



# CEG

Customer  
Engagement Group

## NGN CEG Report

### 2020/21

June 2021

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# 1. Contents

1. Introduction, Purpose and Summary	2
2. GD2 Regulatory Processes in 2020/21	4
3. CEG Interim Remit and Work Programme Summary for 2020/21	5
4. Assessment of NGN's Readiness for GD2	7
5. NGN CEG Future Remit and Work Programme	14

# 1. Introduction, Purpose and Summary

## 1.1. Introduction to the 'Interim' NGN CEG

The original members were appointed for a period that extended 6 months beyond the submission of NGN's Final Business Plan to Ofgem at the end of December 2019. This was to enable us to respond to any queries from the regulator and address any additional requirements as part of Ofgem's new Enhanced Engagement programme.

This report relates to work that has taken place during the final year of GD1. The challenges facing NGN in seeking to deliver its work plan commitments for that period, whilst also dealing with the impacts of Covid-19, are well recognised. We also note the concurrent complexities of forward planning for GD2 and completing negotiations with Ofgem. We are, therefore, grateful for the continued levels of positive engagement with the senior management team and the secretariat they have provided for the group.

Two of the original members left the CEG for personal reasons (September 2019) and work commitments (February 2020). Once a continuing role for the group was agreed, two new members were recruited through a fully transparent public process. This allowed the CEG to strengthen the group's understanding of hydrogen developments, whole systems design and the needs of industrial customers.

The group continued to meet regularly, but on a bimonthly (rather than monthly) basis. We have also continued to attend stakeholder events, receive and review specialist research reports, and to engage with Ofgem.

We set for ourselves some new effectiveness criteria for this period, which for the most part we consider have been met. These are set out in section 3 of this report.

## 1.2. Purpose of the Report

This report sets out how we have worked during an interim period when there was no clear mandate from Ofgem. Its purpose is to achieve transparency in how we have developed and undertaken our role on behalf of stakeholders and customers.

We highlight the extent to which NGN has met its GD2 'readiness' targets. We also consider how it has responded to the complexities faced in developing its plans, so they would be ready to roll out from the start of GD2 on 1 April 2021. The CEG's 'challenges' were drawn from a range of issues flagged in our report to Ofgem (December 2019). Focus was placed on those that we felt NGN would need to address as it developed its more detailed delivery plans.

We hope that this report will provide:

- additional transparency and clarity on how NGN has developed programmes,
- a view on how NGN's plans have been further shaped through customer engagement and,
- a view on how well-prepared NGN's delivery routes are by the start of GD2.

It should be noted that we have not commented on the major asset replacement programme, but have focused on areas where customer and stakeholder input has been more critical and could have more influence on delivery.

## 1.3. How to Read this Report

We have endeavoured to make this report brief and accessible. Where appropriate we have included links to information that has already been made

public on our website. Detailed logs have been maintained of the evidence we have seen and the responses to our challenges which we are happy

to make available to Ofgem. Whilst we wish to be transparent in our work, we are also mindful that there has been no regulatory mandate for this period, and that this report has been produced of our own volition.

Our scrutiny has focussed more on operational readiness and, whilst it has also entailed the

## 1.4. Intended Audiences

We have written the report so that, in addition to NGN, Ofgem and their national Challenge Group, it is accessible to a range of interested stakeholders. During the course of its business planning process for the price control period running 2021-2026, NGN reached out to over 29,000 stakeholders from a wide range of backgrounds, age groups and locations. A further 163,000 customer voices were heard through GD1 engagement and feedback processes. We consider that it is important that those thousands of organisations, individuals and customers can see how their views have shaped NGN's work for the next 5 years.

## 1.5. Summary of Findings

- NGN has responded positively to all of the initial 44 and 4 subsequent challenges we raised.
- Systems and process changes have been developed that will allow for improved engagement, higher customer service standards and improved data capture.
- From the evidence provided, we consider that NGN is well placed to start to deliver on all of its GD2 commitments where there has been no change of policy (We will discuss later how any policy uncertainty has been considered and managed during the final year of GD1).
- Where projects will not come on stream at the start of GD2, we have pushed for milestones to be set out within a delivery plan.
- We understand that there are partnership contracts in place to deliver the social outputs and new procurement processes to align environmental commitments down the contracting supply chain.
- We are aware that innovation, hydrogen and whole systems programmes that depend on

monitoring of stakeholder engagement plans, there is a separate audit of stakeholder engagement activities for the last year of GD1 undertaken by SGS consultancy for Ofgem's Stakeholder Engagement Incentive Scheme. As part of that process, the work of the CEG was observed and has been described as representing best practice in stakeholder engagement.

