

09 December 2019

Our approach to assurance and deliverability



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Section One - Assurance

Ofgem has set out clear requirements

Our assurance process has been designed to provide a high level of assurance to our customers, stakeholders, Ofgem and our Board. Alongside the regular sessions we have had with our Board and through which they have robustly challenged emerging thinking, the assurance process has allowed them to develop the confidence to fully commit to our Plan.

We have taken care to ensure that we also fulfil Ofgem’s minimum requirements, as set out in the Business Plan Guidance. Namely we have ensured that:

- our main plan and supporting evidence addresses all of the minimum requirements set out in Ofgem’s updated business plan guidance (published on 31 October 2019),
- the Business Plan Data Tables (**BPDTs**), Network Asset Reliability Measures (**NARMs**) and Cost Benefit Analysis (**CBA**) models have been prepared in line with, and assured that they comply with, Ofgem’s Data Assurance Guidance (**DAG**); additionally,
- we have carefully considered a broad range of risks to the quality and accuracy of our Plan to ensure that our Board are confident in our Plan and able to provide a high level of assurance against Ofgem’s assurance requirements. Specifically, this has included targeted assurance to demonstrate that our Plan is accurate, efficient, ambitious, robust, financeable, deliverable and provides good value for money to both current and future customers.

In addition, all aspects of our Plan have been subject to extensive challenge by our Customer Engagement Group (**CEG**) and by the RIIO-2 Challenge Group (**R2CG**). The evidence of this engagement can be seen through Appendix 01.01 (How we have responded to CEG) and R2CG feedback and Appendix 05.08 (Challenge Log Summary). Appendix 05.08 will be published by the CEG.

We have a robust assurance process

As summarised in **Chapter 12 Assurance**, we have adopted an assurance framework based on the internationally recognised three lines of defence model. This has also been informed by good practice from the recent PR19 process in the water industry. The framework was supported by both a ‘top down’ and ‘bottom up’ risk assessment to ensure that assurance is focused on the areas of greatest risk and that assurance has been provided by those with suitable expertise.

Risk Assessment

We started our assurance process by performing a ‘top down’ risk assessment to identify the highest areas of potential inherent risk. Using the factors set out in the table below we considered both operational and strategic risks to enable us to prioritise our initial second and third line assurance activities.

Table 1 Risk assessment factors

Complexity	By seeking to identify areas of potential complexity, we focused our assurance to ensure that the appropriate controls had been established. Through second line assurance ‘process walkthroughs’, followed by more detailed sample testing, we sought to ensure that the controls identified had been applied appropriately. For example, in relation to our approach to asset management. Where areas were particularly complex, we engaged specialist third party assessors to validate that, for example, our models were operating appropriately and in line with Ofgem guidance.
Change	We have calibrated our assurance to take account of areas that have been or will be subject to change as we pursue our vision to set standards that our customers love, and others aspire to. By understanding where change has, or could have the

	greatest impact on the lives of our customers, our operational environment and our ambitions to improve, we have focussed our assurance where there are greater levels of uncertainty about change into the future.
Roles & Responsibilities	We have targeted our assurance to increase its focus on areas where individuals were newer to roles, or less experienced.
Subjectivity	We have increased our assurance in areas where the assumptions that underpin our Plan are based on engineering judgement and expert opinion, commonly due to a relative lack of quantitative data. Assurance in these areas has challenged the basis of opinions and ensured they have been reviewed and validated by those qualified to do so both internally and externally.
Value	We have concentrated assurance on items with a higher financial value, as these present greater risk (even small errors can result in a material impact to our Plan). High value items, such as our Repex plan, were therefore subject to more assurance than lower value parts of our Plan. This particular example is illustrated in Chapter 12 Assurance to demonstrate how second and third line assurance has been combined to give a high level of assurance over all aspects of this process and is set out in more detail below.
Customer / Stakeholder impact	We recognise that we are in a privileged position, to serve our customers and stakeholders, as the deliverer of critical infrastructure services. It was therefore of the utmost importance that our risk assessment should directly consider the impact that our Plan could have on the customers and stakeholders we serve. Through this consideration it was determined for example that assurance should be performed over our triangulation assessment, where we had to consider and reconcile differing views from different customer groups.
Broader regulatory considerations	It is vital that we continue to meet our legal and regulatory obligations, as well as work with our regulators such as Ofgem, HSE and the Environment Agency to respond to an ever changing world. We have given due weight to the need to discharge all of our obligations when targeting our assurance.
Reputation	We are committed to be a trusted company, and so it is important that we develop and maintain our reputation with customers and stakeholders, including our regulators. We have undertaken additional assurance where we face risks that might damage our reputation. For example, assurance has been provided over the deliverability of the commitments we have made to ensure they are clearly defined and stretching, yet still capable of being delivered.

