

RII0-2 Challenge Group

RIIO-2 challenge group ToR v1

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1. Context

- 1.1 The next round of RIIO price controls will run from 1 April 2021 – 31 March 2026 for the Electricity Transmission (“RIIO-ET2”), Gas Distribution (“RIIO-GD2”) and Gas Transmission (“RIIO-GT2”) sectors. For Electricity Distribution (“RIIO-ED2”), the next price control will run from 1 April 2023 – 31 March 2028. The price control setting process by Ofgem and the industry has commenced for RIIO- ET2, RIIO-GD2 and RIIO-GT2. Ofgem are also developing a new price control for the Electricity System Operator (ESO), which will apply from April 2021. At this stage, we expect the development of the ESO price control to follow the same timing and process as the other sectors, unless we have reason for it to depart from this
- 1.2 Ofgem’s RIIO-2 objective¹ “the RIIO-2 Objective” is to ensure that regulated network companies deliver the value for money services that both existing and future consumers want. In particular, that the price controls:
- i) give due attention to mitigating the impact of networks on the environment
 - ii) are designed so that networks play a full role in addressing consumer vulnerability issues.
- To do so, they should develop and maintain a reliable, safe and secure network that is flexible in supporting the transition to a low-carbon future.
- 1.3 To strengthen the voice of consumers in the process of setting price controls for energy network companies, Ofgem have established RIIO-2 Challenge Group (“the Group”) for all RIIO-2 price controls.

2. Objective and scope

Objective

- 2.1 The objective of the Group is to help ensure the delivery of the RIIO -2 Objective by providing effective challenge on behalf of existing and future consumers to the network companies and to Ofgem.
- 2.2 To achieve its objective, the Group will, as its primary purpose:
- (1) provide an independent challenge to, and scrutiny of, all proposed network company business plans for all sectors in RIIO-2 from the perspective of existing and future consumers, with a focus on affordability and the protection of consumers in vulnerable circumstances, and on sustainability (including but not limited to impact on the environment and the low carbon transition);
 - (2) participate in the public hearings run by Ofgem; and
 - (3) review the initial determinations published by Ofgem in summer 2020, and as part of the broader consultation on these, challenge and advise Ofgem if any aspects of these determinations may not be in accordance with the RIIO2 Objective. Ofgem will take into account the Group’s views before setting final determinations at the end of 2020.

¹ The RIIO-2 objective is mentioned on page 4 of [RIIO-2 framework decision published by Ofgem in July 2018](#)

- 2.3 The Group will also engage with and provide challenge to Ofgem's policy thinking from the perspective of the RIIO-2 Objective in the run-up to Ofgem's sector methodology consultation in December 2018 and sector methodology decision in May 2019.

Scope

- 2.4 The Group does not have any decision-making powers, nor will it endorse the business plans submitted by the companies. The Gas and Electricity Markets Authority (GEMA) will make the final decision on the price controls. As such, Ofgem will consider views raised by the Group but is under no obligation to accept them.
- 2.5 In furtherance of its primary purpose the Group will scrutinise network company business plans, and set out areas of agreement and disagreement with reasons in a report prepared for Ofgem. The purpose of the report will be to assist Ofgem in focusing on contentious areas of spending, through the open public hearings that are planned for the spring of 2020. Ofgem may provide guidance to the Group from time to time on what areas the report should cover (as it will to the company specific Customer Engagement Groups and User Groups, defined in Ofgem guidance on enhanced stakeholder engagement²).
- 2.6 The sectors in scope for consideration by the Group until April 2020 are RIIO-ET2, RIIO-GD2, RIIO-GT2 and the ESO price control. At the request of Ofgem, the Group may also provide views on specific areas during this period in relation to RIIO-ED2.
- 2.7 In fulfilling its primary purpose, the Group may seek to challenge all aspects of network company business plans from the perspective of consistency with the RIIO-2 objective. This challenge would be with a particular focus on (i) the range and quality of services offered (particularly for consumers in vulnerable circumstances and those that are currently worst-served); (ii) sustainability and environmental impacts; and (iii) on total expenditure (totex), depreciation, the cost of capital (which together account for the vast majority of the price control's impact on household bills). The Group can decide to focus on particular areas as its interactions with the companies and company specific User Groups and Customer Engagement Groups develop further.
- 2.8 When engaging with Ofgem's policy thinking for RIIO-2 sector methodologies, the Group may focus on any issue specific to the RIIO-2 price control for all sectors, which it considers are relevant to the RIIO-2 Objective. In performing this role, the Group will be mindful of the existing RIIO-2 Framework Decision (published in July 2018) and sector methodology (due to be published in spring 2019). Unless requested otherwise, the Group will operate within the framework of decisions already taken by GEMA.
- 2.9 The Group will develop criteria to evaluate its effectiveness and its contribution to the delivery of the RIIO -2 Objective. At the conclusion of its work, the Group commits to participate in an independent review of its work and outputs in order to assist Ofgem in preparing for RIIO- ED2.

