

# Guidance

## RIIO-2 Enhanced Stakeholder Engagement Guidance – Version 2

**Publication date:** 26/11/2019

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### Overview:

This document provides guidance on the enhancements we are making to the stakeholder engagement that will underpin RIIO-2.

This will be a live document and we will update it from time to time, as appropriate.

Version 1 of this document was published on 9 April 2018. We are updating this document to provide further information on the RIIO-2 Open Hearings. We have also included other updates to the enhanced stakeholder engagement arrangements since version 1 of the document was published.

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## Executive Summary

Stakeholder engagement is a core element of RIIO<sup>1</sup> – our approach to setting price controls for the monopoly network companies that operate the gas and electricity networks. By stakeholders, we mean individuals, organisations or communities that are impacted by the activities of the network companies. This includes existing and future consumers.

We want companies to respond to changes in how their networks are used, and this requires an understanding of stakeholder needs to be at the heart of the way companies run their business.

We first implemented the RIIO framework in 2013<sup>2</sup>. The enhanced emphasis on stakeholder engagement has led to better engagement between network companies and their stakeholders. However, we want to see further improvements to ensure the companies' plans for the future are aligned with consumer needs in a rapidly changing world. To do this we want to strengthen the role stakeholder engagement plays in the process of setting the next round of price controls.

In July 2018 we published our decision<sup>3</sup> on the framework for the next set of price controls (RIIO-2). Here we outlined our intention to build on the progress that has been made and on good practice in other sectors. In this document we also confirmed our proposal to introduce a separate price control for the National Grid Electricity System Operator (ESO).

In August 2019, we published our open letter consultation on strategic issues that could affect RIIO-ED2<sup>4</sup> which will cover the price control framework for the electricity distribution networks across GB from 1 April 2023. In relation to enhanced stakeholder engagement, we currently require that electricity distribution network operators follow this guidance to form their Customer Engagement Groups as with the other sectors. If there is a change in the

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

<sup>2</sup> RIIO price controls for Gas Transmission, Gas Distribution and Electricity Transmission run from April 2013 – March 2021. The price control for Electricity Distribution runs from April 2015 – March 2023.

<sup>3</sup> <https://www.ofgem.gov.uk/publications-and-updates/riio-2-framework-decision>

<sup>4</sup> [https://www.ofgem.gov.uk/system/files/docs/2019/08/open\\_letter\\_consultation\\_on\\_the\\_riio-ed2\\_price\\_control.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/08/open_letter_consultation_on_the_riio-ed2_price_control.pdf)

enhanced engagement framework for RIIO-ED2, we will update this guidance document accordingly.

In May 2019<sup>5</sup> 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). We outlined how RIIO-2 would strengthen the voice of consumers both in setting the price control and in the day to day operation of the network companies.

For RIIO-2 we are introducing different models of stakeholder engagement. These will involve companies and Ofgem establishing Groups that will challenge the Business Plans proposed by the network companies for the next round of price controls.

- In distribution, this will be through a Customer Engagement Group.
- In transmission, this will be through a User Group, who will also provide direct input to elements of the plan.

In addition, we will be establishing a RIIO-2 Challenge Group. This Group will look at the plans proposed from the companies in all sectors and will operate in parallel with the Groups established by the companies.

A key feature of these models is that these Groups are independent, both from the companies and from Ofgem. Because the Groups are independent they can offer robust challenge to company proposals, and their views can help us to understand the extent to which the Business Plans reflect and will meet the needs of stakeholders.

Enhanced stakeholder engagement under RIIO2 also includes a series of Open Hearings. 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 Challenge Group and Customer Engagement Group (distribution sector) or User Group (transmission sector) process and areas of support or disagreement from other stakeholders and it enables us to gain a better understanding of the issues in an open and transparent way.

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<sup>5</sup> <https://www.ofgem.gov.uk/publications-and-updates/riio-2-sector-specific-methodology-decision>

As this is a new engagement model, we expect there to be a degree of 'learning by doing' and we will provide further clarification on issues as they arise. Therefore, this is a live document and we will update and amend it from time to time, as appropriate.

## 1. Engagement models for RIIO-2

### Section summary

This section explains the engagement models for RIIO-2. We also set out the purpose of this document.

