

Guidance

Enhanced Stakeholder Engagement Guidance for RIIO-ED2 - Version 2

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Overview:

This document provides guidance on Enhanced Engagement arrangements for the RIIO-ED2 price control.

This will be a live document which is specific to RIIO-ED2. We will update it from time to time, as appropriate.

Version 1 was published on 30 July 2020. We are updating this document to provide an appendix setting out questions the CEGs may want to consider as part of their review of business plans. We also include other updates to the enhanced stakeholder engagement arrangements since version 1 of the document was published.

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1. Executive Summary

- 1.1 Stakeholder engagement is a core element of RIIO¹ – our approach to setting price controls for the monopoly network companies that operate the gas and electricity networks. By stakeholders, we mean individuals, companies, organisations or communities that are impacted directly and indirectly by the activities of the network companies. This includes existing and future consumers.
- 1.2 In May 2019² we published our decision on the sector specific methodology for the next set of price controls in Electricity Transmission, Gas Transmission, Gas Distribution and Electricity System Operator (RIIO-2). Draft Determinations for these RIIO-2 price controls were published in June 2020. The Draft Determination Core Document provides details on how our enhanced engagement proposals strengthened the voice of consumers as part of the process of reaching our RIIO-2 consultation positions for these sectors.³
- 1.3 RIIO-ED2 is subject to a separate consultation process. In December 2019, we published a decision on the framework⁴ for electricity distribution in which we confirmed that the RIIO-2 Enhanced Engagement arrangements would also apply in this sector.
- 1.4 In this decision, we outlined how in RIIO-ED2 we will strengthen the voice of consumers both in setting the price control and in the day to day operation of the network companies.
- 1.5 This involves DNOs establishing Customer Engagement Groups (CEGs) and Ofgem setting up a Challenge Group (CG) for RIIO-ED2. These Groups are now established. The Enhanced Engagement process is also due to involve Open Hearings for Ofgem to hear submissions and evidence on various aspects of the Business Plans (the form by which the companies will submit information on the activities that they intend to undertake in RIIO-ED2, and their associated costs).⁵

¹ Revenue = Incentives + Innovation + Outputs ("RIIO"). RIIO is our framework to set the revenues recovered by the monopoly companies who run the gas and electricity networks in Great Britain.

² <https://www.ofgem.gov.uk/publications-and-updates/riio-2-sector-specific-methodology-decision>

³ <https://www.ofgem.gov.uk/publications-and-updates/riio-2-draft-determinations-transmission-gas-distribution-and-electricity-system-operator>

⁴ <https://www.ofgem.gov.uk/publications-and-updates/riio-ed2-framework-decision>

⁵ Currently, we expect to hold Open Hearings prior to draft determinations for RIIO-ED2 in 2022. We had intended to run a series of Open Hearings for the other RIIO-2 sectors during spring 2020 but this was not possible due to COVID-19 restrictions. We will keep the programme for RIIO-ED2 under review.

2. Enhanced engagement model for RIIO-ED2

Section summary

This section explains the engagement model for RIIO-ED2. We also set out the purpose of this document.

Background

- 2.1 We designed RIIO⁶ to give wider stakeholders greater ability to influence how network companies plan, operate and develop their networks.
- 2.2 Successful companies in well-functioning markets, where consumers are empowered and have choice, must understand and respond to shifting consumer needs. Users of energy network services do not have choice over their network provider. One of the ways we try to mimic the outcome of a competitive market is by requiring these companies to engage with a range of different stakeholders, and incentivising them to do it well.
- 2.3 A strong emphasis on stakeholder engagement in RIIO-ED1 led to an improvement in the range of stakeholders involved in the process and the quality of engagement that took place.
- 2.4 However, we think engagement needs to be enhanced for RIIO-ED2 due to the scale and pace of change taking place across the energy system. As the growth in electric vehicles accelerates and more homes and businesses source their heat and power from cleaner energy sources, a core responsibility of the electricity distribution networks will be to facilitate these changes.
- 2.5 We will also see changes in the parties and the way which consumers in particular interact with networks. For example, many homes already have solar panels, generating electricity both for their own use and to sell to others – and this is projected to increase. Through our Regulatory Sandbox⁷ we are already supporting trials of peer-to-peer local energy trading platforms. The rollout of smart meters and regulatory change will enable new kinds of business models, while new technologies such as batteries (including those

⁶ https://www.ofgem.gov.uk/sites/default/files/docs/2010/10/decision-doc_0.pdf, RIIO a new way to regulate energy networks, 2010.

⁷ <https://www.ofgem.gov.uk/about-us/how-we-engage/innovation-link>

in electric vehicles) could increasingly provide flexible and inexpensive storage to smooth out peaks in demand during the day. While consumer needs will change, there will also be an increasingly wide range of options available to meet these needs, including more alternatives to traditional network investment solutions.