Many key stakeholders continue to be engaged with NGN on how different commitments and initiatives will be delivered. We understand that they are actively involved in working groups, Citizen's Juries comprising different customers segments, the Innovation Think Tank and specialist sector groups including many that work with vulnerable customers. Over the past 15 months we have seen that their views have been feeding into the design of delivery projects and improvements to company systems and direct interface with customers. We believe that this should continue in the future.

significant third-party funding as well as clear policy commitments at a regional scale, have evolved in recent months. We have witnessed additional resource allocation to work with partners, particularly following the publication of the UK Government's 10 Point Plan for a green Industrial Revolution which placed a focus on hydrogen. We remain concerned that the decarbonisation of domestic heat is a major challenge for the nation, not just the GDNs and associated industries. These themes will become ever more important for NGN which has now produced a new vision for hydrogen production and deployment across its region. We would wish to see a more joined up approach both in the region and nationally given the number of disparate and potentially competing initiatives. There is an opportunity for NGN to collaborate on whole energy systems changes as the electricity network companies develop proposals for their next price control period under ED2.

## 2. GD2 Regulatory Processes in 2020/21

The CEG is producing a separate note on any impact the Final Determination and Licence Modifications will have on the Business Plan. We will also monitor the progress of the Competition and Markets Authority (CMA) appeal process as it impacts stakeholders and customers. However, we set out below a brief update on the regulatory processes for GD2 during 2020/21

Following the submission of NGN's Final Business Plan submission to Ofgem in December 2019 there has been a process of further scrutiny and assessment of the proposals as part of Ofgem's enhanced engagement programme. The CEG's report was used to inform Ofgem's decision making. Ofgem issued its draft determination on the companies' plans on 9 July 2020. Ofgem did not agree to a number of the proposals. Most of the proposed bespoke outputs had been disallowed, although many were combined into some new common outputs.

In our 2019 report on the Business Plan, we found that stakeholder views and preferences had for the most part been reflected in NGN's proposals, although we highlighted a number of areas that we felt required further investigation. Some of these were drawn out for discussion in an Open Meeting (virtual) conducted by Ofgem where NGN was invited to raise issues where it disagreed with Ofgem's draft determination and where stakeholders could also raise issues for Ofgem to consider further. Originally planned to inform draft determination, these open sessions were repurposed and pushed back until after Ofgem had published their draft determination and were used to inform their final determination.

The NGN Open Meeting focussed on issues that had been raised by the CEG, by the national Challenge Group which had oversight of all of the companies' plans, and also by stakeholders who had been invited to submit questions in advance of the session. NGN chose to challenge Ofgem on its decisions around the rewards it had made for efficiency levels, customer value propositions and the wider Business Plan incentives. Separately, NGN had also raised concerns about the financial methodology which falls outside the scope of our work.

Following the Open Meeting there was ongoing dialogue between NGN and Ofgem to which the CEG was not party. This is understood to have principally been to check detailed costs and the application of Ofgem's methodology.

The Final Determination was released on 8 December 2020 and this saw some shift in the scale of the Repex and Capital programmes, RII0-2 allowances and allowable costs.

However, the proposed financial methodology was not fundamentally changed and on 3rd March 2021, NGN submitted an application for permission to appeal its Final Determination to the CMA, along with all of the other GDNs and Transmission companies some of which have been made on similar grounds. On 31st March 2021 the CMA granted permission for NGN to appeal its Final Determination. The Statutory Deadline for the CMA to publish its Final Determination on the appeals is 30 October 2021. This includes the maximum extension of one month which the CMA has applied.



# 3. CEG Interim Remit and Work Programme Summary for 2020/21

## 3.1. CEG Remit for 2020/21 and Effectiveness Criteria

The remit of the group for this interim year was set by the CEG in consultation with NGN.

Both parties agreed that there was merit in providing continuity during the 15 months between submission of NGN’s Final Business Plan to Ofgem and the start of GD2. We wanted to ensure that, during the decision-making process, the expertise and experience of the group was not lost. We have found that there is a steep learning curve for new CEG members, and we believe that continuity has provided an efficient way forward.

The revised interim CEG remit for 2020-21 is attached in Appendix 1. This was a voluntary agreement between NGN and the CEG. NGN issued new contracts to members in line with the revised function and reduction in the time required during this period. Ofgem did not seek to influence, challenge, or agree this.

Additionally, the CEG undertook monitoring of the ongoing stakeholder engagement programme relating to GD2. We wanted to understand whether Covid 19 had impacted customer/ stakeholder views on NGN’s proposals, and how their views were shaping the more detailed delivery programmes (particularly in relation the social and environmental programmes and innovation plan design).