### Background

- 1.1 We designed RIIO<sup>6</sup> to give stakeholders greater ability to influence how network companies plan, operate and develop their networks.
- 1.2 Successful companies in well-functioning markets, where consumers are empowered and have choice, must understand and respond to shifting consumer needs; otherwise they may go out of business. Consumers 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.
- 1.3 A stronger emphasis on stakeholder engagement in RIIO-1 led to an improvement in the range of stakeholders involved in the process and the quality of engagement that took place.
- 1.4 However, we think engagement needs to be enhanced for RIIO-2 due to the scale and pace of change taking place across the energy system. How consumers interact with the networks and who will need to interact with networks will also change. 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 Sandbox<sup>7</sup> 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 in electric vehicles) could increasingly provide flexible and inexpensive storage to smooth

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<sup>6</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/2010/10/decision-doc\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2010/10/decision-doc_0.pdf), RIIO a new way to regulate energy networks, 2010.

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

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.

- 1.5 This is an exciting prospect, but 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, and more challenge to their assumptions on how best to respond.
- 1.6 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-2.

## The RIIO-2 model for enhanced stakeholder engagement

- 1.7 Our approach to enhancing stakeholder engagement for RIIO-2 has been informed by:
- Responses to our open letter on RIIO-2<sup>8</sup>
  - Stakeholder workshops held in October 2017 and January 2018<sup>9</sup>
  - A range of bilaterals with interested parties
  - Lessons learned from RIIO-1 and the engagement approach in other sectors.
- 1.8 We are introducing different models for enhanced stakeholder engagement. This involves the establishment of Groups, by the companies and by us, that will provide additional challenge to network companies' Business Plans.
- 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**<sup>10</sup>, 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.

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<sup>8</sup> In July 2017 we issued an open letter inviting views on our approach to RIIO-2 <https://www.ofgem.gov.uk/publications-and-updates/open-letter-riio-2-framework>

<sup>9</sup> RIIO-2 Framework review workshops <https://www.ofgem.gov.uk/publications-and-updates/riio-2-framework-review-workshops>

<sup>10</sup> Transmission includes the Electricity System Operator (ESO)

- We will also set up an independently chaired RIIO-2 Challenge Group to assess the business plan proposals in all sectors and to provide a report to us on their findings. Through their interaction with us during the development of sector methodologies, the RIIO-2 Challenge Group will also be able to consider and feed back to us their views on our approach.

1.9 All of the Groups will be:

- independent, operating at an arm’s length from both the network companies and from us
- capable of providing rigorous challenge to companies
- providing their views to Ofgem in the form of reports that we will receive alongside the final business plan submitted by companies.

1.10 The role of the company Groups in both sectors is similar, in that they will provide challenge to the companies’ Business Plans, and ultimately provide us with reports detailing their views on the plans. There is a difference in the composition of the Groups. This reflects the characteristics of each sector, especially the range of stakeholders and their capability to provide challenge and direct input to company proposals.

1.11 We will also 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 gain a better understanding of the issues in an open and transparent way

1.12 Since we published the enhanced engagement guidance document in April 2018 we published our decision to introduce a separate price control for the National Grid Electricity System Operator (ESO)<sup>11</sup>, with a framework broadly similar to RIIO. The ESO is following the enhanced engagement process set up within RIIO-2 and have established a User Group, as with the transmission operators.

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<sup>11</sup> <https://www.ofgem.gov.uk/publications-and-updates/riio-2-framework-decision>

## How the new model will strengthen the consumer voice in RIIO-2

1.13 We consider that the introduction of these arrangements will strengthen the consumer voice in the following ways – including but not limited to:

- **Raising the bar for engagement and quality of Business Plans**

One of the benefits of this approach is that it allows stakeholders to bring expertise, new insights and engagement skills that will be complementary to that of the company. Members of Groups, for example, could challenge a company's internal assumptions (including raising expectations of what good looks like), and ensure the companies keep pace with the latest thinking both nationally and internationally and ultimately improve the quality of Business Plans prepared by the companies.