This risk assessment, along with consideration of Ofgem’s minimum requirements and the factors outlined in the diagram below formed our initial, high level (‘level 1’) assurance plan.

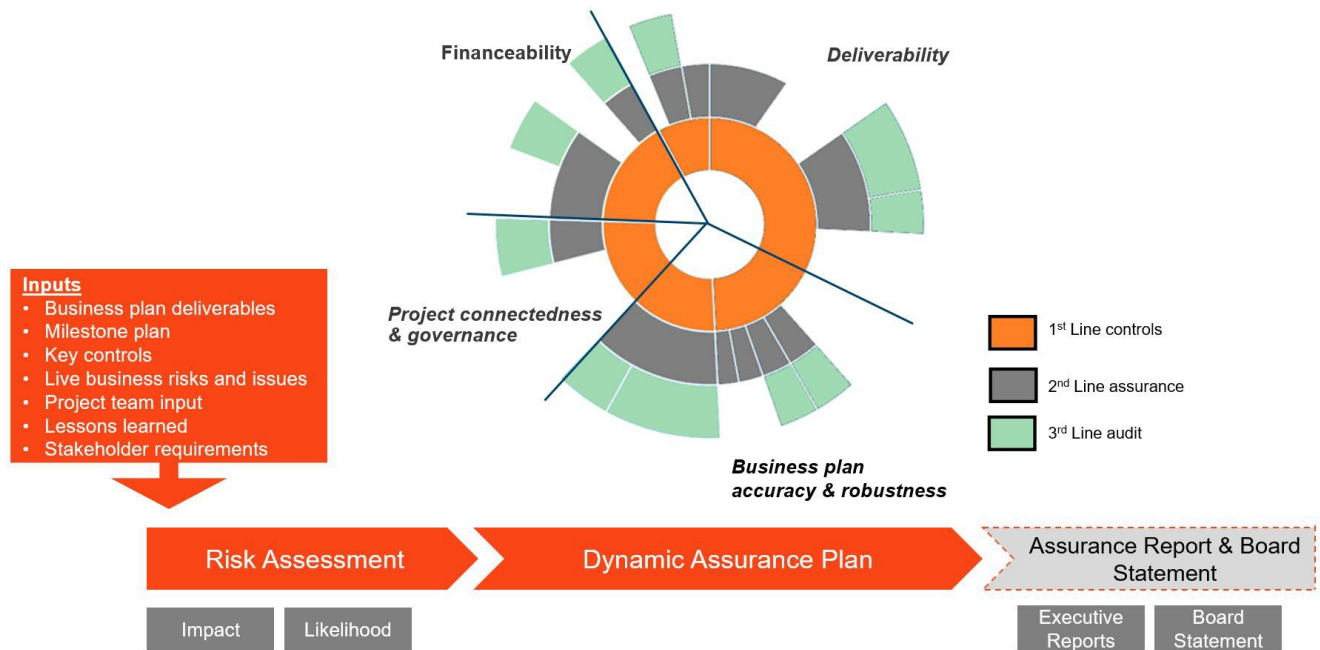


Fig 12.01 – Illustrative assurance approach

Level 1 Assurance Plan

The level 1 assurance plan was developed as illustrated in Fig 12.01 by applying the risk assessment factors outlined above to 4 key risk areas, as outlined below (accuracy and robustness, financeability, deliverability and project connectedness and governance).

- **Accuracy and robustness** – we considered both risk themes, for example, **data quality**, as well as the minimum requirements applicable to each area of our Plan.
- **Financeability** – as a key driver of our continued viability this was identified as a key risk area with specific risks identified e.g. in relation to the **population and accuracy of the financial model**.
- **Deliverability** – We needed assurance that, by changing how we operate and taking advantage of technological developments, we could make the step change in performance to achieve the ambitious and stretching commitments set out in our Plan. **Detailed testing was conducted over six of our highest-risk commitments by PwC.**
- **Project connectedness and governance** – with a high degree of change within the business, this considered strategic risks such as the degree to which the RII02 project team were aligned with the wider business, for example Operations and innovation projects, when drafting investment strategies.