In summary, we felt we could usefully review NGN’s readiness for GD2 given the number of system/ process changes it had proposed, and NGN’s recognition that a number of workstreams required

further development work. We also considered it important to seek to ensure that the specific issues we highlighted in our report on the Business Plan proposals were addressed and that we continued to engage with areas of the plan that we had influenced during the planning phase.

The effectiveness criteria we set for ourselves for this year would rely on ensuring the following:

- A clear remit during the period when there was no Ofgem mandate (Appendix 1).
- Necessary skills/experience (refresh of membership section 2).
- A clear operating model.
- Measurement of our success (see section 4 below).
- Delivery of outputs (report on Ofgem’s draft and final determinations, submission to the Open Meeting and this annual report on our activities and the NGN’s readiness for GD2).
- Demonstration of openness and transparency (website feedback from meetings/ submission for the Open Meeting/annual report/ongoing dialogue with Ofgem and chairs of other GDN CEG Chairs).

We believe we have fulfilled all criteria and this report is a summary of these. A total of 48 ‘challenges’ were recorded as needing attention before the start of GD2. NGN had itself designed a GD2 readiness programme divided into 7 main workstream areas. Our challenges mapped directly onto these workstreams and we comment below on each of these.

## 3.2. Work Programme Summary

The CEG met on a bimonthly basis and between sessions members took part in a number of discussions with NGN senior team members. We also held regular closed discussions without NGN being present. Additionally, we observed a number of stakeholder engagement events, providing feedback from each of these to both the full group and NGN.

As agreed with NGN, we had three presentations and discussion sessions on each of the workstreams listed below as well as a number of deep dive sessions on specific topics:

1. Back Office systems
2. Enhanced Social Commitments
3. Whole Systems Programme
4. Bespoke Environmental Outputs
5. New Innovation Landscape
6. Responding to Business Plan Changes
7. Costs

The initial presentation was designed to clarify how far each area of the workstream was progressing and how its readiness for GD2 was being developed. At this stage, the CEG was concerned with ensuring that the challenges were understood and that, given the remaining uncertainty until Final Determination, NGN was taking appropriate steps to develop delivery routes for its commitments.

The second session was to review how far stakeholder/customers’ views had been considered in developing the more detailed plans.

At the final session on each topic, the managers were expected to have reported fully on how they had met the challenges and the level of readiness achieved for the start of GD2.

Following each meeting, a subgroup of the CEG reviewed the responses received to our challenges and provided feedback on what further evidence we expected to see before closing each challenge. We also provided brief feedback on the CEG website of the topics we had explored.

At each meeting there were standing items on how NGN was responding to Covid-19 – including any immediate impacts and how longer-term impacts might affect GD2 planning and delivery. We also received reports on NGN’s stakeholder engagement plan activities, including research methodologies and findings, and an analysis of how these had influenced the detailed planning process and priorities.

Additionally, we continued to support Ofgem’s Enhanced Engagement Programme by taking part in a virtual Open Meeting. We collaborated in Ofgem’s evaluation exercise of the Groups to ensure we shared lessons we had learned to inform the GD2 enhanced engagement programme and any potential future remit for the Groups in RIIO 3.

# 4. Assessment of NGN's Readiness for GD2

## 4.1. Back Office

Originally there were 9 challenges flagged in our report relating to the development of new IT systems and processes. This important enabling work has been essential to develop both customer service improvements and drive further efficiencies within the business.

The specific challenges we raised related to:

- How the design of customer interface had been informed by customer feedback.
- Whether processes and systems were in place to support the resolution of complaints within 60 minutes – and more generally to help drive down the number of complaints
- Ensuring online booking for 2 hour appointment slots.
- Staff training.
- New procurement systems.
- How the IT systems were being protected from cyber threats and whether a back-up plan was in place in case of a catastrophic cyber-attack.

More generally, the CEG had challenged NGN on its reliance on developing its main operating system SAP S/4HANA to provide more bespoke systems. Investment in the software was made earlier during GD1 and during the past year the internal IT team within NGN worked with colleagues to design more efficient processes needed to deliver its enhanced customer service interface. A key concern for us was that efficiencies and cost savings to NGN did not result in additional costs and inefficiencies for its suppliers and customers. We focussed on how any new processes would be in line with delivering customer preferences and accessibility.

