

**The RIIO-2 workshop 1**  
**Stakeholder voice and business plans**  
**24 January 2018**

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ofgem

# Agenda- Distribution sector

Time	Item	Leading
10:00	Welcome and context	James Veaney/Rupika Madhura
10:30	Company perspective	SGN
11:00	Breakout Session	all
12:15	Report back	Each table
12:45	Next steps and close	Ofgem
13:00-14:00	lunch	James Veaney

# Context and Background



## Gas Transmission

- 1 nationalgrid
- 2 Gas Networks Ireland
- 3 mutualenergy



## Gas Distribution

- 1 SGN
- 2 Northern Gas Networks
- 3 Cadent
- 4 Gas Networks Ireland
- 5 WALES & WEST utilities

gtc... Independent Gas Transporters  
...making utility networks



Source: Energy Networks Association, National Grid

## Electricity Distribution



- |   |                                                                  |   |                                                                                     |
|---|------------------------------------------------------------------|---|-------------------------------------------------------------------------------------|
| 1 | Scottish & Southern<br>Electricity Networks                      | 5 | NORTHERN<br>POWERGRID                                                               |
| 2 | SP ENERGY<br>NETWORKS                                            | 6 | WESTERN POWER<br>DISTRIBUTION<br><i>Bringing the Midlands, South West and Wales</i> |
| 3 | Northern Ireland<br>Electricity<br>Networks                      | 7 | UK<br>Power<br>Networks<br><i>Delivering your electricity</i>                       |
| 4 | electricity<br>north west<br><i>Bringing energy to your door</i> | 8 | ESB<br>NETWORKS                                                                     |

gta  
independent distribution  
network operators



- The network price controls support £bns of expenditure to ensure gas and electricity can be transported from point of generation to end user. 25% of the supply bill funds this investment
- Our approach to controlling the prices the network companies charges follows the RIIO model – where **R**evenue = **I**ncentives + **I**nnovation + **O**utputs
- The first round of RIIO price controls – gas distribution and gas/electricity transmission – end in 2021. Work on the price controls for these sectors will start this year.
- In July 2017 we issued an Open Letter on our approach to future price controls. In March 2018 we plan to publish a consultation on the framework for the next round of controls commencing from 1 April 2021.
- In October 2017, we held a workshop on how stakeholder voice in business plans could be further improved.

- The demands placed on the energy system are changing, but there is uncertainty on the nature, rate, timing and location of these changes.
- Despite this uncertainty, Networks will need to anticipate, enable and respond to these changing demands and provide the network services required by a more diverse range of stakeholders
- From a price control perspective, stakeholder engagement fulfils two key purposes:
  - **Insight:** Companies that have insight into stakeholder needs are more able to deliver the investment and services consumers want, at a price they are willing to pay. Stakeholder insight allows companies to understand and plan for how consumers might use the energy system in the future and put in place mechanisms to react to changes.
  - **Challenge:** Stakeholder views provide a counter balance and challenge to company views and our own decisions. This helps us address issues of information asymmetry when assessing company plans and improves the quality of our decision making.



- In the workshop held in October 2017 (and subsequently) we have heard your views:
  - on what could we do to give a stronger voice to consumers and stakeholders to achieve the necessary insight and challenge - *in particular when companies are preparing their business plans and in our assessment of them*
  - on alternative approaches that we could take, what benefits these could bring, what might be needed to enable these and what other options should we consider
- Following the workshop and subsequent engagement with the stakeholders, we are proposing for RII0-2 Distribution sector an engagement model similar to what Ofwat's customer challenge panel model.
- **The purpose of the workshop today is to hear your views on how we can make these arrangements a success.**

# RIO Model

- RIIO framework philosophy – “stakeholders at the heart of decision making”, which requires monopoly companies and regulator to be focussed on stakeholders (including consumers of today and tomorrow as well) rather than each other and/or the regulator.
- To implement this philosophy a package of measures introduced in RIIO framework (both to create business plans and during the price control).

When?	How? Ofgem	How? Network Companies
To create business plans and for decision making	Consumer Challenge Group and Price Control review forum, consultations, workshops	Required to prepare well justified business plans backed by stakeholder engagement – but no formalised engagement route.
During the price control	Consultations, workshops	Specific Incentives focussed on consumer/stakeholder engagement.