This approach helped to structure the assurance plan to identify systematic risks e.g. data quality that could impact different areas of our Plan. Consequently, we were able to identify the key controls such as the ‘*hand over control documents*’ which were used to control the approval and flow of information from investment cases to data tables and investment models. Handover control documents, and the governance process associated with them, were therefore identified as one of our key controls in the level 1 plan and a process walkthrough was conducted to assess whether they had been **designed effectively** to sufficiently manage the risk of poor data.

The more detailed ‘bottom up’ risk assessment was then used to focus testing on high risk investment cases to assess whether the control, although well designed, was being **implemented effectively**.

This approach also allowed us to identify areas of our plan, such as our approach to asset management and investment costing where it would be more appropriate for specialists, with a greater understanding of industry good practice to provide this assurance than our second line team.

To ensure that the assurance programme would address all of Ofgem's minimum requirements the level 1 assurance plan was also reviewed against the requirements set out in Ofgem's business plan guidance. Each individual risk which was to be tested was aligned to an assurance objective (efficiency, accuracy and ambition). As requirements evolved e.g. to provide further assurance in relation to our Plan's robustness and financeability our plan was reviewed, and where necessary re-shaped, to ensure that it also met these emerging requirements.

Our framework was dynamic in nature. In addition to adapting to emerging requirements, this meant that the assurance adapted to the project as it progressed and responded to the assurance findings as they emerged. We also took account of engagement and challenge from the Board and our CEG and feedback from the R2CG.

Alongside the execution of our level 1 assurance plan, detailed risk assessments were performed on each of the Business Plan Data Tables (**BPDTs**).

Data Assurance

Our Board is committed to producing a robust and accurate Business Plan. As such, they have ensured that a strong assurance and governance framework, which complies with the DAG framework, was established in relation to BPDTs, NARMs and CBAs. The process was aligned to the way in which we assure our annual RRP, to leverage established processes, roles and governance. Further details of the assurance and governance frameworks are set out in our separate Irregular NetDAR submission but the key features are summarised below:

- **Data Table Steering Group** – Established to oversee the production of the data sets to the required timescales and appropriate quality. The Group was made up of senior managers in the RIIO2 project, assurance teams and chaired by the Regulatory Frameworks Manager. This Group ensured that the assurance roles required by the DAG were assigned to each data set and that progress was monitored against agreed milestones aligned to the overall project plan. The Group acted as a point of escalation for risks and issues relating to the population of the data set.
- **Risk Assessment** – A risk assessment was undertaken for each data set in line with the DAG criteria. This was performed by the data provider and reviewed by the workstream lead. To ensure consistency across workstreams the risk assessments were then further reviewed in a cross workstream calibration session. The results of the risk assessment determined the level of assurance applied to each table.

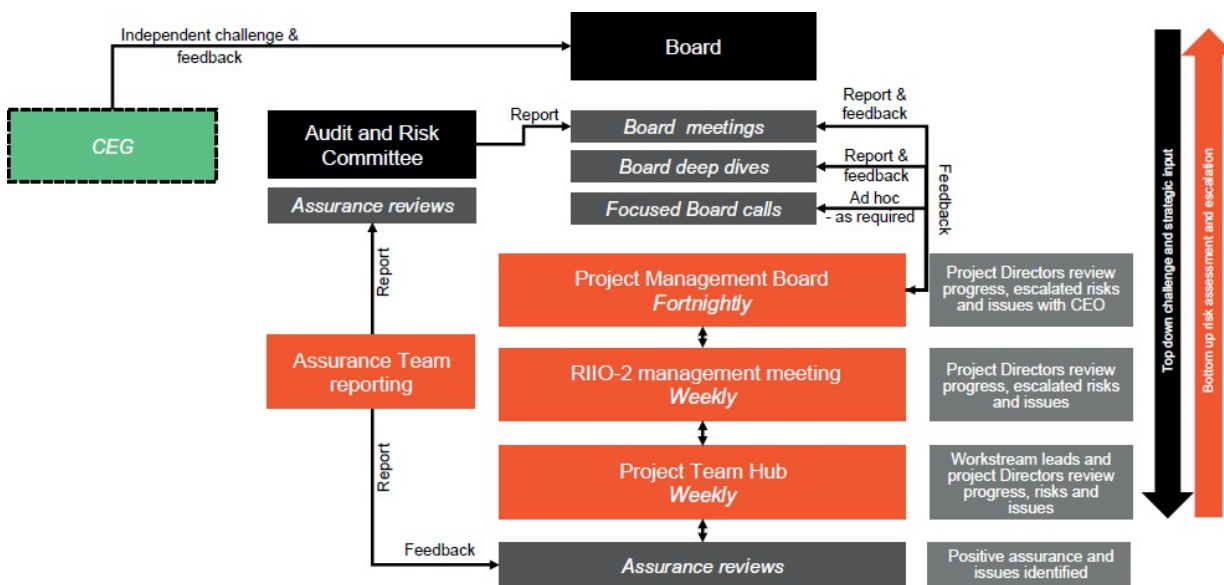
Reviews were performed by each role listed below. PwC performed an additional review of all the critical and high-risk tables (as identified by the DAG risk assessment) and a sample of those identified as medium and low-risk.

