

Northern Gas Networks (NGN) Customer Engagement Group (CEG)

Terms of Reference

1. Introduction

In 2018, Ofgem set new requirements for network companies with the aim of supporting further improvements in engagement with their stakeholders to ensure companies' plans for the future are aligned with consumer needs in a rapidly changing world. As part of this, NGN (along with other distribution businesses) was required to establish a Customer Engagement Group (CEG) to challenge its RIIO-2 business plan.

Within its business plan for RIIO-2, NGN committed to an enduring role for the CEG as a key part of its ongoing Stakeholder Engagement Strategy.

The CEG is anticipated to be in place until at least the end of the RIIO-2 period April 2026. This will cover:

- Assessment of NGN's preparations prior to the start of RIIO-2
- Monitoring of NGN's delivery of commitments during the RIIO-2 period
- Development of NGN RIIO-3 business plan; and
- Ongoing engagement with relevant regulators, including OFGEM open hearings on companies' business plans and any appeals to the Competition and Markets Authority (CMA).

These Terms of Reference have been developed in lieu of Ofgem guidance on the role of Customer Engagement Groups following the RIIO-2 business planning process. They may extend based on further guidance from Ofgem or changes to business requirements, by mutual agreement.

This Terms of Reference sits alongside other CEG governance documents:


- **Target Operating Model:** detailed 'operational handbook' for how CEG will work in practice;
- **CEG effectiveness criteria:** these allow an assessment of how the CEG is set up and run; and
- **NGN Assessment criteria:** these form the basis for the CEG's assessment of NGN's performance in its preparations for the start of RIIO-2, delivery during RIIO-2 and development of the RIIO-3 business plan.

2. Scope of CEG activities

Assessment of NGN's preparations prior to the start of RIIO-2

The CEG will provide challenge on whether Northern Gas Networks' (NGN's) is preparing adequately to be able to deliver the commitments set out within the business plan for RIIO-2, including the degree to which the needs and preferences of stakeholders are being addressed in these preparations.

The focus of the CEG will be on the following NGN Readiness Workstreams:

- Transforming back office systems; the rollout of S4Hana to replacement, connections, emergency and reinstatement, alongside training and cultural change
 - Enhanced Social Commitments; the design and preparations for new social commitments that go above and beyond commitment in RIIO-1
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- Whole Systems Programme; the development of a detailed programme for delivery of the Whole Systems Strategy and clear plans for re-openers linked to whole systems
- Bespoke Environmental outputs; preparations to exceed the new environmental commitments set out in the RIIO-2 Plan
- New Innovation Landscape; development of new partnerships for match funding and establishment of a new innovation programme management framework;
- Responding to business plan changes; the business' activities to manage risks/opportunities in the business plan processes;
- Costs; the business' approach to managing risks/opportunities in relation to costs sets out in the business plan.

The CEG will provide challenge on whether Northern Gas Networks' (NGN's) business plan addresses the needs and preferences of consumers.

Monitoring of NGN's delivery of commitments during the RIIO-2 period

During the RIIO-2 period, the CEG will challenge NGN on performance against the promises set out in the Plan and the business' responsiveness to changing consumer needs.

The focus of the CEG will be on the following areas (list not exhaustive):

- Performance against key commitments in the plan
- The quality and inclusiveness of NGN's engagement
- How effectively the business has embedded engagement into business decisions and culture, and
- Performance in delivering strategic and operational changes in response to, and in partnership with, stakeholders

Development of NGN RIIO-3 business plan

The CEG will provide challenge on whether Northern Gas Networks' (NGN's) business plan addresses the needs and preferences of consumers.

The focus of the CEG will be on the following areas (list not exhaustive):

- NGN's overall priorities and approach, e.g. at a strategic level does NGN understand the range of changes happening within and to the energy system that could impact its activities?
- Proposed outputs and associated total expenditure ("Totex") budgets (including level of cost efficiency improvements) for example has NGN demonstrated whether its proposals for expenditure efficiency/service quality improvement are sufficiently stretching? What evidence has NGN 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?
- Quality of stakeholder engagement NGN has undertaken to inform their proposals, including whether their business plan proposals demonstrate value for money by taking account of any willingness to pay for research.
- Approach and support provided to vulnerable consumers.



- NGN’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 NGN has considered to anticipate future network requirements and NGN’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 NGN considered, including from parties offering alternative and non-network-based solutions?
- Any issues of particular relevance to NGN’s local region – including any significant investment choices- and provide challenge to decisions made by NGN when considering competing interests and perspectives.

The scope will be modified and agreed following ongoing guidance from Ofgem.

3. Exclusions to scope of CEG activities

The CEG will not be responsible for designing and running NGN’s programme of stakeholder engagement, or for demonstrating that this has been done well- this remains the responsibility of NGN itself. The CEG will not have decision making powers and is not expected by Ofgem to jointly ‘own’ the business plan.

The CEG will not discuss or review financial topics, such as the cost of capital, treatment of debt or the level of gearing in NGN.

4. Accountability

Each CEG member is expected to provide independent and constructive feedback and challenge, based on their expertise and insight, during the development of the RIIO 2 business plan.

CEG members do not represent an organisation or any one consumer group.