By the end of 2020/21 we had closed all of the challenges, whilst recognising that there is ongoing work throughout GD2 to constantly develop and improve the software and upgrade hardware and

also, importantly, to trial and test any changes with customers and suppliers. The most important feature is a new Customer Portal to increase online contact. Specific feedback on how the challenges were met are set out below:

### Customer Feedback on New Systems and Design

We have been informed that the new interface with customers has been developed for connections but this is intended to develop further into a Customer Portal for all services. In addition to the stakeholder engagement that had already been carried out and customer feedback forms, we understand that further customer views were sought this year via an online survey and phone calls on the way in which it might be used and the types of functionality. By the end of this year, the portal was continuing to be developed and the design was steered by both NGN staff and customers' wants and needs.

It is recognised that the development of the processes and systems changes has more generally been driven via an internal 'Future Ways of Working' team to ensure that operational imperatives were addressed.

### Staff Training

We heard that staff training in systems changes has been rolled out through a 'train the trainer' approach involving personnel from different departments who had been involved in the design of the new systems/processes. These champions are understood to have been on hand on a day-to-day basis to follow up any issues. We were informed that other training in softer skills was also rolled out under a company-wide competency framework to identify and refer on customers in vulnerable circumstances.

### Meeting Customer/Supplier Needs

We understand that major contractors have been using the new system over the past year. NGN has told us that their suppliers are satisfied with the Arriba SAP system, however it is not suitable for small suppliers and alternative systems are being used for them.

### Cyber Security

NGN's proposed expenditure on cyber security was not fully accepted by Ofgem but NGN is resubmitting further proposals to increase expenditure, which is a new accepted way of working between the regulator and the companies given the rapidly changing nature of the type and level of threat. We were advised that expertise is being drawn upon to ensure high levels of security to protect the network and customers data, and that a disaster recovery system is in place.

## 4.2. Enhanced Social Commitments

There was a significant increase in funding for customer vulnerability programmes announced in Ofgem's Final Determination compared to the original proposed allowances. UIOLI (use it or lose it) allowances were doubled, however all bar one bespoke outputs were disallowed which meant that NGN programmes were revisited with stakeholders over the course of this year. This remains a key area of work where we believe the CEG can continue to influence and monitor.

Eleven challenges were raised by the CEG around the development of processes, strategies and partnerships required to ensure delivery of NGN's ambitions, principally around the following themes:

- Capturing data to demonstrate impact.
- Aligning services with need.
- Detailed design of an enhanced Hardship Fund.
- Partnership agreements for programme delivery across the region.
- Deliverability of the stretch target for FPNES (Fuel Poor Network Extension Scheme).
- Improving internal processes to enable automatic enhanced compensation payments.
- PRS referral mechanisms .
- Customer and social competency framework.
- Detailed design of UIOLI projects.
- Implementing lessons learned from other companies.

We believe that NGN has made significant progress against all challenges as described below.

### Capturing Data to Demonstrate Impact of Enhanced Outputs

NGN has confirmed that it has systems in place for the new reporting required by Ofgem for all agreed GSOPs (Guaranteed Standards of Performance). Whilst all but one of NGN's enhanced bespoke outputs were rejected by Ofgem as warranting customer funding, NGN has declared that it wishes to retain the pledges it made to customers on delivering higher standards than those required under the GSOPs. The payment of increased levels of compensation will not however go ahead at the start of GD2 although NGN has committed to review this after the first year following encouragement by the CEG to retain its original commitment.

### Aligning Services with Need.

We understand that NGN has spent significant time engaging with social agency partners to focus the Hardship Fund and UIOLI allowances on the needs they have identified. The CEG reviewed the design of a new Customer Perceptions Survey that NGN plans to undertake on an annual basis to capture the views of stakeholders. We have been advised that any changing views will be used in an annual review of NGN's social programmes to

help reprioritise or refocus them to respond to changing needs. A range of new initiatives have been developed over the course of this year, including a new Social Mobility Pledge which commits NGN to diversifying its workforce through general recruitment and apprenticeships for young people in disadvantaged circumstances. Members of the CEG have actively taken part in workshops to ensure alignment of services with new identified needs, particularly those voiced by front line agencies working with vulnerable groups and communities.

### Hardship Fund Design and Delivery Routes

Four delivery partners have been contracted by NGN to deliver the outputs linked to a new Hardship Fund as set out in the final Business Plan. The £150k a year Fund was rejected by Ofgem as one of NGN's 'Consumer Value Proposition (CVP)'s whilst at the same time doubling the funding for social outputs under NGN's UIOLI allowances. Whilst some elements of the original outputs will now be delivered under UIOLI initiatives, NGN has confirmed its intention to retain the originally committed level of funding and we plan to monitor spend against need as part of our future remit.

