts across the existing consumer and customer base, nor the inter-generational impacts, for example in relation to depreciation proposals in gas transmission.

We recognise the need for clear cost justifications. However, with regard to NGET/NGGT's stakeholders, overall, we are disappointed with the general approach taken in the DD which seems overly engineering-focused, short-term in some cases, siloed and often lacking in context and/or the impact and consequences of Ofgem's decisions. This makes it very difficult to assess the implications of Ofgem's decisions for the network, for consumers, and for the priorities identified by NGET/NGGT's stakeholders.

The RIIO-2 framework rightly made it clear that Ofgem wanted stakeholder-led business plans and our User Groups supported NGET/NGGT designing their business plans in accordance with customer and stakeholder priorities. However, we cannot see how Ofgem's DD proposals link to stakeholder insight.

There is, therefore, no clear "golden thread" throughout the DD that reflects stakeholder priorities, despite Ofgem requesting that the networks produce stakeholder-led business

plans. Greater transparency is needed regarding how Ofgem has made its decisions. In particular, how Ofgem considered, evaluated and weighted stakeholder and wider public interest considerations, including the views of the User Groups. This is especially important as Ofgem has said that a key focus is 'putting customers at the heart of its decision making'. It is hard to see this reflected in the DD, and it does not appear to reflect good practice stakeholder engagement.

Ofgem appears also to have given little weight to the range of quantitative and qualitative research with consumers that NG has undertaken.

We are disappointed with the level of attention Ofgem has paid to the reports we submitted on the NGET/NGGT business plans and the outputs of the enhanced engagement process generally. If, and where, Ofgem has considered and accepted our recommendations, then we would like to see a much clearer articulation of that "golden thread" throughout the FD. In general, there is very little justification narrative around what Ofgem has rejected from our recommendations and conclusions. We do, of course, respect Ofgem's decision-making roles and responsibilities. But once again, we can only emphasise that, in the DD, the clear lack of recognition of stakeholder insights and priorities, and of the role of enhanced engagement, does not reflect the good practice that Ofgem has required the network companies to demonstrate.

The stakeholders who formed the User Groups put considerable effort, over and above their day jobs, and over a lengthy period of time, addressing a broad range of complex issues in depth. Stakeholders, generally, will remain engaged as long as they believe that their work is valued and taken due account of. This has important implications for the DD proposals on enduring roles for User Groups (and CEGs) which we respond to in detail later in this response.

As a consequence of the paucity of stakeholder input, we are not clearly seeing the RIIO-2 framework being followed through in full, particularly with regard to "Outputs," which now seems more like a list of projects. This is because the DD is not structured around the key stakeholder and consumer outcomes identified in the original methodology. We would therefore like to see more transparency throughout on how Ofgem's proposals will deliver the outcomes that NGET/NGGT's consumers and stakeholders want to be delivered.

We understand and support Ofgem's objectives to protect consumers' money by directing investment where the business case has not been made from baseline to re-openers and uncertainty mechanisms. However, the increasing complexity in the package of mechanisms suggested requires new skill sets and both cultural and organisational change within Ofgem and network companies and the DD does not provide sufficient detail or assurance that the appropriate funding will be unlocked timeously, quickly and responsively in order to meet stakeholders' needs in the best value way, nor that there will be an unintended consequence of the stifling of innovation. Indeed such uncertainty is known to create inertia and this, coupled with a potential top down approach to innovation via the Strategic Innovation Fund (SIF) may cause innovation to stagnate across the industry at a time when stakeholders are challenging NGET/NGGT to provide leadership and ambition in innovation and the achievement of net zero. Additionally, greater complexity increases barriers to entry for third parties wanting to work in the sector and therefore the FD needs to provide a significant amount of detail to avoid such unintended consequences.

The DD is not clear how consumers will be protected from any delays in delivery of the re-opener process that could cost them more by way of increased overall system costs e.g. through additional constraints.

We also question, and Ofgem has not made clear, the impact of the shift in balance towards adaptive regulation with in-period decisions on charges, and pass-through costs, impacting on, for example, gas shippers and suppliers, large industrial and commercial customers, and generators. We are concerned that these customers could face charges that are unpredictable and unstable, and we urge Ofgem to be clear about these impacts. This could be achieved by including indicative charges for each year remaining in the price control period in the stakeholder consultation for each reopener and providing assurance that short notice changes to charges will not occur. The way in which transmission charges are reflected in distribution charges will also need to be considered.