- **Data Providers** – responsible for populating the data and reviewing it to ensure that it is accurate.
- **Business Experts** – key business stakeholder with responsibility and expertise for the particular area, reviewed the data to ensure it is correct and in line with expectations.
- **Independent Reviewers** – members of staff with knowledge of the business area, provided an objective and independent review.
- **Workstream Leads** – senior members of the RIIO-2 project team who hold overall accountability for the data set. Reviews the data set and ensures that all assurance has been appropriately undertaken and documented before providing final sign off.
- **Second Line Assurance Provider (PwC)** – walked through the process of how the data sets in the sample were produced and traced a subset of data back to source data files and ensured that the DAG process (outlined above) had been adhered to, and there was appropriate evidence of review and approvals in place.

Our Board and our CEG have challenged and engaged us every step of the way

Our Board have led the development of our vision and our Plan which sets out how we will deliver this vision. As such, the assurance programme has been designed to provide them with the information they need to challenge management on all aspects of our Plan. Our Board has been fully engaged throughout the development of our Plan and has had ample opportunity to review and challenge it, as summarised in the diagram below.

Figure 12.02 Reporting lines and governance framework



The Audit Committee Chair has also played an important role on behalf of the Audit and Risk Committee and Board by receiving regular updates from the Head of Audit and Risk in relation to both the progress and findings of the assurance programme and acting as a point of escalation to the Board.

As well as input from management and external assurance teams, the Board has also received feedback from our CEG who have rigorously challenged our Plan to ensure it has been appropriately developed with consideration of our customers at its heart (see [Chapter 5 Enhanced Engagement](#) for further information about the work of the CEG).

Our assurance findings

The table below outlines the key pieces of assurance work which were conducted and their findings. Letters of Assurance, which provide a more thorough explanation of the work undertaken and resulting findings are included in Annex A.

Assurance Provider	Scope	Summary of Findings	Plan Reference
PwC	Provided second line assurance over the robustness, accuracy, triangulation methodology and deliverability of our Plan. This included process walkthroughs to identify and understand controls and detailed sample testing to verify whether controls were implemented effectively.	<p><i>Our work was conducted on a risk-basis and was focused on the areas which you identified as 'critical' or 'high' risk to the quality of the Business Plan and Business Plan Data Tables ('BPDTs').</i></p> <p><i>In performing our work over the Business Plan and associated BPDTs, we provided management with ongoing feedback and recommendations over approximately a five month period.</i></p> <p><i>The RIIO GD2 project accepted these findings and worked constructively to resolve them as the Business Plan was developed.</i></p>	Chapter 12 - Assurance
NERA	Technical review of a sample of 6 CBA models to ensure they complied with Ofgem's guidance and expected good practice.	<i>We concluded that Cadent's CBA modelling had been performed to a high standard, and its approach in the sampled models conformed with Ofgem's guidance, with one exception. The Cadent Team have taken actions to address since which we have since validated.</i>	Chapter 9 – Cost and Efficiency
ICS	Technical review of the production and completion of the NARMS models to ensure they complied with Ofgem's guidance.	<i>The review concluded that the production and completion of Cadent's NARMS tables have been undertaken in a manner consistent with the published NARMS Methodology.</i>	Chapter 9 – Cost and Efficiency
Costain	Technical review of our approach to investment costing.	<i>Investment line costs are accurate, fairly represented, and are in compliance with the RIIO-2 Sector Specific Methodology Decision – Gas, Cadent policy documents and accepted industry principles and standards.</i>	Chapter 9 – Cost and Efficiency
Lloyd's Register	Technical review of our review of the methodology and asset management approach to investment planning.	<i>Cadent Gas are demonstrating an asset management approach to investment planning and business plan preparation consistent with their externally certified asset management system and industry good practice, and which involves customer engagement, understanding of drivers, analysis of asset condition, performance and criticality data, evaluation of costed options and prioritisation based on risk and other appropriate driver.</i>	Chapter 9 – Cost and Efficiency
KPMG	KPMG provided a review of specific inputs files that feed data to BPDTs covering the structure of the files, linearity, hard coded inputs in these files, and a detailed review of unique formulae where required.	<i>An analysis of the overall data flow and linkages between the specific files that were reviewed and identification of any issues for resolution by Cadent</i>	Affordability and Financing our Plan chapter, BPDTs