We had a separate challenge around whether the Fund was sufficient to be impactful. We note that the longer-term impacts of activities supported by the Fund are still to be determined. With a much greater amount available via the enhanced UIOLI allowance we anticipate increased impacts across the range of NGN's social programmes and the development of meaningful metrics. NGN have also indicated they are seeking to work with a wider range of local stakeholders and have been actively exploring new partnerships.

### Achieving 2000 Connections Per Year FPNES (Fuel Poor Network Extension Scheme) Stretch Target.

Whilst NGN committed to 1000 FPNES connections a year, the CEG pushed NGN to agree to a higher number as a stretch target which matched its delivery during GD1. All GDNs are obliged to offer a free gas connection (where an economic test is met) to fuel poor households not currently connected to the mains network. Policy changes and uncertainty about some supporting programmes make attainment of its first target

difficult, although NGN is confident it has a delivery pipeline for the first year. The Government has indicated that its mandated energy efficiency and heating programmes would not support first time central heating for gas beyond March 2022. At the time of writing this report the position remains unclear, with the added barrier of new targets and incentives being promoted for renewable electric heating systems. Under the governance arrangements for the new scheme, NGN must assess what is in the best interests of the customer prior to extending the gas network up to properties. In the short-term gas heating running costs remain cheaper than other heat sources, but the Government is also reviewing how environmental and social levies that are currently placed on electricity bills might shift onto gas bills. This output area is subject to a policy reopener and we will monitor the position closely with the publication of a new Buildings and Heat Strategy from Government expected this autumn.

### Automatic Higher Compensation Payments

Ofgem rejected NGN's proposals to offer higher compensation payments for failure to deliver enhanced customer services standards, which was in line with customer preferences during the Business Plan acceptability testing. NGN has said that it will not offer these additional payments as planned due to a less than favourable financial outcome than they had anticipated at Final Determination. However, NGN has agreed to review its position after the first year. As part of the Annual Customer Perceptions Survey customers views on this output are being sought. It was viewed as a lower priority than during Acceptability Testing in the first survey results in February 2020. The CEG intend to monitor NGN's and customers positions as part of any ongoing remit.

### Quality and Quantity of PSR (Priority Services Register) Referrals

Our original challenge around PSR was rooted in a concern to ensure that the appropriate customers are referred for registration onto the PSR scheme and ultimately receive the support offered when needed – and that such support had real impact. We did not want the focus to be on the number of referrals alone, but to ensure that NGN, and other energy companies, serve those households most in

need of its extra help. NGN confirmed that during this year it has stepped up training for community partners on identification of PRS eligible customers and it is monitoring that eligibility criteria is being met. NGN has also been tracking the processes post referral and has flagged concern that industry data bases are not being updated and that the Register is not therefore as reliable as it should be. The CEG wish to see industry, and in particular Xoserve, address this matter and Ofgem should intervene if necessary to ensure data is updated where this could literally save lives in emergency situations. We also wish to see further efforts to refresh the PSR to ensure the right households are registered and they receive support when needed.

### The Customer and Social Competency Framework

This is a company-wide training programme that we understand is intended to ensure all employees can identify vulnerability and make internal referrals as necessary. The CEG wished to see evidence of how the training was being developed, to ensure it would lead to clear outcomes and that there was a delivery plan in place. NGN confirmed progress has been good over the year. The programme was developed with National Energy Action (NEA) and an internal Train the Trainer programme had been set up. It is understood that external experts will be brought in where necessary. Going forward the CEG will wish to see the evaluation of the training and the impact it is ultimately having.

### Use it or Lose it Allowances

The allowance for customer vulnerability initiatives was doubled by Ofgem at Final Determination from £30m to £60m a year across the GDNs. Funding is allocated on a pro rata basis relating to customer numbers with a ringfenced element for collaborative projects between GDNs. The CEG has

witnessed how NGN has brought together social delivery partners to help design projects eligible for this funding that were outlined in its Business Plan submission, and to co-create new propositions to ensure the allowances will be used and not lost. At the time of writing this report, NGN confirmed that a total of 44 proposals had been taken forward for consideration at a Citizen's Jury, from which a refined programme was developed and 40% of the first years' allowance had been agreed by the start of February 2021. In April, NGN held a further workshop to help design programmes for the remainder of its allowance and these will be taken forward into the start of GD2 for agreement within NGN. The CEG has not received any information about the collaborative projects but we have been reassured that the funds are not lost if they are not spent in year.

### Learning from Other GDNs to Design and Prepare for Enhanced Social Commitments

Our original challenge was based on a desire to help benchmark NGN's performance and to ensure lessons were being learned across the industry. NGN had proposed an annual stakeholder event to profile its work and to seek feedback from stakeholders on whether its programme of activities had responded to need and how it could be developed for future years. NGN had also undertaken wider benchmarking via Business in the Community (BITC) which demonstrated it fell within the top band of companies for its social programmes. We also heard that there are a number of fora where good practice is discussed between the companies, but the CEG is hopeful that the end of a competitive annual SEIS submission will enable more sharing between the companies.