² [Enhanced Stakeholder Engagement Ofgem guidance](#)

Relationships with other groups and Ofgem

- 2.10 For the avoidance of doubt, the Group is not a substitute for wider stakeholder engagement and consultations that Ofgem and the network companies must conduct for these price controls.
- 2.11 The Group has a distinct purpose, as described in para 2.2 of this document, separate from any working groups Ofgem or companies may establish to seek views from wider stakeholders and company specific Customer Engagement Groups and User Groups.
- 2.12 The Group is independent from Ofgem, and no action or recommendation on the part of the Group will under any circumstances be construed as any commitment on the part of Ofgem to take similar action or adopt such recommendations.
- 2.13 Where needed, the Group (via its Chair), may be invited to discuss its views at a number of meetings, including with GEMA (the Ofgem Board), Ofgem price control staff and at the open public hearings.
- 2.14 The Group will have the opportunity to meet periodically the Chairs of the company-specific User Groups and Customer Engagement Groups, established by the network companies for RIIO-2. The Chair of the Group will be invited to attend the periodic meetings Ofgem will conduct with the Chairs of the company specific groups.
- 2.15 The Group will seek to liaise regularly and work constructively with and to avoid duplication of the work of company-specific User Groups and Customer Engagement Groups. However, this will not constrain the Group from raising or examining an issue from the perspective of the RIIO-2 Objective that has been previously raised or settled by a company-specific group focused on network user or local stakeholder preferences.
- 2.16 The Group will be accountable, to the extent appropriate taking account of its independent status and in accordance with these terms of reference, to the Senior Responsible Officer (SRO) of the RIIO-2 price controls.

3. Membership and Individual Roles

Membership

- 3.1 The Group will operate initially until final determinations for RIIO ET-2, RIIO-GD2 and RIIO GT-2 price controls at the end of 2020. Ofgem may renew its remit thereafter, as appropriate. Members of the Group will sign contracts and confidentiality agreements with Ofgem to prevent the disclosure of any commercial or market-sensitive information, as appropriate.
- 3.2 Membership of the Group comprises:
- An independent Chair;
 - Representatives from Sustainability First, Citizens Advice and the National Infrastructure Commission; and
 - Independent members from various disciplines (regulatory finance and economics, banking, commercial, academia, consumers, legal, innovators).

- 3.3 The current membership of the Group is set out in Table 1 below. The organisational representatives have been invited on to the Group by Ofgem, and the individual members have been recruited through an open and transparent process.

Table 1 – Membership of the Group

Position	Name
Chair	Roger Witcomb
Deputy Chair	Clare Potter
Representative	Sustainability First
Representative	Citizens Advice
Representative	National Infrastructure Commission
Member	Goran Strbac
Member	Robert Hull
Member	Ulrich Kaltenbronn
Member	Joanna Hubbard
Member	Rosamund Blomfield-Smith
Member	Helen Parker
Member	Alan Bryce

- 3.4 Ofgem representatives (as set out in Table 2 below) will attend the Group’s meetings.

Table 2: Ofgem representation in the Group

Position	Name	Title
Ofgem Representatives	Julie Black and Rupika Madhura	RIIO-2 programme director and Head of RIIO-2 policy on engagement
Secretary to the Group	Ofgem staff member	RIIO-2 Senior Manager

- 3.5 Where appropriate, the Group may invite internal or external experts to specific meetings and seek views from these parties outside of the meetings. The names of any such experts and nature of any advice provided by them will be declared in the independent report prepared by the Group.

Role of the Chair

- 3.6 The Chair will normally chair all the meetings of the Group; act as its representative in meetings with other parties (including with the Chairs of the company specific Customer Engagement Groups and User Groups); and be the principal point of contact between Ofgem and the Group.
- 3.7 The Chair will decide the agenda of Group meetings; organise and direct the Group’s deliberations; request from Ofgem any technical assistance or advice that the Group needs; and lead the Group in its engagement with network companies on their business plans.

Role of the Deputy Chair

- 3.8 The Deputy Chair will deputise for the Chair when he is unavailable.

Role of the Members

- 3.9 The Group will have two types of Members: organisational representatives, and individual expert.

