OFGEM

OPEN MEETING SERIES

Network Price Control

Northern Gas Network

Record of Virtual Meeting

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ATTENDEES

Martin Cave	Chair, Ofgem
Jonathan Brearley	Chief Executive, Ofgem
Akshay Kaul	Regulatory Director – Networks, Ofgem
Michael Wagner	Deputy Director, Ofgem
Myriam Madden	Non-Executive Director, GEMA, Ofgem
Jessica Friend	Senior Adviser, Regulatory Finance, Ofgem
Mark Horsley	Chief Executive Officer, NGN
Gareth Mills	Regulation & Strategic Planning Director, NGN
Stephen Parker	Corporate Regulatory and Governance Director, NGN
Eileen Brown	Customer Experience Director, NGN
Jenny Saunders	Chair of NGN CEG
Alan Lowdon	Member of NGN CEG
Roger Witcomb	Chair of the Challenge Group
Robert Hull	Member of the Challenge Group

THE CHAIR: Good morning. I'm Martin Cave, the Chair of Ofgem, and I am also chairing this hearing. Thank you for joining us today at the Network Price Control Open Meeting for Northern Gas Networks, delayed from the spring by the impact of COVID-19. This and similar meetings are the first of their kind for Ofgem and, despite us not being able to be in the same room, we very much encourage you to get involved as it's important we hear a variety of voices today.

I'm confident that this meeting will allow us to have an open and constructive conversation about the consultation responses and key outstanding areas of difference ahead of our final determinations which will be published later this year.

Northern Gas Networks have told us that the topic areas they would like to discuss today are differentiation, expected versus allowed returns and productivity. The company will first be given the opportunity to deliver a 20-minute presentation.

We also welcome today members of the company's Customer Engagement Groups and of Ofgem's own Challenge Group. These groups are formed of independent experts convened to review business plans in detail. They will have an opportunity to feed in their views ahead of our opening the floor for questions.

Please ask your questions on the chosen topics by using the Q&A function on the side bar. I'm afraid there may not be time to answer every question, but we will be aware of them all when drafting our final determinations. Members of the senior Ofgem team will also be asking some questions.

We will be making a transcript and recording of this event which you will be able to watch again and will be available on our website once all the meetings have taken place.

We start with the knowledge that energy networks in general have delivered a good service, but at a high cost to consumers. This is well-documented through our own and independent evidence. We also know that investment in the energy system is going to have to rise to meet the net zero challenge at the lowest cost to consumers while protecting the most vulnerable.

Our overall proposals unlock unprecedented funding for projects to cut carbon emissions to create a green, fair and secure energy system for consumers, now and in the future. This will enable our sector to play a key role in green recovery.

I would now like to hand over to Ofgem's Director of Networks, Akshay Kaul, who will give a brief update and set the scene in terms of where we have reached in the RIIO-2 process with Northern Gas Networks.

AKSHAY KAUL: Thank you, Martin. Good morning, everybody. Thank you once again to everyone for coming along today, and I particularly would like to thank NGN, the NGN Customer Engagement Group, the RIIO-2 Challenge Group and all the other stakeholders who have provided such thoughtful and extensive responses to our consultation on draft determinations which since early September we have been reflecting upon.

Since we received the responses, we have also had very constructive engagement through a series of technical bilaterals, industry working groups and lots of

supplementary questions directly with companies and to other stakeholders, and I thought I would take the opportunity in the opening today just to bring you all up to speed on the state of progress in those discussions and where we have got to with our assessment of the consultation responses so far.

First of all, let me take up the topic of differentiation which colleagues at NGN are going to talk about in due course. The RIIO framework is designed to ensure that there is recognition of efficient performance and that the most efficient companies are rewarded relative to those that are less efficient. At draft determinations we indicated that NGN were the most efficient performing gas distribution company, and there are a number of features in our GD2 approach which seek to recognise and to reward this. Firstly, the benchmarking process we adopted explicitly rewards higher performing companies relative to less efficient ones, emphasised by our proposals to use an 85th percentile as the benchmark performance level across the sector. As the top performer, NGN saw less of an overall efficiency challenge at draft determinations than any other gas distribution company.

Secondly, the business plan incentive mechanism provides rewards for those companies which provide the most robust and cost efficient proposals for RIIO GD2. We recognised and accepted that no gas distribution company received a reward at the draft determination stage for setting a high bar for cost efficiency. However, we have received further evidence and information, including a series of methodological considerations put forward by stakeholders on stage four of the business plan incentive, and so we are giving active consideration to responding to this at final determination and revisiting whether the most efficient companies should receive a reward.

Thirdly, the proximity of the overall final determination itself to the original company submission is another form of recognition. At draft determinations, NGN received the lowest reduction in its overall totex proposals than any other gas distribution company.

I'm going to now just summarise the state of our progress on the areas of totex, or cost assessment of expenditure, on outputs and incentives on the framework for net zero, particularly the uncertainty mechanisms, and I'll touch very briefly on the important topic also of finance and the cost of capital.

On cost assessment of totex, or total expenditure, we understand the concerns expressed by NGN and its stakeholders that they need to have sufficient allowances to meet both their statutory obligations and their customers' needs. Since draft determinations, we have had a number of engineering bilaterals to understand better the engineering justification for a range of the repex and capex investments that were proposed by NGN, and in many cases NGN have provided additional information and evidence that we are considering as we develop our final determinations.

We have also had constructive discussions about the ways that we model repex within our regression model and the way in which we hold the gas distribution networks to account for the delivery of capex and repex projects. We are actively considering how we develop these mechanisms so that they are capable of holding the GDNs to account for delivery, but are also proportionate to the complexity and scale of the expenditure. Some of the feedback we had, particularly for the gas

sector, seemed to indicate that some of these accountability mechanisms were perhaps overly burdensome, so we are actively considering those mechanisms.

We have also listened carefully to the concerns raised by NGN and other gas distribution companies about other aspects of the econometric modelling, and we have been working with NGN and the industry groups and other stakeholders to refine further a number of detailed aspects of the modelling techniques for final determinations. Very good progress has been made in this area, but more work is required over the next few weeks before we can arrive at a firm conclusion for final determinations, and it will be good in the discussion and debate today to draw out some of the observations and feedback from the company in particular on the econometric modelling and benchmarking.

In addition, we have jointly identified with the gas distribution networks some technical errors in the modelling. As we said at draft determinations, we would be very happy to transparently correct any such errors. The magnitude of these errors is relatively modest with an impact of around two per cent of overall totex allowances across all of the gas distribution networks which we believe is comparable with similar stages of previous price controls, despite the effect of COVID-19.

That's on cost assessment. Let me move on quickly to outputs and incentives. We welcome the work that NGN has led with stakeholders on its outputs and incentives, and particularly welcome the critique and reviews provided by the Customer Engagement Group on this topic. We note the significant focus and proposals to improve the quality of service for both domestic consumers and commercial partners, including biomethane producers. We're looking very carefully at the additional evidence submitted by NGN, including for outputs to restore services faster for customers following interruptions or engineering work.