- **Support Ofgem's business plan assessment**

The reports the Groups could provide us with additional evidence and inform our assessment of the Business Plans. Being close to a company, but at an arms-length, these Groups are well placed to identify any disconnect between a good 'sales pitch' and the extent to which proposals genuinely reflect consumers' current and future needs. We expect these Groups to provide a view on the degree to which a company has explored different options, considered different viewpoints and properly reflected these in its final plan. We also expect the RIIO-2 Challenge Group to feedback on our emerging policy for setting price controls for these sectors and we will take account of this in our decision-making.

- **Enable more flexible regulation – reflecting regional differences**

If appropriately constructed, these Groups may be able to consider network activities that are particularly relevant to specific regions, or sub-sets of stakeholders. This could result in Business Plans that better reflect a local context, priorities, expectations and needs. This may be particularly important in an increasingly decentralised energy network.

## Purpose of this document

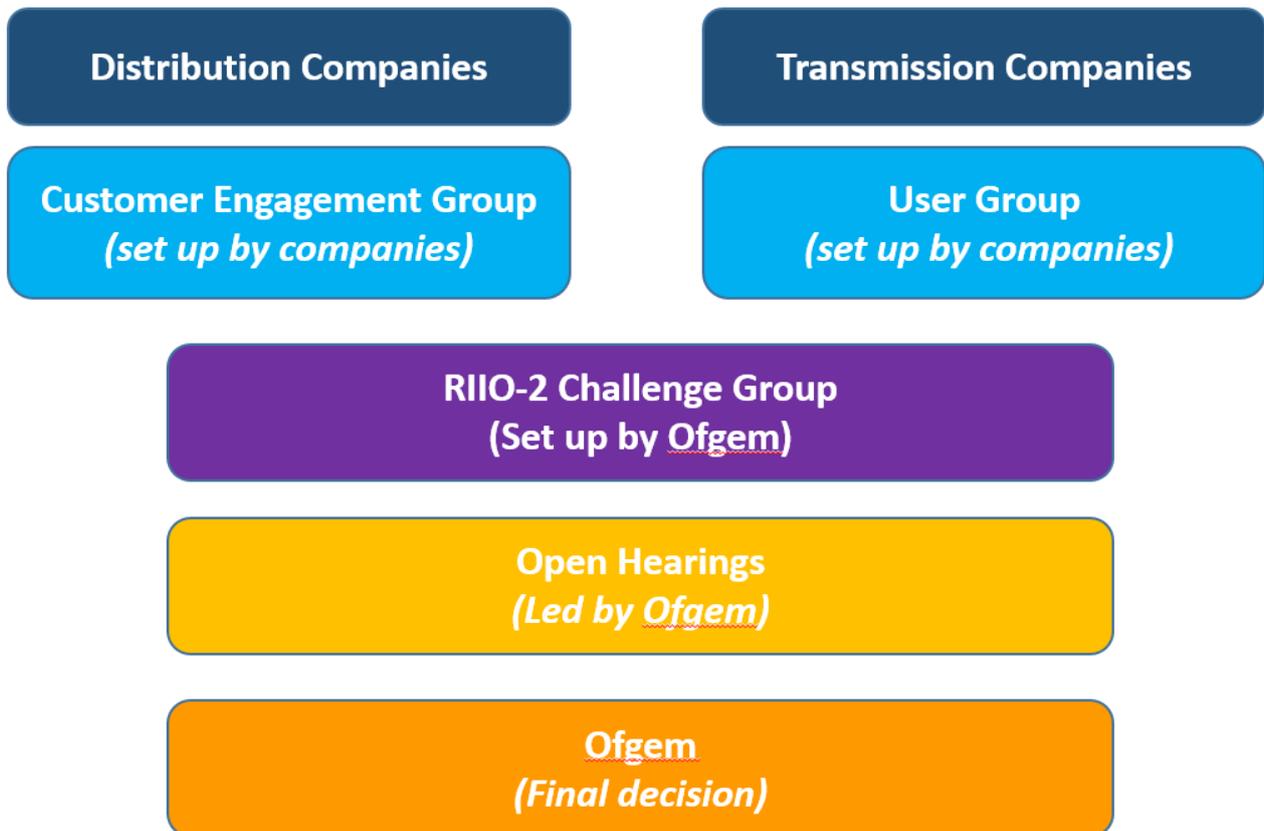
- 1.14 The gas and electricity transmission companies, and the gas distribution network companies will need to submit their RIIO-2 Business Plans to us. We expect the companies therefore to put these models for engagement in place as early as possible to ensure that stakeholders can play an effective role in the process.
- 1.15 We will consider the detailed policy issues that relate to each sector as we develop the methodology for each sector 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.
- 1.16 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.
- 1.17 **Chapter two** of this document explains the roles, responsibilities, membership and governance of the parties involved.
- 1.18 **Chapter three** sets out the framework for the Open Hearings.
- 1.19 **Chapter four** sets out the next steps.