- 3.10 There will be three organisational representatives on the Group: from the National Infrastructure Commission, Sustainability First and Citizens Advice. These representatives will draw on their expertise to reflect and represent the views of their organisations. However, the Group is independent of these organisations, and their organisations will not be bound in any way to endorse the views or deliberations of the Group.
- 3.11 The Group does not have formal regional or devolved representation. Citizens Advice – in accordance with its statutory mandate - will speak for consumers of Great Britain and will ensure that the views of consumers in England, Scotland and Wales are fully represented at the Group and regional issues (where relevant) are given full consideration.
- 3.12 Individual experts will provide disciplinary expertise to the Group, contributing their own views as individuals and not seeking to represent any particular constituency other than the interests of existing and future consumers.
- 3.13 Members must inform the Chair and Ofgem in advance if they are unable to attend the meetings.
- 3.14 Members should ensure that their contribution enables the Group to function in a cohesive and collaborative manner, and each Member gets the opportunity to participate fully.
- 3.15 Members may be asked by the Chair to represent the Group in meetings, including the open public hearings.

Role of the Ofgem representatives

- 3.16 Ofgem's representatives will attend all Group meetings to act as a point of contact between the Group and Ofgem's policy teams. The Ofgem representatives will ensure that secretariat support and technical assistance required by the Group from Ofgem is provided in a timely manner. They will also ensure that any policy developments within Ofgem are communicated to the Group to inform the deliberations of the Group.

4. The Report

- 4.1 The primary output of the Group will be an independent Report covering each network company's business plan. This Report will be published on Ofgem's website.
- 4.2 The Group will agree the presentation style of the Report. The Group will discuss the development of the Report with Ofgem as and when appropriate. Broadly, the Report will present a summary of the Group's recommendations, identifying specific areas or issues where, in the opinion of the Group, the network company's plans are weak or not properly justified. The Report should clearly identify (with reasons) the list of questions or concerns the Group believes should be interrogated further in the open public hearings.
- 4.3 The Report produced by the Group will be addressed to the Senior Responsible Officer (SRO) of the RIIO-2 price controls.

5. Meetings and Secretariat/Technical Support

- 5.1 Ofgem will provide secretariat support to the Group. This will include the administration associated with organising meetings, preparing and circulating in advance of each meeting the Agenda as agreed with the Chair, taking minutes of each meeting of the Group, creating and maintaining a register of Members' interests, creating and maintaining a challenge log for the companies and Ofgem, and creating and maintaining a risk log and a stakeholder engagement log for the Group. Along with the Head of RIIO-2 policy on engagement, Ofgem staff member (s) will liaise with the Chair to ensure the logs are updated and a progress report is prepared for the Group. An Ofgem staff member will also assist the Chair in writing the Report for Ofgem.
- 5.2 The Group will not have a separate budget. It will be provided with technical support by Ofgem. Where necessary, Ofgem will commission advice for the Group from its own economics, technical and engineering consultants.
- 5.3 The Group meetings will normally take place at least once a month between September 2018 and March 2020. The frequency and duration of the monthly meetings may change depending on the Agenda agreed with the Chair and discussed with the Group.
- 5.4 Materials presented by Ofgem at the meetings will be for the purpose of stimulating discussion only. These materials do not represent the views of Ofgem/ GEMA, unless stated otherwise by Ofgem..
- 5.5 There will be a webpage on the Ofgem website dedicated to the Group. Biographies of the members, a summary of discussions from each meeting, the Group's Terms of Reference, forward work programme and the final report from the Group will be made available on this website.
- 5.6 In order to facilitate open and constructive debate, meetings will be held under the Chatham House Rule. Whilst the outcomes of the meetings of the Group will be recorded as necessary in summary and published, views would not be attributed to specific individuals or organisations.

6. Conduct of Group

- 6.1 In carrying out the work of the Group, the Chair, Deputy Chair and the Members will observe the highest standards of integrity and independence and comply with the Principles established by the Committee on Standards in Public Life.
- 6.2 The Chair, Deputy Chair and the Members will be required to disclose in the register of Members' interest any financial or other interest or circumstance which could give rise to a conflict of interest (actual or potential). At the beginning of any meeting Members will disclose any new or previously undisclosed relevant interest. Members may recuse themselves from a meeting or part of a meeting on their own initiative or at the request of the Chair, if any actual or potential conflict of interest arises.
- 6.3 A Member will cease to be a member of the Group if their contract (or agreement) with Ofgem is terminated. A Member may be removed from the Group by the Chair, in consultation with Deputy Chair and Ofgem, if they have committed a serious breach of the standards of conduct laid down in the Terms of Reference.

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