- 2.6 This is an exciting prospect, however, understanding these changes and the implications they bring for networks requires much deeper engagement than we have seen previously. Companies need better insight on the changes taking place around them, which may vary across the areas in which they operate, and more challenge to their assumptions on how best to respond. This becomes particularly relevant, as network companies will have a critical role in facilitating decarbonisation and progress towards the achievement of netzero targets.
- 2.7 The quality of stakeholder engagement that companies have undertaken will be a key consideration for us when we review the Business Plans that companies submit for RIIO-ED2.

The RIIO-ED2 model for enhanced stakeholder engagement

- 2.8 The RIIO-ED2 model for enhanced stakeholder engagement will involve the establishment of Groups, by the companies and by us, that will provide additional challenge to network companies' Business Plans.
- 2.9 Each company is required to establish a CEG. These Groups will provide challenge on whether the company's Business Plan addresses the needs and preferences of consumers.
- 2.10 We will also set up an independently chaired RIIO-2 CG to assess the Business Plan proposals and to provide a report to us on their findings.
- 2.11 All of the Groups will be:
- a) independent, operating at an arm's length from both the network companies and from us
 - b) capable of providing rigorous challenge to companies
 - c) provide their views to Ofgem in the form of reports that we will receive alongside the final Business Plan submitted by companies.
- 2.12 The role of the Groups is that they will provide challenge to the companies' Business Plans, and ultimately provide us with reports detailing their views on the plans.

- 2.13 We also aim to hold Open Hearings once we receive the Business Plans. The Open Hearings will provide an opportunity for Ofgem to hear submissions and evidence on various aspects of the Business Plans. These would then allow us to listen to arguments from the companies, the enhanced engagement Groups and from other interested stakeholders in favour of, or against company proposals. This will enable us to gain a better understanding of the issues in an open and transparent way.
- 2.14 These Enhanced Engagement arrangements have been an important part of the development of the RIIO-2 price controls for the transmission and gas distribution sectors as well as the ESO. We intend to learn from the experience of running this process in other sectors to date and to adapt the approach where appropriate in RIIO-ED2. This is reflected in our change to the timetable requiring only a single submission of each company's draft Business Plans in 2021.

Purpose of this document

- 2.15 We expect the electricity distribution network companies to submit their RIIO-ED2 Business Plans to us in 2021. This guidance document is intended to provide clarity to DNOs and stakeholders on how the enhanced engagement model should inform the development of these Business Plans.
- 2.16 We will consider the detailed policy issues that relate to the electricity distribution sector as we develop our methodology for the price control. As part of the process of developing the methodology, we will update this guidance to provide further clarification, where necessary, on the role of these Groups, specific areas we would like them to focus on, and our expectations for the reports that they will ultimately submit to us. We will also provide more detail on how we intend to use the outputs from these Groups in our assessment of Business Plans.
- 2.17 Our role is to provide guidance on the application of this model for enhanced engagement, but companies must remain responsible for their engagement. For instance, we will not prescribe which stakeholders a company should engage with, nor the format or frequency used for engagement. The responsibility for this sits with the companies. In relation to RIIO-ED2 we will provide clarification on the policy challenges pertinent to RIIO-ED2 to Groups where this may aid their work.
- 2.18 **Chapter Two** of this document explains the roles, responsibilities, membership, and governance of the Groups involved.

- 2.19 **Chapter Three** sets out the framework for the Open Hearings.
- 2.20 **Chapter Four** sets out the next steps.
- 2.21 The content of this document is based on version 2 of the RIIO-2 Enhanced Stakeholder Engagement Guidance published on 26 November 2019. That document was framed to apply to all sectors subject to RIIO-2 price controls, but at the time of publication was of particular relevance to the gas distribution and gas and electricity transmission sectors, as their RIIO-2 price controls commence in 2021.
- 2.22 For the purposes of supporting the RIIO-ED2 process, we have removed sections of the 2019 Guidance that are no longer relevant to electricity distribution stakeholders. We have also updated sections where we consider that additional information and clarification would be helpful, in particular in relation to the roles and tasks for the RIIO-ED2 CG and CEGs.
- 2.23 Where publication of further guidance is required on elements of the Enhanced Stakeholder Engagement process for the other sectors, this will be published in a separate document.

3. Roles and Responsibilities of participants in the process

Section summary

This section explains the roles and responsibilities of the network companies, the CEGs, the CG, and Ofgem in the enhanced stakeholder engagement process. It also sets out the membership and governance arrangements for the Groups.

The role of distribution companies

- 3.1 Each company will be responsible for (including but not limited to):
- a) designing and running its own programme of engagement with their stakeholders and demonstrating that they have done it well
 - b) having in place an independent CEG. Companies with more than one licensee will need to decide whether to have a single Group covering all their licensed areas, or a separate Group per region. Whichever decision they take, they will need to justify their approach and ensure their broader engagement activities allow for appropriate regional representation and national consistency
 - c) recruiting a Chair that acts in an independent capacity (rather than representing a particular organisation, or group of stakeholders). We expect companies to ensure Chairs and members are recruited with sufficient capacity to dedicate the time required for the role
 - d) ensuring the CEG is appropriately resourced e.g. by providing the necessary secretariat support, training/induction for Group members
 - e) ensuring the CEG has access to relevant data including information on past performance, totex forecasts and out-turn performance (and reasons for the variation)
 - f) providing the CEG with access to comparative data from other network companies and other background data to inform the Group's decision making
 - g) ensuring timely access to staff to enable the CEG to perform their role. The company's Board will be expected to be fully engaged with the Group and this should be reflected in the governance arrangements
 - h) ensuring their Business Plans are available to the CEG with a reasonable amount of time for the Groups to review and comment on, before companies submit their

Business Plan, and the Group submit their reports to both the RIIO-2 Challenge Group and to Ofgem.