Since Ofgem introduced this model of engagement in 2010, in parallel developments have been made in other regulatory sectors

- In RIIO-1 enhanced engagement was a positive step in focussing the distribution network companies to the needs of their stakeholders and improving the quality of the plans.
- Whilst we are confident that companies will continue to engage with their stakeholders for the purposes of RIIO-2 under the current arrangements, the feedback and analysis we have undertaken also point out that:
  - in the absence of an independent assurance, it was difficult for us to assess the quality (& consistency) of engagement and how it informed business plans. In RIIO-1 this meant that we did not really “trust” bespoke outputs & additional costs for their customers/consumers– to the frustration of many companies.
  - the process over all could benefit from defining:
    - in which areas of the price control enhanced engagement could add value
    - what good looks like

### **Characteristics of distribution**

- Closer to end consumer and range of other outputs and incentives could be driving engagement
- The number of companies allows us to benchmark costs, and incentives to reveal true costs are more powerful.
- Stakeholders are a diverse group & more likely to have limited resource – less prospect of ability to ‘agree’ the business plan
- Geographic differences might necessitate different approaches between companies, based on stakeholder input
- We need more robust assurance that variations are justified and have been properly challenged and that stakeholder engagement has been sought in a consistent and fair manner

**Therefore a model based on customer challenge panels would help provide independent assurance on approach to engagement taken by the companies**

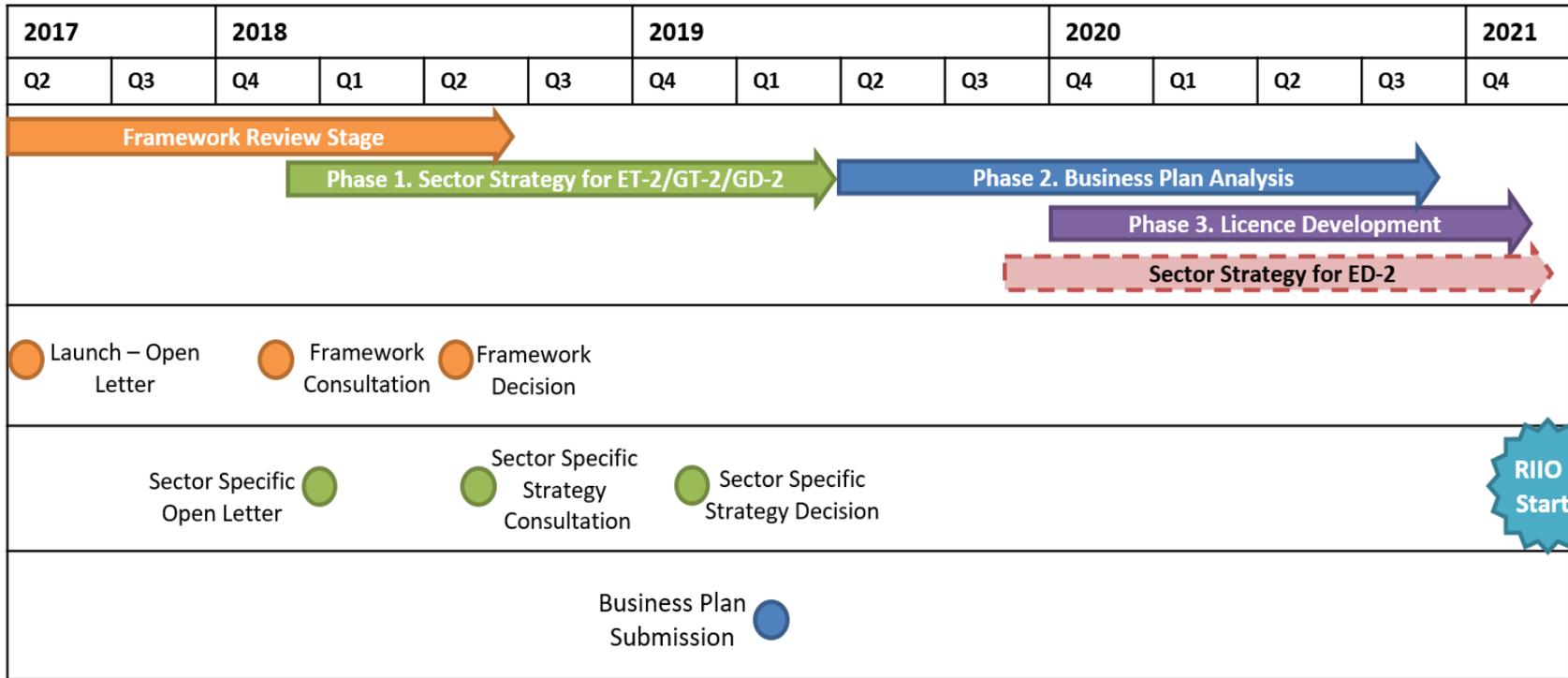
### High level STRUCTURE OF THE PROCESS

- Company's have their own ongoing engagement activity
- Independent "Customer Challenge Group" (CCG) sits in parallel challenging companies engagement to provide us assurance in the form of a report accompanying the fast track submission on:
  - the quality of engagement and;
  - insight applied by company to prepare the business plan
- How will we use it:
  - Tool to encourage right type of engagement upfront
  - To assist us with Fast tracking decision
  - Setting outputs and scale of incentives
  - Providing legitimacy to final decision

### **Things to consider further for the model:**

- 1. Remit**
- 2. Governance**
- 3. Resources and Timing**
- 4. How success is measured?**

## High level timetable for RIIO 2



This timetable is indicative. We will continue to develop our plans and milestones may change.

**To ensure companies are able to effectively utilise the panels for their business planning process, it is important to start the process as soon as possible**

SGN





# Wash-up and close



**THANK  
YOU!**