Moving on to net zero, we proposed in draft determinations for the gas sector a number of uncertainty mechanisms to ensure that the price control can flex to facilitate the delivery of net zero. NGN were broadly supportive of the approach in their consultation response, but highlighted that these need to be agile to support developing net zero proposals. We agree, and we are continuing to work with the GDNs to ensure that the different mechanisms are cohesive, covering the different types of net zero investment and we're giving active consideration to the setting of appropriate thresholds and the timing for these reopeners.

Finally, on the topic of finance and the cost of capital, we have had significant engagement with NGN to discuss the financial parameters of the package and to understand better their response to the consultation in this area. We have also received a couple of weeks ago the CMA's provisional findings for PR19 in the water sector. While these findings are provisional and we await the final determination, we consider even at this stage that they are an important contribution to the debate on cost of capital. We think there are likely to be areas of cross-over between the sectors, but there are also other areas, such as the computation of asset betas, the cost of debt and the aiming up arguments that the CMA has used which we think tend to be a bit more specific to sectoral circumstances, and again in the course of the debate today we would be interested in stakeholder views on the read-across of the CMA's reasoning to the energy sector.

In summary, we have been very pleased with the constructive engagement with NGN, the industry leader to date, and with other stakeholders following the draft determinations. The ongoing engagement is absolutely key to ensuring that we have the ability to fully understand the responses and develop a robust price control which provides sufficient funding for the company to operate a reliable and safe network, creates value for consumers and facilitates the net zero transition. We believe we're making excellent progress to developing our position for final determinations and we very much look forward to hearing your reflections this morning.

Back to you, Martin.

THE CHAIR: Thank you, Akshay. I now hand the floor to the company itself to give its 20-minute presentation.

MARK HORSLEY: Good morning. Thank you very much. Could we have the slides up, please? Or should I say actually slide. Can you move on to the next slide, please? There is only one slide for the presentation.

Thank you first of all, I will just feed back on Akshay's comments. I think Akshay's comments are incredibly welcome and I think that there has been a tremendous amount of work between the companies. I can speak for NGN in saying that there has been a very strong and open dialogue and very transparent dialogue since the draft determinations, which are really welcome. It was a difficult draft determination, I think, for the sector as a whole. I think there was almost a wake-up call coming across the whole of the sector, but we really welcome the things that have been said and the movement we've got. What we really do now need to see is that movement coming to an actual position on the final proposals. Having said that, great movement and great conversation between ourselves and Ofgem in that period.

This slide really is just the one slide I have. I have a tradition at these price reviews of having one slide. I hate death by PowerPoint; I think the meeting really is about an interaction between the company and the stakeholders and those stakeholders obviously include Ofgem, CEG, CCG and other parties. That's the purpose of today. But what we really wanted to express today from our own position at NGN is the differentiation. Akshay has made it very clear that there are parameters within the review and the framework for rewarding that differentiation. I think the challenge that we have, and I welcome some of the points that Akshay has made in terms of whether that is strong enough in terms of a frontier performing company. I wanted to really raise the work that we have done over the last eight years, just as a backcloth and why we feel so strongly about this position.

We had basically three pillars of change throughout this last eight years. We used the eight-year period as a long period as opposed to the five-year period where you tend to have about three years of active work in your operations to be able to change it. I'm an operational CEO, I saw a lot of the things that we used to do, coming from both an electricity background and then moving into gas, and I saw a lot of similarities. I also see as a non-executive now in the water sector exactly the same journey that needs to be undertaken, and they're fundamental changes that are required in the utility and very, very difficult to do.

The first thing we embarked upon was looking at our supply chain. A huge amount of our expenditure is in the repex programme, not feeling ten years ago that we were getting true value for money from that, and over a period of three to four years we have moved from what was a tier one, which is your larger providers, to tier two, tier three, and these are family businesses within the location which we operate in. They have come very close to end journey terms; it is culture, it is behaviour, we have seen and maintained the high level of safety and customer service throughout that process, and led the industry in terms of cost, some 20 per cent on average and 30 per cent ahead of the worst performer in the sector. These are very meaningful, and a very difficult transition in lots of ways because the company didn't have the commercial skills to be able to manage that originally, and we spent three years as a migration to build those skills up. So that was one of the platforms.

The second platform was a recognition that terms and conditions from the public sector have really not moved on in the way that you would have expected in the private sector. So, over 30 years, since 1986 with the nationalisation of gas and 1990 for electricity, we recognised we really needed to change the culture and behaviour of our workforce and make it sustainable for the future, and that is a really important factor in this in terms of sustainability and behaviour. We embarked on a transformation of bringing new terms and conditions into our organisation that were market-leading, and I would measure them against any contracting organisation out there or any organisation actively in a competitive arena. We took away base salary, reduced base salary, brought performance-related pay in, changed the basic things of sick and holiday pay to bring them in line with the rest of the UK, and a number of other initiatives that aligned those terms and conditions to what our customers wanted and what we wanted as an organisation to move forward, to become a frontier and sustainable frontier business. As I say, that was a very difficult process as you can imagine, and we have now got close on 80 per cent of our people on those new terms and conditions.

The question that was challenged, and it was an interesting challenge at the early CCG, was this revolutionary, was it a real innovation? I would say the answer to the question is no in the wider market, but yes in the utility sector, which is very strongly union-led and those terms and conditions are embedded within the culture of those workforces. It has allowed us to change the way that people think. Our average age now has moved from 49 to 37. With the advent of new technology, it's been easier to inbreed that into the organisation and make those changes we've done.

That leads me nicely on to the third platform, and that is the introduction of a new IT foundation which is in SAP HANA4. We are the only utility in the UK to adopt the full SAP HANA4 platform which gives us up-to-date information at a glance. It has been introduced not just as an IT system overlaying an existing business; before we brought that system in, we actually reinvented the whole of how we operate the business, and that was really establishing new business processes and how we would operate the business into the future. So, as we move into RIIO-2, we are not only going to be a gas business, we're going to be a data business. Data is fundamental to how we run this business, how we decide, how we invest, how we behave and how we react to customer preferences as we move forward.

Those three pillars, again moving back quickly on the IT, the IT was an outsourced activity to large organisations. We brought that entirely in-house. The cost reduction has been around 30 per cent, again bringing us to that frontier cost performance. So the three pillars of the supply chain remodelling, the introduction of new working terms and conditions for our workforce and then overlaying that with new technology has put us into that position. The cost of doing that has not been insignificant. It has been £80m over the period, and that's from shareholder funds outside the totex mechanism, and that's why I probably feel quite strongly that differentiation at this stage is really important because it's important to acknowledge the change that has been made in the business and really to send a signal to other businesses that it is worthwhile to do because if that differentiation isn't acknowledged and that £80m and management effort to do that, then the question arises why would we do it in the future? I think by creating the differentiation, it supports the legitimacy of the framework. It reduces and removes errors of the past because we then start to get into an accurate forecasting business and understanding of that business to a point where if you get your IT systems right and share those, actually most of the things you do you understand on a daily basis, and that's both from the customer point of view and from the regulatory point of view.