## 2. Roles and Responsibilities

### Section summary

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

Figure 1: RIIO-2 enhanced stakeholder engagement model



### Roles and Responsibilities of all parties in the process

#### The role of transmission and distribution companies

2.1 Each company will be responsible for (including but not limited to):

- designing and running its own programme of engagement with their stakeholders and demonstrating that they have done it well
- having in place an independent Customer Engagement Group (for distribution companies), or User Group (for transmission companies). Companies with more than one licensee will need to decide whether to have a single Group covering all of 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
- 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
- ensuring the Group is appropriately resourced eg by providing the necessary secretariat support, training/induction for Group members
- ensuring the Group has access to relevant data including information on past performance, totex forecasts and out-turn performance (and reasons for the variation)
- providing the Group with access to comparative data from other network companies and other background data to inform the Group's decision making
- ensuring timely access to staff to enable the Group 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
- ensuring their Business Plans are available 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 Groups established by the companies**

### *Customer Engagement Groups – Distribution sector*

- 2.2 The Groups will provide independent challenge to the distribution Company and views to Ofgem on whether companies' Business Plans address the needs and preferences of consumers.
- 2.3 The **focus of the Groups** should be to challenge the company on the following areas (including but not limited to):
- 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
  - proposed outputs and associated total expenditure ("totex") budgets (including level of cost efficiency improvements) for example 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:
    - compare to historical levels of performance?
    - compare to other network companies?
    - compare to other industries?
  - the quality of stakeholder engagement the company has undertaken to inform their proposals, including whether their business plan proposals demonstrate value for money by taking account of any willingness to pay research
  - the approach and support provided to vulnerable consumers

- the company’s approach to innovation, including incorporating innovation into business as usual, and including innovative approaches and initiatives from leading global network companies
- 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
- what alternatives to the investment proposals has the company considered, including from parties offering alternative and non-network based solutions
- 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

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

2.5 The Groups 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.

#### *User Groups – Transmission sector*

2.6 These Groups will scrutinise and provide input and expert challenge to the transmission company’s business plan.

2.7 The **focus of the Groups** will be on the following areas (including but not limited to):

- 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
- direct input to identifying investment requirements and outputs representing desired performance levels and service quality improvements
- associated totex budgets (including level of cost efficiency improvements) for example has the company demonstrated how 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:
  - compare to historical levels of performance?
  - compare to other network companies?
  - compare to other industries?
- the stakeholder engagement the company has undertaken to inform their proposals
- the company’s approach to innovation, including incorporating innovation into business as usual, and including innovative approaches and initiatives from leading global network companies
- 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 or higher demand) to ensure the business plan remains robust in the face of unforeseen changes
- what alternatives to the investment proposals has the company considered, including from parties offering alternative and non-network based solutions
- 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

- 2.8 The Groups 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.

*The reports prepared by company Groups*

- 2.9 The output from each company's Group will be an **independent** report to both us, and to the RIIO-2 Challenge Group. This should be submitted alongside the company's business plan. This means in developing their business plan we expect companies to ensure they share early versions of their plan with their Group and can receive and address comments in subsequent iterations.
- 2.10 In their report, the Groups 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 Groups. This is so we can have visibility of a range of views, and the choices that the company has made. The report will provide us with independent evidence that we will consider alongside other relevant considerations in our assessment of Business Plans.
- 2.11 We will make the reports we receive from the company Groups publically available.

*What is out of scope for the company Groups?*

- 2.12 We do not expect the company Groups to discuss or review financial topics, such as the cost of capital, treatment of debt or the level of gearing in the company.
- 2.13 The Groups 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 Groups is not a substitute for a Company's engagement with its end users or other stakeholders.