On innovation, we fully support Ofgem's view that networks should not be funded for business as usual activities and we support the introduction of the SIF, subject to the caveats above and would ask Ofgem to provide greater clarity as to how the networks can work in partnership with Ofgem to contribute to the themes and direction of SIF to ensure that the expertise of the networks is fully utilised and the views of NGET/NGGT stakeholders are taken into consideration in relation to strategic innovation. It is our intention, in our continuing role to continue to place strong expectations on NGET/NGGT embedding a culture of innovation across the regulated businesses. And while both companies have to continue to improve on demonstrating the benefits of their innovation spend, we do ask Ofgem, in addition to its costs justifications assessment, whether it has considered that the significant reduction in allowances across the businesses might run the risk of NGET/NGGT having insufficient headroom to be able to culturally shift to pull innovation through into business as usual and thus realise wider stakeholder value. In relation to BAU innovation, there is a risk that network companies may be reluctant to collaborate more fully in sharing knowledge, learning and best practice. Ofgem is asked to consider whether an industry wide ODI in the measurement of collaboration could be introduced?

We believe that Ofgem has put insufficient focus on how it will undertake adequate and transparent engagement with stakeholders (including non-commercial parties) who have an interest in and are impacted by decisions in this new world of adaptive regulation. The regulator will need a much more strategic, targeted and proactive engagement strategy or else key voices will not be heard.

On reading the DD, we cannot see or understand the extent to which Ofgem is "joined up" with wider strategic thinking on public purpose and social value and how this is reflected in its decision-making approaches. Social expectations on monopoly companies have grown in recent years making these 'relatively' lower cost areas of higher importance but this is not reflected in Ofgem's DD.

Linked to the latter, Ofgem has accepted NGGT's Delivering for Local Communities initiative and this is welcome.

However, in Electricity Transmission we understand that Ofgem does not consider that NGET has made the financial case for the Consumer Value Proposition on Urban Improvement Provision and that this is also "academic" on the basis that NGET has failed Stage One of the Business Plan Incentive. None the less, as the bespoke UM to which this relates has been rejected, there is now no incentive for the company to deliver this. The risk is that this outcome will now not get delivered with no alternative proposed by Ofgem. Our report made clear our view that this was of clear value and it was a position we reached following scrutiny of NGET's approach and its plan for the stakeholder-led, independent governance of the scheme. We encourage Ofgem to leave the door open on this proposal and work with NGET to further develop (or propose an alternative that's in line with consumer need and views) to ensure benefit is still delivered for communities. In addition, the regulator may want to consider a common ODI for collaboration around street works (as it has for two distribution network companies) given this is a long-held consumer issue.

On environmental outcomes, in our IUG reports we encouraged Ofgem to ensure that targets were suitably stretching and that the financial incentives were truly required and proportionate. We raised a number of areas where we queried if NGET/NGGT were setting a high enough bar. To give us confidence in the decisions in this area, we would welcome Ofgem clearly setting out a comparable table with companies' different proposals on key issues that matter to stakeholders/the targets they will be meeting and, where there is variability, why the regulator sees this difference as appropriate so that consumers and citizens aren't getting a postcode lottery experience where avoidable. We would like to know what cross-sector benchmarks Ofgem has adopted in this area (we have no visibility as to what the regulator sees as good and stretching practice and why i.e. the art of the possible) and how it sees its approach links to customer and stakeholder research and expectations. We ask the regulator to explain any variation in approach between transmission and distribution companies where it's not immediately obvious e.g. there is much more of a reliance on reputational incentives for network companies than for transmission companies. With GDNs Ofgem appears to have rejected bespoke environmental proposals, requiring them to be included as part of the EAP reputational incentives, yet in transmission this does not appear to be the case and financial incentives have been approved. Also, we query what will happen if environmental legislation such as the Environment Bill overtakes some of the requirements and what Ofgem's expectations are in terms of likely legislative changes in this area in the price control period e.g. the impact of the Environment Bill – will companies still be rewarded for complying with new minimum standards?

We welcome Ofgem accepting NGGT's proposed reputational-only ODI on stakeholder satisfaction. This is helpful to incentivise the company to continue to embed stakeholder engagement into its day to day decision making. This would be useful as a common ODI for all transmission companies, as there is still significant cultural change needed in this regard within most network companies.