Whilst being independent from NGN, CEG members will comply with the company’s standard policies on anti-corruption, privacy and data protection and confidentiality policies.

In the context of their work scrutinising NGN’s RIIO 2 business plan, CEG members are accountable to NGN consumers and wider stakeholders for their decisions and actions and should act solely in the public interest. This is enshrined in the CEG Code of Conduct, based on the 7 Nolan Principles:

Principle	Description
Selflessness	CEG members should act solely in terms of NGN’s consumers and wider stakeholders.
Integrity	CEG members must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.
Objectivity	CEG members must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias



Accountability	CEG members are accountable to NGN consumers and wider stakeholders for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.
Openness	CEG members should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.
Honesty	CEG members should be truthful.
Leadership	CEG members should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

5. Make up of the group

The CEG is formed of professionals from the public, voluntary, academic and commercial life with experience in the following sectors/groups:

- Innovation and the future of energy
- Environmental improvement and decarbonisation
- Public policy
- Finance and commercial strategy
- Understanding of regulatory policy and regulatory framework
- Social inclusion and fuel poverty
- Stakeholder engagement
- Asset management

6. Quorum/ attendance

For a meeting of the CEG to be considered quorate, five members (including the Chair) must be in attendance. CEG members can attend by teleconference if they cannot attend the meeting in person but will not be allowed to send stand-ins to meetings. In the event that the Chair cannot attend a meeting, members of the CEG will appoint a designated Chair.

7. Work programme

A work programme will be designed to enable the CEG to fulfil its role and will include;

- Bi-monthly CEG meetings;
- Attendance at NGN stakeholder engagement events; and
- Engagement with Ofgem.

More details around practical arrangements for providing input, feedback and challenge through these channels are set out in Section 3 the Target Operating Model [\[link\]](#).

Outputs from the CEG will include annual assessment reports based on a set of criteria

In this report, the CEG will highlight areas of agreement and disagreement, including how NGN has responded to challenges raised. The report will also highlight any areas of disagreement within the CEG and will provide Ofgem with visibility of a range of views and the choices NGN has made. It will also provide Ofgem with independent evidence that it can consider in its assessment of NGN's planning and delivery processes.



In addition, the CEG will maintain a set of CEG effectiveness criteria. This provides evidence that the CEG has been set up and run to Ofgem requirements, thereby giving Ofgem confidence it can trust the CEG's assessment. The criteria cover the following areas:

- Is the CEG set up and run independently?
- Is the CEG providing rigorous challenge?
- Is the CEG challenge impacting the business?
- Are the CEG reporting in line with Ofgem requirements?

The detailed criteria for RIIO-2 are set out in an accompanying document [link].

The CEG will review the effectiveness criteria periodically, and a CEG effectiveness dashboard will be updated by the CEG Secretariat (see 'Relationship with NGN') section below.

8. Relationship to key parties

It is important that the Chair and CEG members are, and are seen to be, independent from NGN and/or Ofgem. The risk of independence from NGN being compromised is real, particularly given the high level of contact between NGN and CEG members. To build trust and legitimacy, appropriate governance arrangements have been put in place to ensure transparency and to provide assurance that the CEG is operating at arm's length from the company and are not employees of NGN.

9.1 Relationship with NGN

NGN is responsible for recruiting the Chair of the CEG.

As well as providing an appropriate remuneration package for the CEG Chair and Members, NGN is responsible for supporting the work of the CEG. To do this, NGN has provided a dedicated resource ('Secretariat') to the CEG Chair to assist with the running of the group¹.

In order to ensure that the CEG remains independent of NGN, specific requirements which should be adhered to have been developed. These cover:

- Development of forward work plan;
- NGN attendance at CEG meetings;
- Information requests for NGN; and
- Feedback to NGN management and Board.

More detail around these requirements is provided in Section 2 of the Target Operating Model.

9.2 Relationship with Ofgem and Consumer Challenge Group

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

- Organising regular CEG user Group and CCG Chairs meetings –to share information and learning;

¹ This includes ensuring papers are collected and circulated on time, assisting the chair with any meeting requirements, ensuring the correct attendees are present at each meeting, recording the minutes, and recording actions, information requests and feedback.



- Providing a point of contact for CEG Chairs to use, and make itself available for bilateral engagement;
- Keeping its 'Enhanced Stakeholder Engagement Guidance' up to date as appropriate;
- Providing guidance to the CEG on the required content of its report; and
- Identifying and sharing good practice as required, so the CEG is clear of the benchmarks against which they can assess NGN.

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.

OFGEM's assessment of the network companies is supported by an independent Consumer Challenge Group. The CEG is required by Ofgem to maintain regular contact and share information with the CCG.

10. Termination

Members may be removed from the Group by the Chair immediately by notice in writing if they have:

- Failed to provide the Services for a continuous period of 12 weeks; or
- Committed any serious breach (in this instance, termination will be at the request of the Chair) or repeated or continued (after warning) any material breach of the Terms of Reference;
- Been guilty of conduct tending to bring themselves, the Company or any Group Company into disrepute; or
- Failed to discharge their duties efficiently or diligently.

I can confirm that I have received and read through the Terms of Reference (ToR) and that I will comply with them.

Name Date.....