With that, I would like to now move on to some of the customer commitments, and I think Akshay has very pleasantly acknowledged that in terms of the work that the CEG has done and ourselves – and we worked extensively, we sat in a room here where the CEG meets, we have set up a very different approach to our stakeholder engagement. The CEG has been extremely challenging to us, but it has also been a very, very strong working relationship. When we put the business plan together, not only did we want to be recognised for the work we've been doing over the last eight years, but how we as a business have reacted to our customers and our customer demands. During the period, we doubled our guaranteed service payments as a recognition of that change and acceptance, and we really put some stretching targets into our business plan, that I have to say, at the early stage of the draft proposals, I don't think were considered well enough and I really welcome Akshay's response in saying that those now are probably being recognised in that change. Those all reflect into the business plan, and it does fit around the finance because as an organisation we believe we are very customer-focused, we are part of the community, and having the ability to do this type of work is really important, and I think it's shown itself more than ever during the pandemic where we have been working, as other companies have so we're not unique in that, but we are seen as an anchor organisation as a network in the regions we work in, and the tremendous work that our people have been doing on a voluntary basis in care homes, helping the elderly, actively working with different organisations to provide that support throughout, and it says a lot about the network's businesses and what they do and their legitimacy in the communities in which they operate. I do hope that a lot of those things are actually acknowledged as we move forward, but I'm not going to speak for the CEG and their points that they may wish to raise on that.

Moving quickly on to the financial elements, there has been a lot of discussion around things like the outperformance wedge which we have fundamentally disagreed with from day one really. The reason I disagree with that and we disagree with that, I think I'll put this in inverted commas, I think Ofgem have done a good job in recognising the shortfalls of the past review period. Martin mentioned the high cost. Our business plan reduced our cost of equity in the previous levels. We recognise that change is required. We recognise there was a sharing between

investors and the customers, and the outperformance wedge we saw, and still see, as a sort of double count in all the things that have been done through this review and really almost negate the use of that. I think it is interesting that the CMA in their findings actually couldn't see a reason or position for that going forward. I don't really want to say too much more about it other than that. I think we've made our point and we made our point in the bilaterals with Ofgem on that particular issue.

We mentioned productivity assumptions. We have got a 1.2 per cent productivity assumption for capex and repex and we've got a 1.4 per annum assumption for opex. Again, I take us back to the starting position of NGN. We're moving into this review as a frontier company, and this way to do the analysis, it means that we have to have a step change of £30m to achieve those percentages, which again upon a read-across from the water sector, adds substantially higher than the levels there. Again, because we're starting from that lower point, or higher point, whichever way you want to look at it, with our efficiency already embedded, it's incredibly difficult and we feel that we are being disadvantaged, and that is one of the areas that you can look at differentiation between the businesses that have achieved what they have achieved to a starting point and the businesses that do need to continue. We're seeing other organisations in the sector now emulate what we do and what we're doing, particularly in the repex delivery and I have no doubt in the modernisation of terms and conditions, which is a recognition that we're doing the right things, but our starting point is very different. So it's really important that we get recognition and the definition between ourselves and others on that particular aspect.

In terms of WACC, I think I will be honest, I think Akshay said all that I wanted to say, particularly on WACC. We have seen the CMA outcome. I believe – I have been in the industry for 45 years – it gets the balance between customers and the investors. It actually lies in with our business plan submission of around 5 per cent. There are always going to be debates around cost of capital, it's always been thus, but I think what we're seeing now is, yes, the preliminary findings of the CMA is a landing point but is around where it needs to be, and I don't intend to go through again into a micro debate on that. I think the CMA has basically said what it said and it underlines a lot of our points. As I say, going back to the point that we did put in a cost of equity of 5 per cent, which was the lowest cost of equity submission in the sector.

On the repex, I think I don't really need to say much about that. We were a little bit concerned at the draft determination because there was some actually mandated work that had been disallowed, but I think there's been a very, very good dialogue between ourselves and Ofgem on that and I'm hoping to see genuine improvement in that area and a recognition of providing additional information, and to be fair to Ofgem we have provided additional information that perhaps wasn't fully there at the draft determination, so hopefully those things will be corrected.

I have to say, it is one area where we have had amazingly strong stakeholder support, and the impact on the bill is relatively small compared to the other areas of reduction and return, and also from wearing my hat in the future green recovery, having a plastic network to go forward for the use of hydrogen is incredibly important.

I was going to cover off – I don't know how I'm doing for time – just briefly on the future. I think this review is going to set the baseline for the future. I welcome the discussions that are going on now between Ofgem and the industry and indeed the ENA on the reopening mechanisms and making those as simple as we possibly can. We are going to be in a very agile arena I think going forward in terms of the green recovery. I think we are going to need to look at this as an energy sector as a total solution, not just a gas and electricity solution. As a small company, one of the smallest in the sector, we punch way above our weight – *(inaudible – sound distortion)* – the project in Leeds, the H21 north of England, we've worked alongside Cadent, we've got the test facility in Buxton and Spadeadam. We are producing 100 per cent hydrogen house at our test facility in InTEGRel in Newcastle and that will be up and running at Christmas this year. So we are really actively pushing that green recovery and a green form for our networks going forward. That's the outside bit, but we also noted from our plan what we're doing internally to improve the environment in which we operate as a business, and that's from either energy supply, transportation, transport what we are doing, shrinkage, so we are looking across the whole remit and we take this extremely seriously.

In conclusion, as you gathered, most of the debate that we wanted to table today is I thank Akshay and I thank Ofgem for the recognition of us being the frontier and most efficient business. The challenge is: is that differentiation strong enough and recognised enough between us and the other companies, and we would like to see that built on at the final proposals. Thank you.

THE CHAIR: I now turn to the Customer Engagement Group to get their view of the situation.

JENNY SANDERS: Good morning, everyone, and thank you very much for the opportunity to join this discussion. Could I have the first slides up, please?

I'm joined by my colleague Professor Alan Lowdon. He's a member of the CEG and is our expert on engineering and innovation, but I'm supported by a very strong team of consumer advocates and specialists, so our comments are based on the work that we've done over the last two years. We are an independent body, both of Ofgem and NGN, but we have worked very positively, as Mark indicated, with both NGN and with Ofgem. Our interest is in making sure that stakeholder and customer interests are truly reflected in the final business plan that goes forward up to 2026 and beyond.

Our work has involved right from the start trying to understand how the company was engaging its stakeholders. We looked at the strategy. We wanted to make sure that when people were being consulted they absolutely understood the propositions, they understood what options were available, they understood any cost implications, and that we could tease out what their priorities would be, both their needs, their preferences, what they thought was good for society as well as for themselves. Our comments are based on that and we wanted to see – and I think we did applaud NGN in our report on having taken those views into consideration and reflected throughout the business plan.

We also drew on specialist reports, benchmarking when that was available, and we did scrutinise NGN's track record, how it had embedded efficiency and innovation to understand what a frontier position actually was based on. There was a lot of work

to just understand the business and how it could respond to the future challenges, and those priorities that customers consistently indicated which were for safety, for improved environmental outputs across a range of areas of work, and for improved continued customer service.