Transmission Network Reliability

We re-iterate our support for maximum efficiencies and regulatory cost scrutiny, and we are aware of the outcome during RIIO-1 of some network companies underspending, with unclear consequences for the RIIO-2 process.

However, we believe that Ofgem has not been clear on the impacts of the proposed significant reduction in the baseline allowance and the wider context for stakeholders and consumers.

It is clear that NGET/NGGT stakeholders want to see existing levels of reliability, and levels of risk on the networks, to be maintained. NGET/NGGT's own stakeholder and consumer insights show little appetite for any increased room for network failure in return for relatively small reductions in consumer bills, which, in Gas Transmission, could in fact be masked by the impact of the change to the depreciation methodology. By contrast, in the DD, the burden of proof used in the cost assessment framework appears to be that all expenditure with an element of doubt has been removed. This leaves us questioning what the real impacts are on the ground and whether they are what stakeholders need and want.

The DD is not clear either on the relationship between the proposals for network investment for NGET and the delivery of the most recent, and continuing up to date, Network Options Assessment (NOA) outputs.

Ofgem's methodology seems to be focused on a narrow asset by asset-based approach and less around looking at the overall performance and network risk. Our expectation was to see a clear articulation of the long-term reliability of the overall network going forward and as reflected by the NARM methodology which was a central part of the sector specific

methodology documents. This would meet, and provide assurance on, stakeholder and consumer expectations and would have reassured us that the process for making judgements on the network was stakeholder-led. Instead, there seems to be large differences in interpretation of this methodology by Ofgem and NGGT\NGET and therefore uncertainty about what will be the baselines and deliverables with respect to reliability. Has Ofgem changed or diluted its approach to NARM?

Likewise, the implications on the future cost of reductions made to allowances during the current RIIO-2 period is not clear – is activity being delayed or entirely removed? We are not clear on this point and would expect to see any such judgement backed up by NARMs analysis at the heart of the DD.

The DD does not acknowledge that reductions in investment allowances associated with reduced activity are (in the short-term at least) neutral for NG – as they do not get the funding but likewise are not required to carry out the activities they have proposed. However, this then means that the balance of risk is passed to consumers and stakeholders as they are now exposed to the reliability investment assessment being correct. Without clear NARMs analysis and a transparent rationale that is focused on the overall short and long term needs of the network and the expectations of those who use it, and have essential need of it, we are concerned that the DD is being driven by asset condition and engineering costs justification at the expense of strategic assessment and a focus on the consumer outcomes that should sit at the heart of the RIIO-2 framework.

The DD is not clear about the impacts of the proposals on existing and future levels of reliability and what that means for the level of risk that stakeholders, including NGET\NGGT's consumers, are prepared to tolerate. How can we be sure that the cost of securing long-term reliability has not just been deferred into RIIO-3 (e.g. by favouring refurbishment over replacement) where consumers might end up bearing the costs of addressing additional constraints on the network? Or that addressing network failures will increase costs to consumers in the longer-term?

In the same vein, the DD does not demonstrate that the network will be sufficiently robust to deliver the energy transition where greater levels of resilience might be needed in more flexible local systems and increasing amounts of intermittent generation or where the impact of potential interruptions may be greater, for example as a result of widespread use of electric vehicles.

Again, a common theme we have raised in this response is around clarity on how unintended consequences, and their costs will be identified and addressed. We would therefore like the FD to be clear about the extent of any costs to consumers, stakeholders and the supply chain where companies have already incurred pre-construction costs for work that will not now take place and how these costs will be covered in an adaptive regulatory framework.

Net Zero

The IUGs would welcome any intention by the regulator to become adaptive and flexible in order to meet stakeholder need in an uncertain world and we support Ofgem's intention that consumers should not be asked to fund unnecessary investment. In principle, therefore, the proposed approach to having a Net Zero re-opener seems sensible.

However, from a stakeholder perspective, the lack of detail in the DD raises concerns and questions on delivery that we firmly believe Ofgem needs to address as a matter of urgency. The DD makes us question whether and how Ofgem will deliver on its aspiration by the start of the RIIO-2 period, some six months away. But more importantly, without answering the questions and concerns that we, and others, are raising, and setting out a clear delivery

plan, again as a matter of urgency, we would be concerned that RIIO-2 becomes a blocker, rather than an enabler, for achieving the 2050 Net Zero position.

