

Northern Gas Networks Customer Engagement Group (CEG)

Terms of Reference

1. Introduction

For RIIO 2, Ofgem wants to see further improvements in engagement between network companies and their stakeholders to ensure companies' plans for the future are aligned with consumer needs in a rapidly changing world. It is therefore introducing different models of stakeholder engagement for RIIO 2. As part of this, NGN (along with other distribution businesses) is required to establish a Customer Engagement Group (CEG) to challenge its RIIO 2 business plan.

The CEG is anticipated to be in place for the two-year term ending in September 2020. This will cover:

- Development of NGN RIIO 2 draft business plan;
- Assessment of business plan; and
- Ofgem open hearings on companies' business plans and any appeals to the Competition and Markets Authority (CMA).

It may extend based on business requirements, or changes to Ofgem's timetable, 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 whether the CEG is set up and run in accordance with Ofgem requirements outlined in its 'RIIO 2 Enhanced Stakeholder Engagement Guidance'; and
- **Business Plan effectiveness criteria:** these form the basis for the CEG's assessment of NGN's business plan.

2. Scope of CEG activities

The CEG will provide challenge on whether Northern Gas Networks' (NGN's) business plan addresses the needs and preferences of consumers. Based on this challenge, the CEG will provide Ofgem with a report detailing their views on NGN's plan (see Section 4 for more information about the report).

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.

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 company submits.

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, whilst being independent from NGN, 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. 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.

6. Key tasks

The primary role of the CEG is to input, challenge and feedback on NGN’s developing business plan. This will be done through:

- 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].

The output from the CEG will be an **independent report** to both Ofgem, and to the RIIO-2 Challenge Group (see ‘Relationship with Ofgem’ section below). This will be submitted alongside NGN’s business plan. In developing its business plan, NGN will share early versions with the CEG and receive and address comments in subsequent iterations. The report the CEG produces will inform Ofgem’s assessment of the NGN business plan.

In their report, the CEG should highlight areas of agreement and disagreement, including how NGN has responded to challenges that have been raised through this process. The report should also highlight where there is disagreement amongst CEG members. This gives Ofgem visibility of a range of views, and the choices that NGN has made. The report will provide Ofgem with independent evidence that it will consider in its business plan assessment.

The CEG’s assessment of the NGN business plan is based on a set of evaluation criteria. These criteria will cover:

- Each output area of NGN’s business plan; and
- The plan as a whole document.



The criteria will consist of:

- A common set of criteria to be applied across all output categories;
- Specific criteria to be applied to each output category;
- Criteria to be applied to the business plan as a whole.

More details around the business plan criteria are set out in the separate Business Plan Evaluation Criteria document [\[link\]](#).

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 plan?
- Are the CEG reporting in line with Ofgem requirements?

The detailed criteria are set out in an accompanying document [\[link\]](#).

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

7. 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.

7.1 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 seconded 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 and development of business plan.

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.

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

The Chair’s contract keeps them in position at least until Ofgem has issued its draft determination. During this period, Ofgem do not expect the company to be able to dismiss the Chair without first notifying both it and members of the CEG. Ofgem expects 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.

7.2 Relationship with Ofgem

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 Chairs meetings –to share information and learning;
- 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 will also establish the RIIO-2 Challenge Group. This group will receive and provide feedback on early drafts of business plans, to allow companies to update their plans before final submission. It will also provide an independent report to Ofgem following their scrutiny of each Company’s final business plan.

8. 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 6 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.....