The areas that we're probably going to comment on most reflect on what NGN chose to highlight today, but before commenting on those, there were three other points probably that we highlighted in our report and in our response to the draft determination consultation. One of those is around how far Ofgem truly reflected on what customers had said in reaching its draft determination. We're sure that they did, as the regulator – enhanced stakeholder engagement is intrinsic to the whole process – but what we'd like to see in final determination is just how it has fully considered those priorities that the individual company customers have said.

We understand the huge challenge that net zero brings across the industry, and I'm pleased that Mark also acknowledged that. We would like to see how the company can work and is incentivised to work effectively with other partners because a whole systems approach is going to be critical. To that end, the use of increased uncertainty mechanisms, reopeners, whilst we absolutely understand that there is some policy uncertainty from government at the moment, what we must ensure is that any proposals that come forward after final determination are dealt with quickly, that the companies and Ofgem are both resourced to deal with this effectively and efficiently to allow progress to be made.

Our focus over the last eight or so months has been trying to challenge the company on how it is preparing to deliver the outputs and outcomes that it's pledged in the plan. I'm pleased to report that we've seen good progress. The SAP 4HANA system is being developed and should lead to significant improvements in customer service.

Moving on, the customer value proposition, the CEG supported NGN's proposals and most of the bespoke outputs that it put forward on the basis that these did seem to represent what customers had supported, had asked for. There were some tried methodologies that could help demonstrate the monetary value, but the guidance was at times difficult for us to follow. We thought that we had followed the Ofgem guidance in how these were be considered, but I think there's more work to be done, and I'm pleased that Akshay said that they were looking again at that. Because so few bespoke outputs were accepted, we could see that it seemed rational to move a number of the proposed outputs into common outputs, but I think in NGN's case we're concerned that we might lose some of their ambition to go further and faster, so we would like the company and Ofgem to work together to see what can be done to ensure that those higher standards that we're all aiming for will be met.

Finally, financial matters were outside our scope, and we do recognise of course the importance that is placed on making sure that costs are fairer for the future. But we have to make sure that the incentive drivers are right, that will drive those behaviours that customers want to see - so moving away from defined outputs into KPIs that could be at risk if the company doesn't have guaranteed upfront funding that is reliant on shareholder goodwill almost – and then we want to see some guarantees from NGN and Ofgem that the proposed higher standards that customers want to see will be delivered.

I think at that point I will hand over to my colleague, Alan, who will talk about repex and the position that we reached on that.

ALAN LOWDON: Thank you, Jenny, and hello everybody. My name is Alan Lowdon. I'm a professor in practice at Durham University's Energy Institute, but I also chair the Advisory Board of the Institute.

In terms of the non-mandatory replacement expenditure, there are three points which I just want to highlight today in the context of what is being discussed. The CGB, when we were looking at the replacement expenditure, were very cognisant of the fact that customer imperatives of safety, reliability and environmental performance were almost sacrosanct. Customers are very aware of the impact of, for instance, gas explosions. They want gas to be available at their cooker or their gas fire when they turn it on, and they are also very, very acutely aware of gas leakage, gas escapes and the environmental impact which that can serve. We had this very much at the front of our mind when we were talking in our sessions, talking about the importance of asset performance.

Secondly, we were very impressed by the work which not just NGN, but a suite of gas distribution companies, had done with regards to putting some scientific and engineering rigour around the steel replacement programme in particular. This didn't just cover one geography, it covered a number of geographies, a number of different soil types which are extremely important when you're looking at the overall performance of this asset class. We also reflected in our discussions, and brought them to the company and challenged the company on them, the stochastic nature of the challenges which were faced, and in particular the use of the NARMs model within the context of Northern Gas Networks. We received the in-depth assurances that the NARMs model was actually being applied in the fit and proper way.

The final bullet point is a really quite important bullet point in terms of a regulatory process in the CEG's opinion. It's quite simple: if you defer repex today, you create an investment wave which needs to be managed tomorrow. So at some point in the future, the customer is going to have to foot the bill for this. We were very much aware that this was an issue that needed to be surfaced. It certainly flies in the face of the three customer imperatives, and we discussed this at length during our sessions. We were very much of the mindset that changing the physics of the situation through having to reduce pressures and flows in the network, for example, also reduces customer service because then issues such as the pressure that the customer feels for the gas, the burning rate, etc, is all impacted. So, we were very cognisant of the fact that repex deferral has a pretty important customer impact along the journey of that asset's life.

Just picking up on the point that Akshay made earlier, the repex deferral does have a material impact on the ability to create accurate asset betas. We had all of these discussions in the forum. We were very challenging of NGN in the thinking that we were coming up with, and we were satisfied that the company was on top of these issues, it had the right approach to dealing with asset management in the strategic level, and as such we were supportive of the position which they took.

That's it from me. Thank you.

THE CHAIR: Thank you very much, Jenny and Alan, for those very interesting comments. Can I just remind everybody, we're going into a Q&A period in about ten minutes or so, if you want to ask a question, can you just use the Q&A function on the side bar so that we have lots of questions because there's going to be plenty of time for that.

Now I introduce Ofgem's Challenge Group to give its views.

ROGER WITCOMB: Good morning, everybody. I'm glad to be here. My name is Roger Witcomb. I'm the Chair of the RIIO-2 Challenge Group which runs in parallel with the CEG which Jenny so well described earlier. We are there also to challenge both the company and Ofgem on this whole process, and of course we have the advantage of looking across all the companies and, like Jenny, I have a very strong group and quite a vocal one as well. I hope that the opinions and things I'm going to say to you are the opinions of the group, and I think they are but occasionally I do get overexcited.

Where to begin? Probably where NGN and indeed the CEG have become, which is on differentiation. We agree. We thought that the NGN plan was pretty good, certainly relative to all the other plans that we saw, and we also accept that NGN has been the most efficient frontier company in terms of efficiency and would entirely support the notion of differentiation. Interested to see that Ofgem will be taking that forward. Of course, there is still to us an open question as to whether NGN are being under-rewarded or the other companies are being over-rewarded, but no doubt that will be part of the analysis going forward.

Generally speaking, on adaptive regulation and uncertainty mechanisms, we heard a bit about that. In this incredibly uncertain world around the path to net zero in particular, we entirely support the move towards more adaptive regulation, more uncertainty mechanisms, more reopeners, while recognising that that puts a huge strain on the process because it puts a lot of responsibility on Ofgem to respond quickly and rigorously and accurately so it does not get held up.

Another point which several of us were keen to make was that if large investment decisions are being made outside the usual price control process, it's important to ensure that those are legitimised by appropriate consultation and appropriate checks. So, big job going forward there in terms of making the uncertainty mechanisms work.

Just in passing, I think we felt that probably NGN were relying rather too much on uncertainty mechanisms and were possibly shifting too much risk from them to the consumer, but that's something again which I'm sure Ofgem will be looking at.