Ofgem needs to provide more detail now on how the Net Zero re-opener will work in practice. While recognising the policy uncertainties, our IUGs challenged NGET/NGGT to set out now a clear roadmap to Net Zero compliance, demonstrating the trigger points for action, together with evidence that both companies stood ready to deliver at pace when required. With the introduction of the Ofgem triggered Net Zero re-opener, we are not clear now on the value, and efficiency, of NGET/NGGT doing this and would welcome Ofgem's view on this. This is particularly the case for anticipatory investment which, by definition, are enabling activities for wider changes where a higher degree of certainty is required.

We would like to see more evidence that this framework will not disincentivise an effective whole systems approach. As only Ofgem can trigger the re-opener, are there risks that the onus is removed from network companies to work collaboratively to deliver whole systems solutions to Net Zero that are innovative and can be delivered at pace? How will Ofgem work to ensure that networks stand ready to deliver at pace at the right time, working together in the right way and with the right people? It is not clear to us that Ofgem has a view on what good looks like and we would like to see more evidence on how the Co-ordination Adjustment Mechanism will actually deliver effective whole system outcomes.

How will Ofgem align stakeholder concerns for pace towards delivery of Net Zero, and the similar message from FES 2020 with the processes outlined in the DD? The FES report warns that reaching net-zero "requires immediate action across all key technologies and policy areas, and full engagement across society and end consumers". We have challenged NGET/NGGT, in our reports, to demonstrate clear, pro-active leadership on whole energy systems and stakeholders expect Ofgem to do likewise. However, the DD does not reassure us that Ofgem has a clear whole system leadership plan.

The DD is largely silent on the detail of how Ofgem will ensure that the right Net Zero re-openers are identified and articulated early, triggered at the right time and with the necessary fleetness of foot, agility, strategic co-ordination, stakeholder engagement and partnership working. We understand that Ofgem will take the lead from strategic government policy triggers and advice from the Net Zero Advisory Group, which will have strategic membership from the UK and devolved nation governments and will meet twice yearly. While it is understandable and sensible that Ofgem takes its steer from government, we do note that this then means that the Net Zero re-opener will be dependent on, or driven by, the level of government ambition at the time.

We believe that, in order to provide reassurance on Net Zero, Ofgem needs to be clear now on how it will identify and work with the right stakeholders, across the whole energy system in its widest sense, and at the right time as mentioned earlier in this document in relation to innovation. And how will strategic investment scenarios meet local need? The DD does not address how the specific Net Zero needs and ambitions of regions and cities will be addressed, nor how the broad consumer base should fund them.

And how will the process of competition keep pace? While we recognise and support the importance of competition in incentivising efficiencies, we are also cognisant that competition is not an end in itself. The DD is not clear enough on how competition will enable better outcomes for Net Zero by being efficient in itself as a fleet-of-foot mechanism rather than a blocker to ambition and pace.

We would like to see Ofgem's Roadmap and we believe that, if stakeholders are to gain confidence in the process, then the Final Determination needs to give much more detail and clarity on how the re-openers will work in practice and how Ofgem will demonstrate foresight,

responsiveness and pace, and require network companies and unregulated whole system partners to deliver what needs to be done.

The DD is also not clear on how Ofgem will address existing Net Zero government policy initiatives. The UK Government has set significant targets for the delivery of offshore wind by 2030 and beyond which will require significant levels of grid reinforcement. Given that the DD does not provide any mechanism by which any anticipatory investment can be secured, Ofgem needs to be clear about how it will expedite this programme to meet these challenging timescales. On a similar theme, how does the DD position reconcile with the recently announced BEIS work on integrated offshore transmission? Ofgem is involved with this work yet the DD position appears counter to the intent of the BEIS work. Given that this is a significant area of concern for stakeholders, we believe that Ofgem needs to provide clear assurance in the FD that re-openers will be aligned with, accommodate and deliver policy objectives.

On electricity transmission connections, we, and stakeholders, are concerned about the likelihood of the increasing reliance on re-openers delaying connections for both generators and consumers, and that increasing levels of uncertainty will inevitably lead to delay and a more conservative approach to innovation. We are also concerned that the move away from incentive to penalty structures will result in a drive to minimum requirements rather than an incentive to improve and undermine the significant improvements that NGET (and NGGT in gas connections) has made in recent years. Again, while we understand and appreciate Ofgem's desire to protect costs to consumers, connections is another area where the DD proposals are light on stakeholder concerns about uncertainty and about how Ofgem will identify and address unintended consequences that may, in the longer-term, cost consumers more.