Role of the CEG established by the companies

- 3.2 The CEG will provide independent challenge to the company and views to Ofgem on whether companies' Business Plans address the needs and preferences of consumers and other stakeholders.
- 3.3 The **role of the CEGs** is (including but not limited to):
- a) identify key concerns of all stakeholders and determine how well these have been accommodated in the company's Business Plan
 - b) provide scrutiny of individual company Business Plans through monitoring development of these plans
 - c) indirectly driving culture change towards stronger and more effective stakeholder engagement within the companies through continued interrogation of company's approaches and assumptions
 - d) influencing company decisions earlier in the process of Business Plan development.
- 3.4 The **focus of the CEGs** should be to challenge the company on the following areas (including but not limited to):
- a) the company's overall priorities and approach, for example at a strategic level does the company understand the range of changes happening within and to the energy system that could impact its activities. The company's approach to sustainability and resilience, including for example consideration of the future of gas and implications for network services associated with the energy system transition
 - b) proposed outputs and associated total expenditure ("totex") budgets (including level of cost efficiency improvements). Has the company demonstrated whether its proposals for expenditure efficiency/service quality improvement are sufficiently stretching? What evidence has the company provided to allow them to assess how the output targets and expenditure proposals:
 - (i) compare to historical levels of performance?
 - (ii) compare to other network companies?⁸
 - (iii) compare to other industries?
 - c) the quality of stakeholder engagement the company has undertaken to inform their proposals, including whether their Business Plan proposals demonstrate value for

⁸ We do not propose that CEGs focus on cost assessment given they will not be able to make use of comparative forecast data ahead of the Business Plan submissions to inform their assessment.

money by taking account of any willingness to pay research and the approach and support provided to vulnerable consumers

- d) the company's approach to innovation, including incorporating innovation into business as usual, and including innovative approaches and initiatives from leading global network companies
- e) the range of scenarios the company has considered to anticipate future network requirements and the company's approach to managing uncertainty and associated risks. This should include testing the Business Plans against more extreme scenarios (both significantly lower and higher demand) to ensure the Business Plan remains robust in the face of unforeseen changes
- f) what alternatives to the investment proposals has the company considered, including from parties offering alternative and non-network based solutions
- g) any issues of particular relevance to a local region – including any significant investment choices in their area, and provide challenge to decisions made by the company when considering competing interests and perspectives.

3.5 The purpose of the CEGs is not to provide direct advice or information to the company. If a member of the CEG, because of their specialist expertise, is requested to do so then this must be done transparently. If a member of the CEG is engaged in this capacity, then it must not interfere with the effective functioning of the CEG. We would expect all members of the CEG to consider if this in any way compromises the ability of that member to continue to sit on the CEG, and what additional steps need to be taken to preserve the independence of the CEG.

3.6 The CEGs will meet with Ofgem periodically (collectively and through the Chair as appropriate) to provide regular feedback to Ofgem on the progress made by the company, and on the process itself.

What is out of scope for the CEG?

3.7 We do not expect the CEGs to discuss or review specific financial topics, such as the cost of capital, treatment of debt or the level of gearing in the company. However, we do expect Groups to develop views on the approach companies have taken in relation to key financial decision tools, such as cost benefit analyses. CEGs should form a view on the validity of underlying assumptions used by companies to underpin their analyses, specifically with reference to associated risks and scenarios, as well as timeframes associated to assessed benefits.

- 3.8 The CEGs should not attempt to scrutinise matters of cyber Information Technology (IT) and cyber Operational Technology (OT) with companies as these are matters of national security and may involve sensitive information that may not be appropriate to share with external parties.
- 3.9 The CEGs will not have decision-making powers and neither do we expect them to jointly 'own' the Business Plan that the company submits. The ownership of the Business Plan sits entirely with the company. Engaging with these CEGs is not a substitute for a Company's engagement with its end users or other stakeholders.

The reports prepared by the CEG

- 3.10 The output from each CEG will be an independent report to both us, and to the RIIO-ED2 CG. When developing their Business Plan we expect companies to ensure they share early versions of their plan with their CEG and address comments in subsequent iterations.
- 3.11 To aid the CEGs in deciding on appropriate questions to ask DNOs in order to test and challenge their Business Plans, we have agreed a list of potential questions under the specific RIIO-ED2 policy areas, with the CEGs. These are contained in Appendix 1.
- 3.12 In their report, the CEGs should highlight areas of agreement and disagreement, including how the company has responded to challenges that have been raised through this process. The report should also highlight where there is disagreement amongst members of the CEGs. This is so we can have visibility of a range of views, and the choices that the company has made. Additionally, the report will provide us with independent evidence that we will consider alongside other relevant considerations in our assessment of Business Plans.
- 3.13 We will make the reports we receive from the CEG publicly available.