## 4.3. Whole Systems Programme Three challenges

The CEG raised three challenges on how NGN was responding to:

- Developments in national policy.
- The development of its whole systems InTEGReL research site in Gateshead.
- The establishment of effective partnerships needed for whole systems decarbonisation.

### National Policy

As well as tracking national policy, NGN has described how it has sought to influence policy, in particular around the future of hydrogen to replace natural gas. A significant number of energy policy documents were released by the Government during the latter end of 2020 including an Energy White Paper which followed the Government's 10



Point Plan for a Green Industrial Revolution and the CCC's (Climate Change Commission) Sixth Carbon Budget recommendations. There is no single pathway to Net Zero, but timescales suggested by the CCC for firm policy decisions would require the case for hydrogen being made by the end of this price control period. The CEG therefore expects significantly more focus on hydrogen trials and increased resources being made available to facilitate wider partnerships, particularly in the Tees and Humber where developments are more certain. Given that NGN's operational patch includes the Humber and Teesside, then it is at the heart of the UK's hydrogen infrastructure which places it in a strong position to maximise benefits for customers and the level of insight afforded it should be industry leading.

### InTEGReL Research Site

The CEG was concerned that NGN was too dependent on a single partner to secure funding for the site and that it would not meet the ambitions set out in the Business Plan. The CEG was keen to see how NGN was resourcing the site so that it could optimise its potential as a significant centre

## 4.4. Bespoke Environmental Outputs 11 challenges

Over the course of the planning phase for the Environmental Outputs of NGN's Business Plan, the CEG raised a number of issues relating to scale of ambition and potential impacts (excluding the Repex programme). We were, however, pleased to see that the final set of proposals submitted in the Final Business Plan were much more ambitious than initially set out and that these were supported by stakeholders and customers. Over the course of this year there has been considerable progress made with more detailed design and delivery plans tested with stakeholders. The CEG is more confident in the deliverability of the EAP and can see clearer customer benefit metrics.

The specific challenges we set out for this year were related to how customer benefits would be central to the environmental programmes including:

- Ensuring assumed long-term CO<sub>2</sub> savings are reported following tree planting projects.
- Ensuring vehicle replacement addresses local air quality issues and that the Electric Vehicle (EV) programme remains ambitious given the fast-evolving market.

for integrated research and development towards Net Zero. In March, NGN completed work with its partners Cadent and BEIS, on the construction of two demonstration houses that will run fully on hydrogen. At the April final update session, we heard of further developments which will see a range of research and trials led from the site which will incorporate a 'Customer Energy Village' cluster of housing and other facilities. Not all funding is yet in place but with a wider range of partners in place, a growing interest in the role of hydrogen and whole systems changes across NGN's region, the company seems better placed to secure additional funds.

### Partnerships

Delivery partnerships are understood to have been put in place for a number of research bids and programmes and NGN have reported on the cross sector working arrangements it has been developing (including water, transport, telecoms, hydrogen and biomethane producers). We understand that this work will be boosted at the start of GD2 with the establishment of a new Futures team within NGN supported by Green Apprentices.

- The monitoring and capturing data on CO<sub>2</sub>e savings.
- Alignment with Local Area Energy Plans.
- Reduction in single use plastic.
- The effectiveness of different pathways to Net Zero.
- Support for biogas producers.
- Improvements to the energy efficiency of NGN's own buildings.
- How procurement systems changes could drive environmental improvements through NGN's supply chain.

### Tree Planting

We are informed that NGN has now contracted with the Community Forest Trust which will ensure long-term benefits are monitored and are more likely to be assured through managed planting schemes.

### Low Carbon Vehicles

We were reassured that NGN will be able to take advantage of the latest developments in the EV

market by adopting a more flexible approach to procurement which involves shorter term contracts rather than rely on a single provider as has been the case in GD1. To optimise the impact of the roll out of EVs across the business, NGN is developing assessments of usage patterns and opportunities for home charging. Additionally, we understand that the fleet replacement will map onto clean air zones where these are in place.

### Developing Meaningful Metrics

Ofgem started a consultation in February 2021 on the format of the Annual Environment Report that companies are required to submit on the delivery of their Environment Action Plan.

At the time of writing there had been no decision reached on the format but both NGN and the CEG proposed that, as well as some generic reporting, the focus of the report should remain on the bespoke elements of the companies' plans and that they should provide details of the specific metrics they were using that would be more meaningful to their regional stakeholders.