Enduring role of User/Customer Engagement Groups

In this section we respond to Ofgem's consultation questions on the enduring role of User Groups and Customer Engagement Groups. Before doing so, we refer back to the comments we made earlier with regard to the need for Ofgem to do more to demonstrate in the DD that it values stakeholder insights and engagement and the work of the enhanced engagement groups. However, we do welcome the fact that Ofgem is seeking stakeholders' views on this topic. We would emphasise again the need for Ofgem, within the RIIO-2 period to ensure that its relevant activity and regulatory policy approach recognises, and is seen to recognise, the work of the User Groups and CEGs. For example, this will be important with regard to scrutiny of in-period investment proposals arising from the Uncertainty Mechanism or Reopener processes and where they are also linked to the Net Zero reopener. Ofgem will have to be particularly clear on the role it sees the Groups playing and follow that through so that stakeholders remain engaged and feel that their voices are being heard.

Q1 What role should Groups play during the price control period and what type of output should Groups be asked to deliver? Who should be the recipients of these outputs (companies, Ofgem and/or stakeholders)?

We consider that these Groups will have a key role to play during the price control period. However, it will be important to remain clear about the distinction between Customer Engagement Groups (CEGs) in distribution networks and User Groups (UGs) in transmission and the ESO. This distinction, and the clear rationale for Ofgem's approach, were set out in Ofgem's original RIIO-2 Enhanced Engagement Guidance, but we believe there is merit in Ofgem re-stating it as, in our experience, the two distinct roles have often been conflated by stakeholders.

The Enhanced Engagement Guidance sets out the following different models for enhanced stakeholder engagement and this clearly has bearing on roles, function and membership:

“In distribution, each company is required to establish a Customer Engagement Group. These Groups will provide challenge on whether the company’s business plan addresses the needs and preferences of consumers.

In transmission, each company is required to set up a User Group. These groups will challenge the company’s business plan proposals and provide input into the plan.”

The guidance makes it clear that there should be a *“difference in the composition of the groups toreflect the characteristics of each sector, especially the range of stakeholders, and their capability to provide challenge and direct input to company proposals.”*

The clear distinction is that the transmission groups have members who represent key organisations and constituencies across transmission so, arguably, their role is more representative in the narrower sense of the word. This gives them a particular legitimacy in challenging a company’s priorities and activities.

We consider that User Groups can add clear value over and above the existing statutory regulatory structure, Ofgem’s role and the regulatory monitoring framework. It is not the role of User Groups to set out the financial framework or to duplicate the work of Ofgem in determining costs and efficiencies. However, the Groups can play a key role in focusing on the things that are harder for the regulator to monitor, for example, culture change, being customer-centric, public purpose, and embedding innovation. Where there are no formal ODIs, the Groups can help ensure that there is still transparency and focus, for example, on Environmental Action Plans, and they can support reputational regulation by further holding the company to account on reputational outputs. In short, the Groups can build on their unique position of being close to the company, but at arms-length from them. The Groups could also, as outlined in our response to Q2, support Ofgem’s activity in its move towards more adaptive regulation. For example, scrutinising in-period proposals before they come to the regulator, helping to improve their quality – robustness and clarity.

NGET/NGGT have, for some time, committed to an enduring role for the Independent User Groups. Since the beginning of 2020, we have been working with both companies to update and revise our Terms of Reference and governance structure to both reflect our enduring role and enhance our independence from NGET/NGGT. These Terms of Reference will be subject to ongoing review to ensure that they remain fit for purpose and in order that the Group continues to evolve to reflect Ofgem’s requirements and regulatory approach.

Our User Groups have considered and discussed the different roles we might play going forward. For example, we could have had a sole audit function, simply commenting at the end of the process on NGET/NGGT’s activity, though this would have added little value arguably to Ofgem’s existing scrutiny role. We have opted to enhance that function with a “critical friend” role as we believe this provides greater opportunity for us to influence the companies at the earliest stage of their thinking. We are aware of the increased challenge that comes with the “critical friend” role in terms of maintaining independence and avoiding capture. It is for this reason, that we reviewed our governance as well as our role.

Our current agreed Terms of Reference now define our purpose within three areas of focus:

- 1. Scrutinise and challenge company periodic business plans:**
 - a. Scrutinise and challenge the development of company regulatory business plans, consistent with Ofgem requirements.