Membership of the CEG

- 3.14 An independent Chair will head up each of the CEGs. The company will recruit the Chair. The Chair must act as an individual and not as a representative of a particular organisation, or group of customers. In appointing a Chair, we expect companies to consider candidates that have a strong track-record of demonstrating leadership at a

⁹ <https://www.ofgem.gov.uk/publications-and-updates/riio-2-enhanced-stakeholder-engagement-guidance>

senior level. We expect candidates to have a proven record of challenging opinions, assumptions and vision. Experience of operating in the energy, or other regulated utility sectors would be desirable, but not essential. All candidates should be required to declare any actual, or potential, conflicts of interest that may arise from acting as Chair. Companies must share with us their shortlist of Chairs (explaining how they meet the above criteria) in advance of appointing one. We will highlight any concerns we have and we expect companies to consider these carefully before proceeding with an appointment.

- 3.15 For the CEGs, we do not intend to prescribe the organisations or bodies from which membership should be drawn. Individual companies and Chairs should jointly consider the appropriate membership of their CEGs by taking into account how to best reflect across the CEGs' membership:
- a) regional requirements
 - b) the future needs of the energy system as a whole
 - c) how to reflect the interests of existing and future consumers, including those of vulnerable consumers, in their challenge to the Business Plan.
- 3.16 This includes having the requisite skills and experience to be able to robustly scrutinise companies' assumptions underpinning their planning scenarios and cost benefit analyses.
- 3.17 The CEGs could also include members who have specialist knowledge and skills that will provide additional input and challenge to the companies. As CEGs progress through the process, they may also choose to amend their membership to add additional expertise to the CEG.
- 3.18 As well as offering challenge to the company's proposals in terms of their projections of cost efficiency and service quality improvements, we expect members to also have expertise in certain topics or the ability to call upon expertise in these areas, for example in non-traditional business models, innovation, fuel poverty, community energy, consumer research etc. This will ensure that the company proposals are subject to robust challenge across a range of topics.
- 3.19 Members should act in an independent capacity as far as practical and not solely as a representative of a particular organisation, or group of customers. Chairs may want to recruit members from existing stakeholder panels as this may allow those who already have knowledge of the company and the sector to continue to provide valuable input. However, such members will need to understand that by joining the CEG they will be acting in a different capacity than they have done previously.

Governance arrangements and transparency of the CEG

- 3.20 It is important that the Chairs and the CEGs are, and are seen to be, independent from the companies. There is a risk that the high level of contact between companies and members of the CEG may affect, or be perceived to affect, their impartiality. To build trust and legitimacy, appropriate governance arrangements must be put in place to ensure transparency and to provide assurance that the CEGs are operating at arm's-length from the company. This will provide more confidence in the outputs of the CEGs with stronger and more transparent governance processes in place.
- 3.21 We will take account of the level of support provided to each CEG, and their ability to act independently, in our assessment of Business Plans and the corresponding report from each CEG.
- 3.22 We do not intend to prescribe detailed processes for establishing the CEGs beyond what is specified in this chapter (for example, prescribing who needs to be involved in the appointment of members or fixing levels of remuneration). Companies and stakeholders should have flexibility to establish arrangements that work effectively, while maintaining independence in a transparent manner. Where clarification on the role of the CEGs is requested, we will provide further guidance.
- 3.23 We do however expect companies to provide us with a detailed report of the arrangements they are putting in place to ensure independence of CEGs, and we will highlight any concerns that we may have. We are likely to consider the following (including but not limited to):
- a) how companies have recruited and remunerated particular members of the CEG
 - b) what checks have been carried out to ensure any potential conflicts of interest have been highlighted and managed
 - c) what other resources or information have been made available to CEGs, including comparative information on company performance
 - d) what access CEGs have to network company staff including non-executive members of the company Board.
- 3.24 We expect the company to establish the appropriate remuneration package for the Chair role. We want visibility of the proposed remuneration package of the Chair and members alongside the shortlist of candidates for the Chair.

We also expect the company to provide detail on its terms for changing or terminating their contract with the Chair. We expect the contract for the Chair to keep them in position at least until we have issued our draft determination and for the company to

ensure (in consultation with the Chair), the relevant members of the CEG are in place and available to participate in Open Hearings. During this period, we do not expect the company to be able to dismiss the Chair without first notifying both members of the CEG and us. We would expect an opportunity to seek further information on the reasons for dismissal, including through direct contact with the Chair and other members of the CEG, before the company may proceed.

3.25 We would also expect the company and the Chair to consider other features of the governance processes (including but not limited to):

- a) the meeting frequency of the CEG, and the extent to which the CEG will meet without the company being present
- b) maintaining and monitoring a register of member interests.