## **Membership of the Groups established by the companies**

- 2.14 An independent Chair will head up each of the Groups. 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 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.

- 2.15 For the distribution Customer Engagement Groups, 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 Groups by taking into account regional requirements, the future needs of the energy system as a whole and how to reflect the interests of existing and future consumers in their challenge to the business plan.
- 2.16 We expect membership of the transmission companies' User Groups to include users of the network such as shippers, suppliers, generators, distribution networks, large users and from new business models that challenge and provide an alternative to traditional network functions. These parties can sit alongside consumer representative bodies and other stakeholders capable of providing the necessary challenge and input.
- 2.17 The Groups in all sectors could also include members who have specialist knowledge and skills that will provide additional input and challenge to the companies.
- 2.18 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.
- 2.19 Members should act in an independent capacity as far as practicable 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 Group they will be acting in a different capacity than they have done previously.

## **Governance arrangements and transparency of the Groups established by the companies**

- 2.20 It is important that the Chair and the Groups are, and are seen to be, independent from the companies. The risk of capture is real, particularly given the high level of contact between the company and members. To build trust and legitimacy, appropriate governance arrangements must be put in place to ensure transparency and to provide assurance that the Groups are operating at arm's-length from the company. This will provide more confidence in the outputs of the Groups with stronger and more transparent governance processes in place.
- 2.21 We will take account of the level of support provided to each Group, and their ability to act independently, in our assessment of Business Plans and the corresponding report from each Group.
- 2.22 We do not intend to prescribe detailed processes for establishing the Groups (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.
- 2.23 We do however expect companies to provide us with a detailed report of the arrangements they are putting in place to ensure independence, and we will highlight any concerns that we may have. We are likely to consider the following (including but not limited to):
- how companies have recruited and remunerated particular members of the Group
  - what checks have been carried out to ensure any potential conflicts of interest have been highlighted and managed
  - what other resources or information have been made available to Groups, including comparative information on Company performance

- what access Groups have to staff including non-executive members of the company Board
- 2.24 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.
- 2.25 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 company to ensure (in consultation with the Chair), the relevant members of the group 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 Group 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 Group, before the company should proceed.
- 2.26 We would also expect the company and the Chair to consider other features of the governance processes (including but not limited to):
- the meeting frequency of the Group, and the extent to which the Group will meet without the company being present
  - maintaining and monitoring a register of member interests.
- 2.27 Groups should also have their own page on the company’s website which shows (including but not limited to):
- the membership of the Groups, how this was decided and a code of conduct on any conflicts of interests
  - its terms of reference, governance arrangements and ways of working
  - 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

2.28 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):

- organising regular Customer Engagement/User Group Chairs meetings –to share information and learning
- providing a point of contact for the Chairs of each Group to use and make ourselves available for bilateral engagement
- keeping this guidance up to date as appropriate
- providing guidance to Groups on the required content of their report
- identifying and sharing good practice as required, so Groups are clear of the benchmarks against which they can assess companies.

2.29 We have established the RIIO-2 Challenge Group headed up by an independent Chair and members with the appropriate governance processes. We provide secretariat and technical support to the Challenge Group. The role and remit of this Group is described in the next section<sup>12</sup>.

## Role and membership of RIIO-2 Challenge Group

2.30 The RIIO-2 Challenge Group will **focus** on the following areas (including but not limited to):

- 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

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<sup>12</sup> <https://www.ofgem.gov.uk/publications-and-updates/riio-2-challenge-group-terms-reference>

- 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
- 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.

- 2.31 We expect this Group to engage with the companies from the outset and in parallel with the engagement that companies will be undertaking with their Customer Engagement/User Group. We expect the RIIO-2 Challenge Group to receive and provide feedback on early drafts of Business Plans, to allow companies to update their plans before final submission to us.
- 2.32 An independent Chair will head this Group, who we will recruit. As with the company Groups, 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 proven record of challenging opinions, assumptions and vision. We will recruit the members of the Group, who will be a mixture of independent individuals with expertise in relevant topics and those representing particular organisations. We will provide secretariat and technical support to this Group and access to Ofgem resources, if requested to do so by the Group.
- 2.33 We require this Group to provide an **independent report** to us following their scrutiny of each Company's final business plan. It is important that the Group highlight in their report 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.
- 2.34 We will make the report we receive from the RIIO-2 Challenge Group publically available.
- 2.35 We expect the Group to remain in place at least until we have issued our Draft Determination for each sector price control.
- 2.36 This document will be updated to reflect further detail across the sectors on the timetable, in particular when the companies should submit their Business Plans and Groups should produce their reports.