2. Monitor, interrogate and enhance transparency of performance against commitments

- a. Hold National Grid to account in delivering its business plan commitments by monitoring delivery and enhancing transparency
- b. Act independently and publicly share its assessment as the voice of National Grid's stakeholders
- c. Shaping National Grid as the pathway to Net Zero is developed and challenging how it responds to external change.

3. Critical friend for strategy, culture and processes in key areas

- a. Provide input and challenge to National Grid's priorities and activities
- b. Provide input and challenge to National Grid's stakeholder engagement and ensure that it's part of decision-making processes and plans
- c. Help National Grid to become more stakeholder-led; demonstrating fairness, legitimacy and consumer-focus throughout the business.

Clear published User Group deliverables and outputs are a critical part of transparency and as the clear way of ensuring that the Groups have "teeth" and therefore value, influence and accountability.

On outputs, our Terms of Reference currently say:

"The User Group will develop, and review annually, principles for prioritisation to inform an annual work programme which will be produced at the start of each business planning year. User Group outputs will be process- and issues-driven. The User Group will identify, and review annually, a clear set of criteria, metrics and performance measures by which it can both hold National Grid to account and assess its own effectiveness. At the start of each year, the User Group will agree its plan for outputs to be delivered and published during that year. This may be subject to review and change during the course of each year."

Anticipated audiences would be the companies, Ofgem and stakeholders in the interests of transparency and as part of the "holding to account" function.

Q2 What role should Groups take with respect to scrutinising new investment proposals which are developed through the uncertainty mechanisms?

Scrutinising new investment proposals would be consistent with our User Groups' agreed purpose and we consider that it would be a key role of the Groups within the price control period. The Groups can provide a sense-check and view on the legitimacy of any approach that should help to improve the quality of the proposals that go to Ofgem. This includes challenging any optioneering, ensuring there is a strong evidence base (including where appropriate stakeholder insight and consideration) and improving the clarity of explanations.

Q3 What value would there be in asking Groups to publish a customer-centric annual report, reviewing the performance of the company on their business plan commitments?

As set out in our response to Q1, we consider published reports on company performance against the business plan commitment to be a key role of the Groups and this would be consistent with our User Groups' purpose and outputs plan.

This will help ensure transparency and accountability for the activities undertaken by the Groups. Publishing a report helps to give weight to a Group's views and therefore strengthens their opportunity to influence the company in the interests of customers and stakeholders. The report could also provide more qualitative insight on aspects not covered by Ofgem's reporting framework or a new perspective on those areas e.g. responsible business, consumer vulnerability, engagement, culture change.

We query what Ofgem means by “customer- centric.” In line with the perceived purpose of the Groups, reports should be stakeholder-centric, and this should also encompass customers, citizens and consumers. Certainly, any report should be accessible to all of these groups.

Q4 What value would there be in providing for continuity of Groups (albeit with refresh to membership as necessary) in light of Ofgem commencing preparations for RIIO-3 by 2023?

Enhancing transparency and delivery of RIIO-2 commitments and continuing to challenge NGET/NGGT on strategy and culture is a key part of our User Groups’ purpose. This would form a key part of effective preparations for RIIO-3.

It is important that membership collectively provides a diversity of viewpoints and appropriate knowledge and skills to carry out the role. Within this though, to avoid capture, Groups need to ensure that no one member stays for too long (there may be exceptions with some particularly difficult to recruit skills/groups). However, Groups will also need some members with the historical memory to ensure that lessons learned are applied, and promises made which may not be written down, are delivered upon. Members who really know the business and can get under the hood of it. So, groups will need to have a rolling membership that balances continuity and fresh perspectives to avoid capture and for the Group to continue to evolve and add value. The advantage of the Groups having a continuing role is a) this is good practice for any company who is genuinely putting customer engagement at the heart of their business. Engagement is not just for the price settlement process. It can genuinely help to deliver culture change in a way that financial incentives and the regulator have limitations b) it ensures much better understanding of the business from which to challenge and scrutinise the activity and frankly means that the Groups start from a stronger point when the next business plan is being developed. c) we are entering by Ofgem’s own language into a world of adaptive regulation. There is an important role that the Groups can play in supporting work around the reopeners and uncertainty mechanisms and they should be a key part of this if well-designed.