3.26 CEGs should also have their own page on the company's website which shows (including but not limited to):

- a) the membership of the CEGs, how this was decided and a code of conduct on any conflicts of interests
- b) its terms of reference, governance arrangements and ways of working
- c) minutes of meetings (anonymised/redacted if information is commercially sensitive) and other documentation, such as a log of challenges raised and the company's response.

Role of Ofgem

3.27 Our role is to inform, enable, encourage, challenge and incentivise good quality engagement. We will do this in a range of ways (including but not limited to):

- a) organising regular joint CEG Chairs meetings – to share information and learning
- b) providing a point of contact for the Chairs of each CEG and the CG to use and make ourselves available for bilateral engagement
- c) keeping this guidance up to date as appropriate
- d) provide a 'buddy system' between Ofgem and members of the CG, the purpose of which is to facilitate the provision of technical assistance as required
- e) providing guidance to CEGs and CG on the required content of their report
- f) identifying and sharing good practice as required, so CEGs are clear of the benchmarks against which they can assess companies
- g) providing technical assistance to the CEGs where this may aid their work.

3.28 We will update this document with further detail on the timetable for ED2 when this information becomes available.

Role and membership of RIIO-ED2 CG

3.29 We have established the RIIO-ED2 CG¹⁰ headed up by an independent Chair and members with appropriate governance processes. We provide secretariat and technical support to this group.

3.30 The RIIO-ED2 CG will focus on the following areas (including but not limited to):

- a) assess, scrutinise and challenge the Business Plans from the view of existing and future consumers, with a focus on sustainability, affordability and the protection of vulnerable consumers
- b) consider how companies might respond to the overall price control framework once it is set. This will help us to understand the risk that some elements could have a stronger/weaker impact on company behaviour than we might anticipate
- c) consider our policies for regulating each sector and whether they are likely to drive outcomes that are in the interests of existing and future consumers.

3.31 The CG fulfils the following roles (including but not limited to):

- a) Undertake a comparative assessment of the companies to assist Ofgem's benchmarking of companies within a sector
- b) Providing scrutiny of costs across companies within a sector.

3.32 We expect the CG to engage with the companies from the outset and in parallel with the engagement that companies will be undertaking with their respective CEGs. We expect the CG to receive and provide feedback on the draft Business Plans, to allow companies to update their plans before final submission to us.

3.33 An independent Chair will head the CG, who we will recruit. As with the CEGs, the Chair will act as an individual and not as a representative of a particular organisation, or group of stakeholders. We expect the Chair to have extensive experience in operating as a leader at a senior level, with a proven record of challenging opinions, assumptions, and vision. We will recruit the members of the CG, who will be a mixture of independent individuals with expertise in relevant topics and those representing particular

¹⁰ <https://www.ofgem.gov.uk/publications-and-updates/riio-2-challenge-group-terms-reference>

organisations. We will provide secretariat and technical support to this CG and access to Ofgem resources, if requested to do so by the CG.

- 3.34 We require the CG to provide an independent report to us following their scrutiny of each company's final Business Plan. It is important that the CG highlight in their reports areas where they have challenged the company, and how the company has responded, and any parts of the Business Plan that they disagree with. This will inform our assessment of companies' Business Plans.
- 3.35 We will make the report we receive from the CG publicly available.
- 3.36 We expect the CG to remain in place at least until we have issued our Draft Determination for each sector price control. The role of the CG after that time will be considered as the control is further developed.

4. Open Hearings

Section summary

This section provides an overview of the Open Hearings. It sets out how licensees and wider stakeholders can participate in the hearings and how we will select the topics for the hearings.

- 4.1 Ofgem’s Enhanced Stakeholder Engagement under RIIO-ED2 includes Open Hearings to strengthen the voice of consumers in the price control process. The Open Hearings are intended to assist Ofgem’s review of companies’ RIIO-ED2 Business Plan proposals in an open and transparent way supported by stakeholder input. The Open Hearings will provide an opportunity for Ofgem to hear submissions and evidence on various aspects of the Business Plans, including but not limited to particular areas of contention that have arisen from the CG and CEG process and areas of support or disagreement from other stakeholders. Draft Determinations will be informed by relevant considerations including, but not limited to, the enhanced stakeholder engagement process as a whole.
- 4.2 At this stage, we expect to hold Open Hearings prior to our draft determinations for RIIO-ED2 in 2022. These hearings will provide the opportunity to focus on areas of disagreement raised by the various Groups, and to invite any other evidence in support of, or against, company Business Plans. We had intended to run a series of Open Hearings for the other RIIO-2 sectors during spring 2020 but this was not possible due to COVID-19 restrictions. We will keep the programme for RIIO-ED2 under review.

Overview of the Open Hearings

- 4.3 The Open Hearings are due to be moderated by a panel of Ofgem representatives led by a member of the Ofgem executive. We intend to hold these hearings regionally across England, Scotland and Wales to make it as easy as possible for stakeholders to participate.
- 4.4 We intend to provide more information on the geographical location and dates for the open hearings closer to the time when these are due to take place in 2022.