### Aligning Objectives with Partners

NGN has developed its approach to working with local administrations on their Local Area Energy Plans with a focus on working with a limited number of combined authorities where there is clear alignment of goals and clear deliverables. As well as helping to achieve NGN's bespoke environmental outputs it is understood that this work will be essential for larger scale hydrogen and whole systems trials.

## 4.5. New Innovation Landscape

Seven challenges were raised relating to:

- Governance and decision-making processes.
- Involving stakeholders to improve outcomes.
- Deliverability and relevance.
- Embedding innovation in BAU activities.
- Working with other utilities to share knowledge and findings.
- Resourcing and funding.

We have seen a shift in thinking about how different strands of innovation are managed and coordinated within NGN. The major funding streams through RII0-2 are via the NIA and SIF and are focussed on Net Zero and with a lesser amount for customer

### Improving Energy Efficiency at NGN Sites

We are informed that NGN has already started its Photovoltaic (PV) installation design and other upgrades at a number of its business sites. We also understand that it has renewed its commitment to ending single use plastic which has remained a priority for stakeholders as expressed at engagement workshops and in customer surveys over the year. Additionally, NGN informed the CEG that it is supporting a new supplier to secure innovation funding in order to test covering for pipe fittings which uses bio-degradable but industrial strength material made from fish waste.

### Supporting Biogas Producers

A new Code of Practice was developed with biogas producers that access NGN's network and was put in place in June 2020. Regular seminars are now understood to be programmed to ensure the needs and preferences of these stakeholder are understood and responded to. We note the Chancellor's Budget Statement in March 2021 introducing a Green Gas Levy which might further stimulate this market and would expect NGN, along with the other GDNs, to investigate what more it needs to do to facilitate a potential growth in this market

### Sustainable Procurement

NGN has developed a Sustainable Procurement Strategy and action plan which has been shared at workshops with major suppliers this year. Further work is needed to support SMEs and that is an area NGN need to address early in GD2.

vulnerability under NIA. We had expressed concern at the lack of foresight around funding leverage from the likes of Innovate UK, BEIS, etc. The revised focus now appears to take this into consideration. NGN's work relating to whole systems and hydrogen trials has access to alternative funding streams and whilst this remains on a parallel management route, there is much better integration of planning across all areas of innovation. NGN was required by Ofgem to demonstrate in its Business Plan how it had embedded learnings and efficiencies from innovation in GD1 into GD2 plans, which for the new regulatory period are supported through its total expenditure allowances (Totex).

NGN has set out its plans to strengthen its skills sets and capabilities internally to deliver its ambitions and commitments for innovation. We had expressed concern that there was a lack of coordination and internal resource to take advantage of the opportunities to innovate and work on whole systems solutions and hydrogen utilising the InTEGREL site to its full potential.

The CEG has monitored how NGN is developing its propositions to support customers in vulnerable circumstances through innovation as there was relatively little detail within the Final Business Plan.

- Governance – Ofgem produced new guidance on governance arrangements for innovation programmes in February 2021. NGN had by then put in place, as it had proposed to do in

## 4.6. We Raised Three Challenges Around how NGN Would Respond to Changes:

Those made to its plans by Ofgem at Final Determination, the impact of Covid-19 on preparations for GD2 roll out, and the impact on costs of Ofgem’s decision on National Transmission Service (NTS) offtake charges.

- At FD Ofgem did not accept NGN’s Customer Value Propositions and the CEG were concerned that customer expectations would not be met if these CVPs were abandoned. NGN has reassured us that it remains committed to delivering all of the enhanced outputs it committed to. It has advised that enhanced compensation payments relating to complaints handling will not however be implemented during 2021/22 but will be reviewed following a performance review after

## 4.7. Costs

We received updates on the potential changes in revenue resulting from the 15-month assessment process following the Business Plan submission and where there had been proposed cost reductions imposed by Ofgem.

NGN’s revenue for GD2 is still a matter of disagreement with Ofgem and subject to a decision by the CMA expected at the end of October 2021.

There is the potential for a number of reopeners that could be triggered as part of the RIIO-2 framework that could result in additional

its Business Plan, a new Innovation Think Tank which is made up of external stakeholders as well as NGN personnel from across the business. A member of the CEG chairs that group under a separate agreement with NGN. The CEG received a final update in April on how the governance is working which already appears to be more focussed on customer benefits and improved quality of innovation proposals coming forward from operational teams.