Around customer engagement, there were a number of points which I think is worth making. We agree that customer engagement is very important. We are sure that Ofgem has taken account of what they have been hearing from the stakeholders generally. It wasn't obvious from the draft determinations how they've taken account of it and we would certainly encourage Ofgem to be much more upfront about how it has taken account of the stakeholder engagement, which has been done extremely effectively in the case of NGN through the CEG and indeed by the company.

Moving on from there, on outputs and incentives, again we generally support the incentive mechanisms which Ofgem have put in place. We have a slight concern that if, as I think we as customers hope is the case, this is a very demanding settlement for NGN, then some of the, particularly the reputation incentives are at risk of being overlooked. In a tight environment, it is quite tempting to play down those incentives which are purely reputational, particularly in the area of vulnerability and environmental performance generally, we think there is a case for sharpening up those incentives, either by making financial incentives or licence obligations or possibly price control deliverables.

In the context of that as well, we think that Ofgem should probably look at enhancing some of the vulnerability measures to help vulnerable customers in vulnerable situations, particularly given what's been happening over the last few months we think that's really quite important to look at again.

Where have we got to? I'm going to ask Bob Hull, who I completely failed to introduce who is also sitting next to me, I hope you can all see him, who is one of the many key members of my group. There was a lot of discussion about repex and the appropriate levels of repex. We thought that the repex numbers in the determination were about right. In fact, we are wondering whether enough account has been taken of the likelihood of falling demand looking ahead, but, Bob, perhaps you'd like to say something about that.

ROBERT HULL: Sure. I think first of all the point to make about expenditure generally is that, as Roger said, this is the time when any price increases are going to be felt by customers and particularly vulnerable customers, so we are really looking at what is the minimum necessary level of expenditure that is needed, and that's really the theme of the response we've put in. Any expenditure that is included, it should be evidence-based, so we welcome the discussions that are taking place between Ofgem and NGN to take account of the evidence on the expenditure that is needed.

When we looked at repex, we saw that the non-mandatory repex, what was increasing compared to the last price control and asked Ofgem to investigate that further. There are a number of factors obviously sitting behind that. The need case and also taking account of things like falling gas demand and indeed information on safety. We have identified again for Ofgem and the companies to look at what are the right levels of investment for safety because when last assessments were taking place for the mandatory replacements, that was about ten years ago and it's maybe appropriate to take another look at that to see if the right level of expenditure is in place.

Having said all of that, the use of uncertainty mechanisms to identify where additional expenditure may be needed seems entirely appropriate if there is uncertainty about it. Really, the evidence is with Ofgem and we would stress we would like to see some evidence-based conclusions coming out of that and welcome the approach that is being taken at the moment.

ROGER WITCOMB: Thanks, Bob. Perhaps I could finish by saying something about finance. Two bits. A very, very quick comment on the wedge. There was lively debate within our group about whether the outperformance wedge was a good idea or not. I think the conclusion we came to, it was the worst possible solution to the

problem of chronic outperformance by customers, apart from all the others. So we find ourselves supporting the idea of an outperformance wedge, just on the grounds that historically and not just in the last five years and not just in electricity distribution, regulated companies have significantly under outperformed their regulatory settlements and that reflects the asymmetry of information and I think is just endemic to the whole process, and of all the ways we looked at dealing with that, the wedge seemed to us to be the least bad, and it is faint praise but I think that's where we ended up, so we would certainly support maintaining the outperformance wedge.

On cost of capital, on the WACC generally, to be honest with you, we haven't had a meeting since the CMA provisional decision, so the work being done has been very much at an individual and subgroup level and there's clearly a lot to be done around the cost to capital and the wedge. We said in our response to the draft determination that we supported the Ofgem position. Indeed, we thought it could probably have been a bit tougher. We have since then done a certain amount but very preliminary work, particularly around asking impartial investors whether the proposed Ofgem cost to capital was going to discourage investment. On the basis of what we've heard so far, we see absolutely no reason to change our view. We think that the Ofgem proposals are robust and will allow the industry to develop in the way in which it should, but there's clearly a lot of work to be done there.

I think I've reached the end of my list. Have I missed anything, Bob?

ROBERT HULL: No.

ROGER WITCOMB: Thanks very much.

THE CHAIR: Thanks, Roger and Bob, for that very interesting contribution. I'm now going to hand over to Akshay to orchestrate the Q&A section. Do remember, if you want to ask a question, we've got 40 minutes, nearly 40 minutes for that, do take this opportunity by using the Q&A function on the side bar.

AKSHAY KAUL: Thank you, Martin, and thank you to all our speakers so far. I think for the audience, you've heard some pretty clear lines of contention coming out of these opening statements, clearly NGN pointing out the importance of differentiating between the most efficient company and the least efficient companies, the debate around the outputs and incentives and whether they sufficiently reflect customer feedback on vulnerable consumers, and the Challenge Group's understandable concern about the role of reputational versus financial incentives in a tough financial settlement, particularly around vulnerabilities and environmental performance, and you heard the third key issue around the replacement expenditure programme and what is the right level of replacement expenditure for NGN given that there is a trade-off of course between safety, which is important to customers, but also value for money which is also important to customers.

We're going to go now to Q&A and I'm going to start by asking our CEO, Jonathan Brearley, to start the questioning with the first question. Over to you, Jonathan.

JONATHAN BREARLEY: Hello, everybody, and particularly hello to Mark and his team and just to say, Mark, it's great to see you and great to see you looking well.

Can we start by asking you about differentiation. You pretty much highlighted this as one of the main issues you wish to deal with. Can you bring that to life for us, tell us specifically what you think we should do to make that a reality. You may need to switch your camera and your microphone on.

MARK HORSLEY: I have. There is a delay, it's the Leeds delay, it has to catch through the ether!

Yes, the key aspects I think I touched on them in terms of the business plan incentive, the TIM, which is the totex percentage, we welcome we got 50 per cent, but again if I look, the closest businesses are in the 49.something per cent and I guess some parts on the costs, and I think, Jonathan, we've had conversations with you and your team on this and it is as much as an acknowledgement of the legitimacy of the process as well. I think we have demonstrated, and I think I have tried to do that this morning, people will say, well, what's been has been and we're now looking at RIIO-2, but the starting point of RIIO-2 for us is we're way ahead of many of the other businesses in terms of their starting point from the cost position. We've maintained a high level of safety and customer service through it and the way that we've operated in the futures market I think is a demonstration of those elements of differentiation, even in the hydrogen fuel where, as I say, we don't really have a huge resource level to be able to do those things and we've worked extremely hard to create something new there and an opportunity, I guess, going forward. The mechanisms are there with the business plan incentive and the totex sharing mechanism. In the productivity, as I said, we've got a £30m hit in terms of just the starting point for us on there, so some level of differentiation there would really help the organisation and make a signal point to the organisation because as much as we do talk about the WACC and returns for investors, investors also look at companies as to how they have outperformed and how they're being differentiated at a price review, and it shouldn't all be around WACC, it should be around how those companies have behaved, what they've done with their customers, the value they have created for the customers and the value they have created in terms of the cost lines. I think there are mechanisms, Jonathan, for that to be shown at the final proposals.