- 4.5 There will be one hearing for each electricity distribution company. Each of these hearings will focus on company-specific issues, based on the company’s Business Plan. We will reserve additional time to cover cross-cutting issues across the companies as needed.
- 4.6 The company-specific Open Hearings will be comprised of three parts:
- **Part 1 - Introduction:** the companies will have the opportunity to present on certain aspects of their Business Plans to the Ofgem panel and attendees at the hearings.
 - **Part 2 - Panel-led Q&A of the Business Plans:** the panel will lead questioning of the companies on topics contained in the Business Plans. Topics may be identified from responses from the CG and CEG reports to Ofgem, input from other stakeholders through responses to a call for evidence, and from Ofgem’s consideration of the plans. Having reviewed these responses, we may decide to invite stakeholders to give evidence at the hearings. Companies will be informed in advance of the topics (but not specific questions) for discussion at the Open Hearings when we circulate the agenda. Companies will be given notice before the Open Hearings to prepare to address these topics.
 - **Part 3 - Open Q&A:** the companies can be asked further questions from stakeholders, and other parties on topics discussed at the hearing, or any other proposals in their Business Plans.
- 4.7 The CG and CEG chairs will be invited to attend the Open Hearings along with members they deem necessary from their Groups.
- 4.8 Once all of the hearings are complete, we will publish a transcript of each open hearing which we will make available on our website.

Stakeholder Participation

- 4.9 We welcome stakeholder participation at the Open Hearings.
- 4.10 Stakeholders will also have the opportunity to provide views on the Business Plans through the call for evidence. This may inform the agenda for the Open Hearings. After reviewing the call for evidence submissions, we may also invite stakeholders to give evidence in part 2 of the Open Hearings. We may also invite certain experts to attend and provide evidence on areas of a technical nature.

4.11 Stakeholders will also have the opportunity to attend the hearings and ask questions in part 3 of the hearings. We will notify stakeholders of how to register to attend the Open Hearings when we publish an agenda. However, we cannot guarantee that every stakeholder interested will be able to attend. We are also unable to guarantee that of those attending, every stakeholder will be able to raise a question at the open hearing. This will depend on a number of factors, including venue capacity, the number of interested stakeholders looking to attend, the number of questions raised, and the timing issues. The Ofgem panel will ensure that the meeting is chaired to facilitate as full a debate as possible.

Call for evidence

4.12 Once the final Business Plans have been submitted to Ofgem, we will publish a call for evidence seeking feedback on any aspects of the plans. We encourage stakeholders to respond to the call for evidence (including indicating support of or disagreement with) the Business Plans by the required deadline. Responses to the call for evidence will be considered and may inform the topics raised in the hearings. Responses should be supported by evidence or justification of the stakeholder's view.

4.13 In order to facilitate stakeholder engagement ahead of the Open Hearings, each company should publish its final Business Plan on its website. In doing so, companies should ensure maximum transparency by publishing the plans in as full a form as possible¹¹. Where companies exclude information from the published plans on grounds of commercial confidentiality (or any other reason), the reasons for such exclusions should be clearly and comprehensively set out in an explanatory statement published alongside the plan. For example, if information is redacted on grounds of commercial confidentiality, we would expect to see an explanation of the particular commercial interest that would be prejudiced by disclosure.

Selection of topics for the Open Hearings

4.14 We will select and prioritise topics for the Open Hearings in accordance with our statutory duties. This will include our initial consideration of the Business Plans, key issues identified by the enhanced engagement Groups in their reports to Ofgem and topics where we may require further clarification. Further to the call for evidence and Ofgem's ongoing review of the Business Plans, we will also consider whether there are any topics

¹¹ Further information can be found in the Business Plan Guidance

of wider stakeholder interest that could usefully be raised through the Open Hearings process.¹²

- 4.15 We will circulate an agenda for each hearing so that the companies and stakeholders are able to prepare for them. The agendas will set out the details of the timings of the hearings, the topics to be discussed (but not the specific questions), and details on how to register to attend and participate.

¹² The discussion of issues at the Open Hearings should not be relied upon as indicative of the Authority's Draft Determinations. Similarly, non-discussion of issues at the Open Hearings does not fetter the Authority's discretion to make decisions on those issues.

5. Next Steps

- 5.1 In the RIIO-ED2 Sector Specific Methodology Decision Overview Document we have set out an indicative timeline for RIIO-ED2. We will publish a detailed engagement plan in due course. This will cover additional information on when companies are to publish their Business Plans, when the CG is to receive CEG reports, when CEG reports are to be published, and a high-level timetable for the Open Hearings for RIIO-ED2.

- 5.2 We will continue to work with the companies and the Chairs of the CEGs to provide the clarity they need to best fulfil their role for enhanced stakeholder engagement in RIIO-2. We will also engage with stakeholders to encourage their involvement in the Open Hearings process. This guidance will be updated from time to time, as appropriate.