- We are satisfied that NGN’s arrangements will lead to clearer decision-making processes that align business need with innovation projects. A potential future role for the CEG is to monitor the roll out of NGN’s Innovation Strategy to ensure meaningful outcomes for customers

year 1. We received regular updates on the impact of Covid-19 on the business and how it was responding. Stakeholder engagement has been adapted to be carried out virtually or by phone and surveys. We have not seen any delays to NGN’s readiness for GD2.

- A decision on NTS charging has been made and this is a pass-through cost to customers. NGN have agreed to provide a full update on cost changes and bill impacts once the CMA enquiry has concluded.

expenditure and which could increase costs over the period of GD2, The CEG will monitor any cost implications and ensure these are in-line with customer needs and affordability criteria.

The impact on customers’ bills was not easy for us to understand as some costs are associated with ‘fast money’ – i.e., revenue that is passed through in year, but most capital costs are ‘slow money’ and subject to depreciation/payback periods of up to 45 years.

# 5. NGN CEG Future Remit and Work Programme

## 5.1. We Drafted a New Remit for our CEG for GD2 Which Will Continue to be Subject to Change Following any New Guidance from Ofgem.

We will adapt our draft to encompass what is included in any new mandate from Ofgem following their evaluation of their RIIO-2 enhanced engagement process.

We strongly support the continuation of enhanced engagement as it has produced significant benefits to customers and improved both the transparency and quality of NGN’s plans. This will be particularly important for stakeholders and customers as major policy changes emerge to deliver the Government’s Net Zero target and address the decarbonisation of society (not just the electricity grid – which has

been the focus over previous years). The biggest area of change will relate to decarbonisation of heating for our homes and buildings. Whilst major changes may not take place during the next 5 years, there will be significant effort made to ensuring the potential pathways that will be needed provide cost effective solutions that are deliverable and fair. It will also be important for NGN to respond positively to any longer-term impacts of the Covid-19 pandemic on vulnerable customers so they are not left behind.

## 5.2. New Remit – the Revised and Updated Remit for GD2 is Attached as Appendix 2.

We have drafted effectiveness criteria and will formalise a set of agreed outputs with NGN and Ofgem. These will be published on our website.

Additionally, we have agreed with NGN a means of working which builds on the positive engagement we had during the run up to GD2. NGN has

contracted with members for a number of days a year, which is more restricted than during the business planning phase. As the group begins the process of scrutiny for GD3, it is anticipated that additional time will be required.

## 5.3. We Wish to Remain Transparent in how we Work With Ofgem and as Appropriate Other Groups, and With NGN.

Our main focus will continue to be that stakeholders/customers’ needs and preferences are sought, are heard and are reflected in the development of GD2 programmes, and in particular the important areas of innovation, the environment and customer vulnerability. This is where we are able to add most value to Ofgem’s economic regulatory duties, and where any reopeners require

refocussing the plan or further consultation with customers and delivery partners.

It is essential that we continue to hear directly what stakeholders and customers say and not to rely on reports and survey results from NGN. To that end we will continue to attend engagement events to observe and listen to both key professional stakeholders and more seldom heard voices.



It is also important that we continue to monitor policy developments that will impact delivery for GD2 and early planning for GD3- in particular we shall have a keen focus on NGN's social, environmental, innovation and delivery strategies with an overarching role of ensuring stakeholder needs and views continue to be heard and acted on. In particular, we plan to monitor hydrogen and whole systems trials and reflect on how these will contribute to the Government's anticipated Heat and Buildings Strategy where re-openers may be introduced. There are a number of potential pathways to Net Zero and regions within NGN's licence areas may decide on different pathways for economic, environmental and social reasons. We will need to keep abreast of regional stakeholders' plans as well as the national landscape and NGN's responses to the National Grid ESO and

CCC scenarios. But primarily over the next 2-3 years we will focus on the deliverables for GD2. Following this the group will also take on scrutiny of GD3 planning processes with stakeholders. It is essential that the innovation management processes continue to be dynamic and responsive in order to remain fit-for-purpose and value-adding for customers. The resources now available would appear to underpin this requirement.

It is essential that the CEG has the skills and expertise to fulfil its remit and as already set out we will develop a programme to refresh the group where appropriate. We will seek to ensure we have the resources and are supported by NGN and Ofgem to deliver our main roles and outputs.

#### **Current members of the CEG are:**

Jenny Saunders, Eddie Proffitt, Professor Simon Pringle, Melanie Law, Ivan Jepson, Dave Wright, Carole Pitkeathley, Dr Alan Lowdon, Brian Matthews and Laura Brown.

#### **Links to the current members biographies and to our reports are provided**

Member biographies [www.ngnceg.co.uk](http://www.ngnceg.co.uk)



**GAS**