JONATHAN BREARLEY: Thank you. Can I ask just one follow-up question, Mark? Now, you know that there is a great deal of comment from all companies around the benchmarking modelling. Just for clarity, that is the modelling that ranks different companies by their costs and their efficiency, etc. We've seen some arguments being made that change that order quite significantly. Do you want to just comment on that given your current position?

MARK HORSLEY: Can I say there's always a debate around cost modelling every time there's a price review. I go back to a point that I've made many, many times. We produce information on a yearly basis. I'm hoping even with our SAP HANA system that all our regulatory reporting will be automated. I would love to have a screen in your office there that you could look where we're at, and I think one of the lessons I think we need to learn for GD3 is to use that annual reporting and use that information in a more intelligent way that we don't get into this debate every five years or previously for eight years, because if we have that information, it's no different than us running our sets of contracts within the organisation. I can tell you the best performing contractor. I can tell you what has got the best customer service. I can tell you the ones that have got the least cost to provide the meters

laid. I think rather than say there are variances, people always say there is a variance, as long as I have been in the industry, both the electricity and gas. I think the information is there. I think we need to use it better going forward, Jonathan. I think that would be a better answer for me to give you.

JONATHAN BREARLEY: Thank you.

AKSHAY KAUL: Mark, just on that, for the avoidance of doubt, can you confirm that you are supportive of the dropdown totex modelling technique that was adopted at draft determinations?

MARK HORSLEY: Yes, I am.

AKSHAY KAUL: Thank you. Very good. Let's move on to our next round of questions from Myriam Madden, who is a Non-Executive Director on the board of Ofgem.

MYRIAM MADDEN: Good morning. The question I would like to put to you – and actually this was submitted in advance by the National Energy Action Consumer Group – since the start of the pandemic have you done any further work to understand whether your customers' views on affordability have changed?

MARK HORSLEY: I think the quick answer to that is yes. It is a continuing dialogue. I think we've genuinely seen the world change through the pandemic and how people behave and how certain parts of our community are really suffering through that change. I think that's going to be ongoing, and we as an organisation really do want to make sure we're on top of that right the way through this winter period. It's going to be a very, very difficult time. I think the answer to the question is yes. I think the point that was made earlier, there's a lot of stuff that we do as an organisation – I don't like the word reputation, we don't do it for reputation, we do it because it's the right thing to do, and I think what's really important is that we end up with a settlement where we are still able to do that. Our outreach in the north east of England, and you see it happening now with where Newcastle is, where Teesside, Sunderland are, we have some of the most deprived areas in the UK and it's really important that we're able to play our part in that, and I am very supportive of all the work we do across with Northern Powergrid, Yorkshire Water, Northumbrian Water. I think utilities play a very, very significant role in this. As well as energy bills, the role that we play in the community is incredibly important and I think that that work will continue to go through. We are in the process now of signing our action plan for the social mobility pledge, Justin Green and myself are meeting on Friday. Again, a really important part for us, we have announced over 15 new what I'm calling green apprentices because they are going to be the apprentices of the future, they will start with us in January next year, and we are particularly focusing on deprived areas and looking at areas where we can bring people into the organisation that don't necessarily have traditional – I started in this organisation, not this organisation, the utility sector, in 1975. I know I look a lot older than that but I started in 1975. I left school with no qualifications and the apprentice route was for me. I want to encourage that. I want to encourage people to come into the organisation so we can play a role in the community in the things that we do, but also as an organisation give people hope and coming into this period that we're going to be coming into, I think that that is going to be a key role for all the utilities to really grasp and get hold of.

MYRIAM MADDEN: Thank you.

AKSHAY KAUL: Myriam, any supplementary questions from you?

MYRIAM MADDEN: No, I think that was a very comprehensive answer. Thank you.

AKSHAY KAUL: Very good. I'm going to take a stakeholder question now and then go back to the panel for further questioning. Mark, this is a question that comes from Citizens Advice who are asking that you, your company, is focused on hydrogen injection into your network as a route for net zero, but they feel that NGN does not appear to have fully considered other options, such as heat pumps, to create a more balanced view. Can you provide evidence today that you have considered the whole system implications of the full range of credible decarbonising heat scenarios in your business planning? I link this particularly I think to the point that Bob was making to us at the end there on the repex programme and the expenditure into the gas network, trying to get the right balance between preparation for the future and value for money for customers now.

MARK HORSLEY: That's a great question, actually. I'm probably one of the strongest – there's probably been a breakdown in communication because I'm one of personally and NGN is one of the strongest advocates for a total system approach. We established a test centre in Newcastle, a place called Low Thornley, which is in partnership with Northern Powergrid, Northumbrian Water, 3 Telecom, so we are great acknowledgers that there isn't a golden thread, there isn't a silver bullet for the decarbonisation of heat, and hydrogen hopefully – and I am really confident – will play a significant role in that, but it will not be a role that it can play entirely on its own. If you've got a new housing stock, for example, or areas where there is new build, then electricity may well be a relevant solution to that. I think it is really important that there is a balanced portfolio. Whether it's going to be nationally driven or locally driven is a question because I think there's a debate to be had - we have seen already that in the pandemic – as to whether we should be considering going into the future more local energy plans, which then will effectively bring a total system approach in. What we're doing as the gas networks and Gas Goes Green is looking at having some form of low carbon obligation that is totally energy agnostic because we believe that is the right route to take. So it could be an electricity solution or it could be a gas solution.

On the question of repex, and I remember having this debate in 2013 about the repex programme and I still see this personally as a strong UK asset. There's a huge amount of interest. I have got a conversation with the Japanese embassy through the Japanese gas distribution business in three weeks' time, really about what the UK is doing and the projects that we've got in train with Gas Goes Green, and I'm really proud of what the industry is doing in this. We've got companies, we have got the H100 with SGN, we've got the HyNet with Cadent, we have got the Keele University with ourselves and Cadent, we've got Wales and West concentrating largely on that type of mix between gas and electricity. I think the gas sector is really taking a step forward to look at this as a holistic approach and a total power system approach. I think if we get this right and we get the signals from government right, I think we've got a great opportunity over this next five years to get the foundations for a very, very strong UK policy on heat. We're hearing the Prime Minister talk about all energy in houses by 2030 will be powered by electricity.

It's a great aspiration. We also see with the wind generation there's an opportunity there to recycle the constrained energy and convert that into hydrogen. That conversion into hydrogen could be blended into the gas networks, so there are win-wins all around on this, not just at the domestic end but the industrial, power generation and transport. I think the total system approach, if that hasn't come out from ourselves, I apologise, because that is the really strongest – that's our strategy, effectively.

AKSHAY KAUL: Thank you, Mark. I'm going to take another question, this one from Sustainability First, who are saying that you are clearly a frontier company on cost efficiency, but their reading of the Challenge Group's report found that you were not the frontier company on environmental performance and net zero. Should you not aspire to become a frontier on this area as well?