Appendix 1: Guidance on potential questions for CEGs

In this appendix we have set out potential questions that the CEGs may wish to consider as part of their review of the company draft and final Business Plans. This is not a definitive list and while these are intended to aid the CEGs in providing the appropriate level of challenge, the CEGs will decide all necessary questions that should be asked.

1. A good Business Plan

Does the Business Plan meet the CEG's expectations of what would constitute a good DNO Business Plan taking into account the requirements of Ofgem's updated Business Plan Guidance published on 22 April 2021?

2. Customer research and stakeholder engagement

Has the DNO adopted and executed robust processes of customer research and stakeholder engagement and have the results of these processes been reflected in the Business Plan?

Has the DNO demonstrated it has used different methods, tools and techniques to understand the interests of a wide range of consumers and stakeholders, including future consumers, and the likely changes in customers' interests?

Has the DNO demonstrated it has presented customers and stakeholders with meaningful choices in determining priorities for expenditure?

Has the DNO demonstrated it has used the results of customer research and stakeholder engagement to inform its proposals for the following?

- **Net Zero and DSO activities**

- Has the DNO identified the changes in customer and stakeholder needs that drive and are driven by the Net Zero and DSO transitions?
- Has the DNO found out, using customer research and stakeholder engagement, the appropriate information in relation to these activities that should be made available, who requires it, both now and in the future, and made the information user-friendly?

- **Vulnerable consumers**

- Where a DNO has proposed a bespoke output, has it demonstrated it has used research and engagement to establish that the output relates to a priority for customers and stakeholders?
- Has the DNO explained the assumptions it has used about the characteristics of vulnerable customers that it serves to establish their requirements in ED2, and

- has it considered how changes to these assumptions could affect its plan?
- Has the DNO demonstrated that its proposals are resilient to the requirements of vulnerable customers and how it might adapt its approach, where necessary?
- **Larger connection customers**
 - Has the DNO demonstrated it has met Ofgem’s baseline expectations under each of the principles?
 - Where a DNO has proposed a consumer value proposition:
 - has it demonstrated a robust methodology to calculate value to consumers, for example by reference to independent validation of assumptions and the approach it has used?
 - does the proposal deliver value above Ofgem’s baseline expectations?
 - has the DNO proposed appropriate metrics for how success will be measured - are they relevant and robust?
 - has the DNO set ambitious benchmarks of performance against the metrics?
 - Are the DNO’s plans justified by customer research and stakeholder engagement bearing in mind that:
 - the requirements of connections customers may change and may require DNOs to understand how they can support these changes
 - DNOs may have to offer a wider range of connection options (including more flexible arrangements) and provide better information on capacity availability on the network
 - customers installing EV charging points may require more assistance?
- **Ongoing engagement**
 - Has the DNO demonstrated an approach in line with Ofgem’s baseline expectations?
 - Are the plans justified by reference to the results of customer research and stakeholder engagement?

3. Efficiency, ambition and innovation

a. Does the Business Plan make stretching efficiency assumptions?

Does the CEG consider that the DNO’s planned efficiency is stretching? To note, the CEG will not have the benefit of being able to compare the relative position of its DNO with the rest of the sector.

Has the DNO explained and justified the ongoing efficiency assumptions it has used in its plan, for example, by reference to comparisons with historical and cross sector performance?

Has the DNO shown that its plan is as efficient as possible?

Has the DNO provided a justification for any company specific adjustments?

Has the DNO demonstrated the need for any adjustments and whether the need could be mitigated or offset by factors that might work in its favour?

b. Does the CEG consider that the DNO’s plan is ambitious?

If a DNO has proposed a bespoke output, has it demonstrated that the target level reflects the standard of service consumers should expect to receive? For instance, does the target have regard to the results of comparisons with historical performance, or performance across the industry or in different sectors?

If a DNO has proposed a consumer value proposition:

- has it demonstrated a robust methodology to calculate value to consumers, for example by reference to independent validation of assumptions and the approach it has used?
- does the proposal deliver value above Ofgem’s baseline expectations?
- has the DNO proposed appropriate metrics for how success will be measured - are they relevant and robust?
- has the DNO set ambitious benchmarks for performance against the metrics?

Does the CEG find other aspects of the plan to be ambitious?

Is the plan justified by reference to the results of customer research and stakeholder engagement?

c. Does the CEG consider that the DNO’s plan is innovative?

Has the DNO demonstrated it has embedded plans to innovate within BAU throughout its plan? This should be more than “saying they will do it within an innovation strategy”. The DNO should not rely on ring fenced innovation funds for such innovation.

Has the DNO demonstrated it has incorporated of the benefits of past innovation, for instance, by rolling out proven innovations and showing the cost reductions from earlier innovations? To note, DNOs have had hundreds of innovation projects using the IFI, LCNF, NIA and NIC.

Has the DNO demonstrated it has processes in place to roll-out innovation proven during RIIO-2?

Has the DNO demonstrated it has processes and structures in place to involve third parties in its innovation?