Whether the right outcomes will be achieved from having one Group per company set up or a single Group per sector

We have considered and discussed the advantages and disadvantages of company-specific Groups or having a single Group per sector. The issues we have identified are as follows:

Company Specific Group

- Potentially can provide greater depth of engagement and challenge across all topics.
- Members represent the company stakeholder base and as users or future users of the company. This has a number of benefits, for example, it facilitates accountability and transparency. Members can provide early warning of concerns on the ground, enabling the company to address these in a timely way.
- Continuity of members/expertise (with membership refreshed appropriately) - cohesive groups are already in place.
- Increased influence because the company shares its thinking at an early stage. Trust between parties has been established, enabling more open discussions.
- The company willingly shares commercially confidential information directly to the Group.
- The direct relationship enables responsive and fleet of foot dialogue when needed.
- Groups have a grass roots perspective of the business and are therefore better placed to comment on the culture of the organisation and effect cultural change.
- NGET/NGGT have committed to the groups in the longer term as they recognise the business benefits from working to their stakeholders’ needs and priorities and having

early challenge. This is also the experience of our members who have worked with company-specific groups in other sectors.

- The companies provide and fund dedicated support, resource and secretariat.
- Could apply reputational pressure if had an outward facing role/produced an annual report.

One Group per Sector

- Could look across the sector to identify good practice. To get value from this, mechanisms would need to be set up to ensure good practice was shared in a timely way.
- Could apply reputational pressure from benchmarking/ranking across companies.
- Could encourage companies to work together better.
- Would need to be a new Group with a new membership as it would be replacing a range of other predecessors.
- Engagement likely to be broad rather than deep. Would need to ensure the role did not duplicate the activity of Ofgem and genuinely added value.
- Stakeholder and user base geographically different for each company e.g. in ET – across NGET, SPT and SHET where a single User Group would need to ensure representativeness across companies with very diverse stakeholders and different policy environments.
- Companies unlikely to willingly share commercially confidential information although, if the sectoral group was run by Ofgem, it could benefit from Ofgem's existing information request powers.
- Companies unlikely to share their thinking at the early stage, lessening ability to influence.
- If Ofgem run and recruited the Group, it is likely to be seen as an extension of the regulator and consequently harder to build trusted relationships with the companies or enable early input on proposals.
- Companies sign up as a regulatory requirement rather than on the basis of seeing the individual company longer term benefit.
- Workload could be significant if appropriate depth of scrutiny.
- Pace of response could be slower as well as at a later stage and there would be less flexibility to respond to company specific issues.
- Who would supply support, resource and secretariat and how?

We believe that there should be company-specific Groups and that the merits of company-specific groups clearly outweigh the case for a single sectoral group. However, there is real merit in establishing a mechanism for Company specific Chairs/Groups to share good practice and learning, for example, via quarterly Chairs meetings and/or an annual summit or conference where we could compare and benchmark approaches. In some areas such as engagement, public purpose or environment there is value in this including all network companies (distribution and transmission).

Q8 Do you agree that the Groups could have an enduring role to work with the companies to monitor progress and ensure they deliver the commitments in their engagement strategies?

We consider this to be a key role of the Groups. As stated in our response to Q3, one of the key areas of focus for our Groups is to provide input and challenge to NGET/NGGT's stakeholder engagement and ensure that it is part of decision-making processes and plans, and to help the companies to become more stakeholder-led. The Groups' role will therefore include holding NGET/NGGT to account on their stakeholder engagement strategies.

In response to our Groups' concerns on their ongoing RIIO-2 stakeholder engagement strategies, the NGET and NGGT Boards each committed, in the final RIIO-2 business plans,

to the delivery of a stakeholder engagement charter which includes: the ambition and approach of NGET/NGGT's stakeholder engagement strategy; approving stakeholder-led business priorities on an annual basis; tracking and monitoring key stakeholder engagement performance metrics twice a year; being actively involved in stakeholder engagement activities; and assurance across all levels of the business. Our Groups intend to hold NGET/NGGT to account on the delivery of this charter and sees this as critical to the success of the companies' overall stakeholder engagement programmes throughout the RIIO-2 period and in readiness for RIIO-3.

As stated earlier, participants of any future or enduring groups will be committing significant time, energy and resource. To continue to retain and attract effective participants they need to be assured that their contribution is making a positive difference and is valued by Ofgem. Therefore it is incumbent upon Ofgem to determine if it truly wants to continue with this approach and that it will act upon the insights shared by the groups.