MARK HORSLEY: That's another great point and I think we have revisited a number of areas. I hate the thought of us not being at the frontier for anything, but the environmental piece I feel incredibly passionate about and I suppose that was a direction of travel with what we were doing on hydrogen was really to use that as our case for it. But we put some great things into the plan in terms of – the things that are not necessarily what you would expect from a gas network, planting several hundred thousand of trees to create that. We've got two hydrogen fuel cell cars in our car park outside the office here. We have set ourselves a zero emission or hybrid fleet by the end of the next price review in terms of our non-car vehicle transport. We are demonstrating the use of compressed natural gas in our industrial fleet. So, we are really trying very, very hard, and I guess like any other business of the scale we are, we can't be best at everything, but our aspirations are always to be there. So, in answer to the question, if you looked in the DNA of the business and you looked at the DNA in the people in the business, it is about that environmental suit.

One of the strongest things that we've noticed by changing the way that we employ people and the age group that we employ, there isn't many old people like me anymore. There are lots of young people who really are incredibly, incredibly sensitive around this issue, and if I wasn't moving quick enough, I tell you, I would be pushed because we've got a young generation in this business who really do want to make this happen.

AKSHAY KAUL: Thank you, Mark. I'm going to return now to panel questioning and invite Michael Wagner to ask the next round of questions. Michael.

MICHAEL WAGNER: Hi there, Mark. Maybe just carrying on on the net zero theme, within RIIO we put in a number of mechanisms to make sure that it reflects as the policies run net zero become clearer as we go forward. I guess the question is, are there any areas of the price control framework that you would like to see further developed and specifically to support net zero?

MARK HORSLEY: I think the work we're doing at the moment and I think there's a piece of work – well, we know there's a piece of work, don't we, between us, ourselves as the network operators and that's right across gas and electricity in terms of looking at what those reopener mechanisms will look like. I think my plea earlier, and I think that's been genuinely acknowledged, is there are different mechanisms required probably for the different levels from between transmission

and distribution, purely because of the scale of the projects that we operate. Having been part of a transmission business at Scottish Power, they are long-term projects, and in the gestation period you don't need to rush out the door; it can be anything to two or three years by the time you look at land and all the rest of the things that you need to do. On a distribution business, sometimes we're making decisions on a daily basis, and things will move very quickly, and I think if we get a sensible approach to the reopener mechanisms and we have a clear line of sight between the companies and Ofgem, and that's obviously linked with government policy, I think what we're talking about at the moment can work.

I've heard the comment this morning did we put possibly too much into the reopeners. If the reopeners work well, I don't see any problem with those. I think it's about having the ability on both sides to react relatively quickly to those demands that are changing and I think we see that in the political world we operate in now, things will change very quickly and we'll see things accelerate very quickly and we just have to be ready for those, Michael. I think in general, if we can get those frameworks right, and let's be honest about it, if we can get the frameworks as close as we possibly can by FP, a price review isn't the closing of doors of things, you can work through those things to get them closed afterwards and work through.

I get somewhat frustrated when we talk about the five-year and eight-year periods. There is a dialogue that can be had any time throughout the period and I think if you have that dialogue continually, then we can make those things happen. If there is a willingness on both sides, we've seen some things, haven't we, in the pandemic and we saw about the work that Ofgem and the networks did with the supply liquidity. That was done in record time in my view. So, if we can do that, if we can have that sort of impetus and have that line of direction, there's no reason why we can't move ourselves because we can't design something today that may not be fit for tomorrow in two years' time or even two months' time, so I think we've got to have that flexibility.

MICHAEL WAGNER: Thank you.

AKSHAY KAUL: Thank you, Michael, and thank you, Mark. Let me move on to Jessica for the next round of questions.

JESSICA FRIEND: Thank you. Thank you for your presentation, Mark. You mentioned the CMA provisional findings on WACC, but then you focused on one element of that which was the cost of equity element. Do you accept then that on the cost of debt element there could be water sector specific reasons for the CMA's provisional findings there?

MARK HORSLEY: It's hard for me to comment on that specific element of it. I think everything we have in the outturn of this has got to be taken in the round. I think we could debate probably – I could have a view. Equally, you could have a view on where each of these elements should sit. I think that's really between the companies to decide how that lands. I think the overall thing to me was, as it always is in price reviews, is to get a balanced approach, and people can argue whether certain sectors are more risky than others, other sectors has debt been acquired in an efficient way in the past, all the debates that go round those things. I think you can have a point of view, but I think from where we're sitting what we see from the CMA is a more balanced reflected outcome. I understand what Roger

said earlier about whether we should be driving those to a point that is so low. I also think we have to make – I take Roger's point about investors and whether they're encouraged to be in the UK. I think we are coming into a period now in the UK where foreign overseas investment and UK investment in itself is going to be incredibly important and just getting that balance right. The difference of the bill from where we were to what it potentially could be if you took the CMA is still a very significant reduction in the bill. We just have to be careful – and this is just experience speaking – that we get too hung up on splitting the atom in certain areas. I know it's probably more a generalistic answer than a specific answer, but I think it is a general answer ultimately what that return looks like and I think after you get that headline number, that's what you work with. That's probably my position on it.

JESSICA FRIEND: Thank you.

AKSHAY KAUL: Thank you, Jessica. Let's now just take a round of questions, if any, first from Roger, the Challenge Group. Roger, are there any questions you would like to ask Mark at NGN after hearing his presentation?

ROGER WITCOMB: No, I don't think so, thanks very much. It was a very clear presentation and I think a very clear setting-out of NGN's position.

AKSHAY KAUL: Very good. Let me turn to Jenny next. Jenny, are there any questions you would ask in challenging Mark on his presentation?

JENNY SANDERS: I think I would like to hear Mark say what, of all of the potential changes he'd like to see by final determination, is the key change that you think would benefit customers most and is most in line with what you've heard from all the stakeholder engagement?

MARK HORSLEY: I'll take away all the financial stuff that we talked about, and a passionate answer to this and one from the heart would be a greater recognition of some of the things that we put in for our customers in terms of the benefits we would bring, and those are the commitments that we are going to make that were nil cost and really focus – you know, we've got to get a balance. There's lots of conversation around the financial, of course that's really important, but at the end of this is our customers and what they want from us, and I think as well as the bill reduction, customers want a value service and something that they feel they cherish, and we have seen that in a number of conversations that, Jenny, you have had and when I presented and talked with your team at the CEG, and I think a stronger recognition of those areas would be really, from my point of view, probably the most heartening part of it. Let's take away all the financial parts of it, but from a customer point of view I think that is really incredibly important that those get reflected. I've heard this morning from Akshay that that work has been or is being relooked at. I think really nothing more than that to say, Jenny.

JENNY SANDERS: Thank you.

AKSHAY KAUL: Thank you, Jenny. Mark, can I just ask you about Roger's point in respect of reputational versus financial incentives. You as a frontier company, do you think it is right for the Challenge Group to worry that you won't take the reputational incentives as seriously if you are in a tough financial situation?