Has the DNO demonstrated that its innovation plans are ambitious and related to the results of its customer research and stakeholder engagement?

4. Appropriate approach to key Issues

The CEG may choose to comment upon whether they consider the DNO’s approach to some key issues is appropriate. We have set out below what we consider some of the key issues may be however we recognise that there may be others the CEG wish to address. Where the CEG choose to comment on the DNO’s approach to key issues we encourage them to consider the questions we have identified below. When commenting on key issues, we welcome any views the CEG may have as well as an understanding of what information they have based their view on.

a. Sustainability and impact on the environment of the DNO and its customers and stakeholders

Is the DNO’s Environmental Action Plan justified by reference to the results of customer research and stakeholder engagement?

Has the DNO demonstrated it has met Ofgem’s baseline expectations under each of the areas? Where a DNO has proposed a consumer value proposition:

- has it demonstrated a robust methodology to calculate value to consumers, for example, by reference to independent validation of assumptions and the approach it has used?
- does the proposal deliver value above Ofgem’s baseline expectations?
- has the DNO proposed appropriate metrics for how success will be measured - are they relevant and robust?
- has the DNO set ambitious benchmarks of performance against the metrics?

Is the EAP justified by reference to the results of customer research and stakeholder engagement?

Has the DNO demonstrated a credible plan for how it intends to achieve the ambitions expressed in the EAP?

b. Business resilience, workforce resilience and asset reliability and resilience

Has the DNO developed workforce resilience strategies that are informed by engagement with CEGs and wider industry groups?

Has the DNO adopted a workforce strategy that has taken into consideration the requirements for developing and operating its network in future?

Has the DNO collaborated with other DNOs and industry bodies to establish key workforce resilience metrics and a consistent format for public reporting outside the regulatory space, that could be used to improve the transparency of data across the sector.

Is the DNO proposing to implement appropriate measures to respond to climate adaptation to safeguard the future reliability and resilience of the network?

Has the DNO undertaken research to understand customers' priorities for reliability, particularly around short interruptions? Does its plan include proposals that will address these appropriately?

Has the DNO identified appropriate investments to improve reliability for those who currently receive the poorest levels of service?

Has the DNO adopted a robust process to gather information on asset health to inform its strategy for ensuring longer term asset reliability?

c. Just transition to Net Zero

Has the DNO engaged with its customers and stakeholders to understand future energy requirements and how its network could most effectively enable these?

Has the DNO taken appropriate steps to identify and mitigate risks arising from uncertainty about future energy requirements and the most effective ways of doing this?

Has the DNO brought forward proposals that will help to support more vulnerable customers in benefitting from the transition to Net Zero?

Has the DNO engaged with local and regional customers, and stakeholders in developing and updating its energy scenarios, and in making the link between national energy system policy and locally led plans?

Has the DNO made its expertise available to the parties involved in the net zero planning process at local level?

d. Whole system

Does the DNO's plan reflect its thinking about how the whole energy system might respond to the challenges it faces?

Has the DNO reflected whole system thinking in its Business Plan, including in general

- ensuring a wide range of sectors (including non-energy sectors) are engaged?
- ensuring that whole system thinking is embedded in corporate processes and structure, rather than ad hoc projects?
- helping to clarify any whole system CVP?

Does the plan meet the minimum requirements for the Business Plan Incentive?

Do innovation proposals contain consideration of, and ideally joint projects with, sectors or vectors other than power distribution?

e. Vulnerability Strategy

Has the DNO demonstrated it has met Ofgem’s baseline expectations under each of the principles?

Where a DNO has proposed a consumer value proposition:

- has it demonstrated a robust methodology to calculate value to consumers, for example by reference to independent validation of assumptions and the approach it has used?
- does the proposal deliver value above Ofgem’s baseline expectations?
- has the DNO proposed appropriate metrics for how success will be measured - are they relevant and robust?
- has the DNO set ambitious benchmarks of performance against the metrics?

Are the plans justified by the results of customer research and stakeholder engagement?

Has the DNO considered a full range of options and demonstrated how its proposed approach is the most efficient and effective?

Has the DNO benchmarked itself against other DNOs and other sectors to establish that its proposals reflect best practice?

5. Strategy informed by future changes

Has the DNO demonstrated it has been through a robust process to ensure its plan is informed by changes in the whole energy system?

6. Competition

Has the DNO ensured appropriate project types and specific projects are considered for early and late competition models? Are projects correctly flagged in Business Plans showing their

suitability for early and late competition?

Has the DNO ensured competition is embedded in its corporate processes and structure? Has the DNO made consumer value propositions for competition and are they justified?

Have proposals been justified by the results of customer research and stakeholder engagement including those relating to small connections customers?

7. CBA methodology and flexibility

Underpinning the DNOs justification of their proposed investments is the need to ensure that a full range of possible solutions have been considered, the chosen solution is economic and efficient and that it represents best value for consumers.

The CEG should challenge the DNO on its options assessment, ensuring that a full range of possible solutions have been identified and given appropriate consideration.