## 3. 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.

### Introduction

- 3.1 Ofgem’s Enhanced Stakeholder Engagement under RIIO2 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-2 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 Challenge Group and Customer Engagement Group (distribution sector) or User Group (transmission sector) 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.
- 3.2 The Open Hearings are an innovative approach intended to enhance stakeholder engagement as part of the RIIO2 price control process.

### Overview of the Open Hearings

- 3.3 The Open Hearings will be moderated by a panel of Ofgem representatives led by the Chairman, Martin Cave. The Open Hearings for the gas distribution, transmission and electricity system operator will take place between mid-March and mid-April 2020. We intend to hold these hearings regionally across England, Scotland and Wales to make it as easy as possible for stakeholders to participate.
- 3.4 We intend to provide more information on the geographical location and dates for the open hearing when we publish a call for evidence. The timings and duration will depend on the number of topics that are selected for discussion.

- 3.5 There will be one hearing for each gas distribution and gas and electricity transmission company, and the electricity system operator (i.e. Cadent, NGN, SGN, WWU, NGGT, NGET, SPTL, SPEN, and NG ESO). Each of the nine 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.
- 3.6 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 Challenge Group, User Group and Customer Engagement Group 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.
- 3.7 The Challenge Group, Customer Engagement Group and User Group chairs will be invited to attend the Open Hearings along with members they deem necessary from their groups.
- 3.8 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

- 3.9 We welcome stakeholder participation at the Open Hearings.

- 3.10 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.
- 3.11 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. Due to the capacity of the venues, the number of stakeholders able to attend the Open Hearings will be limited. We cannot guarantee that everyone attending will be able to raise a question at the open hearing. This will depend on the number of questions raised and the amount of time taken to respond. The Ofgem panel will ensure that the meeting is chaired to facilitate as full a debate as possible.

### **Call for evidence**

- 3.12 Once the final Business Plans have been submitted to Ofgem, Ofgem 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.
- 3.13 In order to facilitate stakeholder engagement ahead of the Open Hearings, each company should publish its final December Business Plan on its website. As set out in the RIIO-2 Business Plan Guidance<sup>13</sup>, in doing so, companies should ensure maximum transparency by publishing the plans in as full a form as possible. 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

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<sup>13</sup> As set out in paragraph 2.6 of the RIIO-2 Business Plan Guidance 31 October 2019  
<https://www.ofgem.gov.uk/publications-and-updates/riio-2-business-plans-guidance-document>

expect to see an explanation of the particular commercial interest that would be prejudiced by disclosure.

## **Selection of topics for the Open Hearing**

- 3.14 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 of wider stakeholder interest that could usefully be raised through the Open Hearings process<sup>14</sup>.
- 3.15 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.

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<sup>14</sup> 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.

## 4. Next Steps

### Section summary

This section explains next steps for the enhanced stakeholder engagement process.

### Timetable for Open Hearings RIIO-2 ET/ESO/GT/GD sectors

Key Deliverable	Date
Companies publish their Business Plans	9 December 2019
Ofgem publishes call for evidence and confirm the dates and geographical location of hearings	w/c 9 December 2019
Ofgem (and Challenge Group) receives Customer Engagement Groups' and User Groups' reports on the company Business Plans.	22 December 2019
The network companies publish the Customer Engagement Groups' and User Groups' reports on the company Business Plans	23 December 2019
Ofgem publishes the Challenge Group report on the company Business Plans	17 January 2020
Close of consultation on the call for evidence	10 February 2020
Ofgem circulates agenda for the Open Hearings	End February 2020
Open Hearings	From mid-March 2020

- 4.1 We will continue to work with the companies and the Chairs of the Groups 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.