MARK HORSLEY: Morally I couldn't say that we would not take those – we have to take those seriously. We've done a huge amount of stuff this last eight years that it's never had a pounds and shillings – that shows my age, doesn't it – it's never had a pound note attached to it. We have done it because it's the right thing to do and as an organisation, any organisation, we always look to do the right thing for our customers. Obviously, I even had a conversation – I won't say who it was with but it was something that I was really desperate for us to do, but it was going to be outside our financial ability to do it going forward on the basis of the settlement as it stands now, and really then we have to trade off those options, and some of the things that we may have been wanting to do we won't be able to do. It's like everybody else, there isn't a money tree out there for us, so obviously there will be trade-offs if the financial position is tighter.

AKSHAY KAUL: Very good.

MARK HORSLEY: But not a desire.

AKSHAY KAUL: Understood. I see there are no further stakeholders' questions, so I'm going to take the final round of questions from the panel and then hand over to our CEO, Jonathan, for closing remarks. Starting with our Chairman, Martin, any final questions for Mark?

THE CHAIR: A question based upon what Roger said about the difference versus expected allowed returns. If it's the case that there has been persistent over reward, if there is a reason to believe that the reason for it is that the regulator knows less than the companies, so information is asymmetric, what would one do in those circumstances? If it's very difficult to resolve that problem, would it be right in your opinion for the regulator just simply to throw up his hands and say, well, this is an insoluble problem, it's just going to go on and on forever, or should we be casting around for some mechanism to deal with it?

MARK HORSLEY: I go back to my point about I think the information is there, Martin. I think it's how it's used. Let's take it back to the history of 2013, we had an initial proposal that had a clear differentiation between the companies who had performed well and hadn't performed well and there was a massive sea change between draft determination and final determination that brought more or less companies to an equal pegging. If the draft determinations had been held back in 2013 – well, 2012 at that time, July 2012, actually, I don't think we would have seen the same issue arise. It is about getting the numbers right and that's why I really don't support the outperformance wedge, and I carefully chose my words and put them in inverted commas, I think you've done a damn good job of nailing those areas, and I think that's why there has been such a positive dialogue between ourselves and yourselves from draft to this position because you've nailed it into the ground. What we've done now is rebuilt that with better evidence, and if the better evidence can't be provided, then there will be no change at FP. So in any commercial negotiation, hold your ground until you see clear, unequivocal evidence to suggest that it is wrong, and I think in 2013 that wasn't the case and I think this time it is the case. That's my belief. Then going forward, as I mentioned earlier, use more of the available data on an annual basis to manage these as contracts and get that intimate knowledge, because, quite frankly, you should know as much about the businesses as we do going forward. I can sense from the conversations

we've had with Akshay and Jonathan that there is a strong willingness to do those things and the things we've said about our SAP HANA4, the information will be there and as a regulated entity we will share that information because you have the right to it and you see it every year. I think I would prefer it to be in that statement, and I think you have done that job at draft. You're talking to the businesses now and it is happening, and then use that as the mechanism.

AKSHAY KAUL: Thank you, Mark. Jonathan, any final questions?

JONATHAN BREARLEY: No.

AKSHAY KAUL: Myriam, any final questions?

MYRIAM MADDEN: No.

AKSHAY KAUL: Michael, any final questions?

MICHAEL WAGNER: So, Mark, at the beginning you were talking about the efficiency challenge that we'd set you and some criticisms of that. Do you accept that it is appropriate for the RIIO framework to expect even an efficient company to continue to drive productivity gains over the price control period?

MARK HORSLEY: Yes, I do. It's the level that I'm talking about. Of course I do. I mean, that's the incentive, isn't it? But it's understanding that position, starting position, if you're at the frontier versus a company that isn't at the frontier and then the level of productivity expectation. So, yes, I completely agree with that, Michael.

MICHAEL WAGNER: Thank you.

AKSHAY KAUL: Finally, Jessica, any final questions?

JESSICA FRIEND: Nothing else from me, thank you.

AKSHAY KAUL: Very good. In that case, let me hand over now to our CEO, Jonathan Brearley, for closing remarks. Jonathan.

JONATHAN BREARLEY: Thanks, Akshay. First of all, can I just say thank you to everyone who has participated in this, particularly to Mark and the NGN team, to the Challenge and Stakeholder Groups and of course to the Ofgem team, both for setting this up and participating but equally for all the hard work that is going into the price control. Equally, I would like to say thank you to all the stakeholders who dialled in today, and just to reinforce that your feedback is incredibly important to us as we move towards final determinations.

Before I go any further, there is one thing I want to put on public record and that is that Mark's comments on his advanced age are massively overblown, and he is far fitter than many of us on this group, including myself, so I want everyone to be aware of that and to know that, so knowing him very well I just want you to know that is the case.

Before I do conclude on this, I do want to reiterate some things Martin said about the price controls in general. We know these price controls are going to play

a critical role in supporting the green recovery and helping the country hit net zero at lowest cost to consumers. I really do believe there is strong consensus on the strategic direction these price controls should take. Specifically, lower returns, greater efficiency and a recognition from all of us, including Ofgem, that we will need more investment to get towards net zero. Equally, I recognise that in the conversations we are having we differ on the extent of that change. Since our draft determination, we have received more evidence from companies and stakeholders and we look forward to working with them and actively considering this evidence in the coming months.

From what we have heard here, there is a lot that I think we have that is consensus, so I think everybody desires a price control that does differentiate and recognise the different progress that different companies are making, and I would like to say that we do understand the progress that NGN has made over the last eight years, both in terms of data and in terms of workforce development. Equally, there is strong consensus here on net zero and green recovery and the use of uncertainty mechanisms to allow the price controls to adapt as they can.

Further to that, there are some areas we clearly need to work together, so, for example, we've talked about the extra engineering evidence we've had around repex and that's something we will consider, the customer value propositions and the vulnerability statements the company have made. Equally, there is a job for the regulator and for all companies, including NGN, to make the net zero reopener work. Finally, one thing that Ofgem is hoping to build on is better use you have data and information as we go forward, and the conversation we've been having between Ofgem and NGN on that is something that's absolutely welcome.

There are clearly some areas of big debate and I won't reprise the detail, but we will have a debate around cost of capital. I note the Challenge Group's comments and NGN's comments about the overall level, but equally about the wedge itself, and that is something that we will consider towards final determination, and of course in any price control the conversation around productivity and efficiency is one that's important and one that we need to have together.

Moving forward, a couple of things. Thank you to everyone who has participated. We do have an online feedback survey, so you will receive that in a follow-up email. Please do fill these out. These are the first time Ofgem have attempted this and, equally, we are doing these in the current circumstances, so there obviously are challenges, but we would appreciate any comments you have on the day. Finally, we are recording today's session and there will be transcripts of all meetings available on our website at the end of the Open Meeting series.

Finally, I would like once again to say thank you to all of you for coming to these meetings. Your voice in the heart of these price controls is incredibly important and, as I mentioned before, that will form a full part of our final determination.

Thank you very much and I look to close this session.