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Assurance Provider	Scope	Summary of Findings	Plan Reference
KPMG	Financeability of Cadent's RIIO-2 Business Plan under notional and actual structures based on Cadent's forecasts. Stochastic risk modelling and scenario analysis to analyse financeability and financial resilience under downside risk scenarios.	<p><i>Cadent remains financeable under both notional and actual financial structures, albeit with reduced headroom, and assuming an allowed return on equity of 4.8%.</i></p> <p><i>The actual financial structure remains robust and is forecast to maintain a solid investment grade rating of Baa1/BBB+ under plausible downside scenarios, due to its highly competitive cost of debt following earlier refinancing of its high cost debt.</i></p> <p><i>The significant reduction in the allowed cost of equity along with a fundamental change in the risk return balance is projected to result in a materially reduced RORE on expected basis and lower dividend yield, with reduced scope for outperformance, based on the current working assumptions on regulatory depreciation and performance.</i></p>	Affordability and Financing our Plan chapter
Internal Audit	Internal Audit reviewed a number of areas including a deep dive into Repex and reviews over the second line assurance work carried out by PwC.	<p><i>Internal Audit concluded that PwC's testing over the data tables was performed to a high standard covering all aspects. This gives Cadent confidence in the accuracy and completeness of the process and the figures displayed in the data tables. The deep dive into Repex highlighted that the process is robust but there are small improvements needed due to one immaterial finding. Cadent have taken actions to address going forward.</i></p>	Chapter 9 – Cost and Efficiency and BPDTs

Section Two - Deliverability

Our Approach to Deliverability Assurance

Our starting point was to build on our general approach to assurance, the application of which is summarised below:

1st Line of Assurance:

We believe that our senior management and business leaders are best placed to assess the deliverability of the key commitments that our RIIO GD2 project team have developed.

In conjunction with the process undertaken to identify customer insight and the commitments they valued and were willing to pay for, we have undertaken a programme of assessment and coordination within the first line to assess the confidence in our delivery of the options and potential commitments that were proposed in the development of our Plan. This has spanned the following key areas:

RIIO-2 project team coordination of the assessment of deliverability

- Realising the significance of the commitments we are making and the impact on our customers and our operational business, we created a dedicated Director (undertaken by Director of RIIO2 - Operations) to lead the coordination of work in this area.
- The operational business was consulted and engaged in the development of the commitments that were made through the Director's part of the RIIO-2 project team.

Engagement with Network operations and the teams that will deliver on these commitments

- During the design and refinement of the draft and final commitments, there has been ongoing consultation, coordinated by the RIIO2- Operations Director, with both subject matter experts that understand the area in question, together with our Network senior management teams.
- The focus has been on identifying areas that required a step change in delivery, or other potential barriers to implementation. Particular areas of focus included:
 - major changes to the **competency of our workforce**. There are established industry minimum qualifications for the major operative groups and these can be built on, driving cost and complexity, but cannot be undermined or eroded.
 - areas where **major or core system change** would be required, beyond the planned changes to our field service management systems that are expected to improve capability and flexibility;
 - potential commitments that **go beyond known operational or technological solutions**; i.e. areas where delivery would be contingent upon an unexpected breakthrough.
 - potential commitments that would **significantly undermine or distract from the efficient delivery of our core services** and obligations;
 - changes that would undermine our ability to **comply with a legislative obligation** or known expectations of our safety regulator, the Health and Safety Executive.
 - Areas where our **licence or obligations to avoid anti-competitive behaviour** place restrictions on what commitments we can make to customers.
 - The likely **mode of delivery**: through our directly managed operations or through a contracted out, or partnership arrangement.
- We have undertaken delivery risk assessment surveys of key operational and engineering/ subject matter experts for the more challenging commitments that were considered as part of the development of our Plan.
- High-level delivery plans have been drafted in conjunction with operational specialists to initiate the process of planning the business changes that our customer commitments would require (or, in some cases, to support a view that a particular idea needs to be changed to render it deliverable);
- Network teams have reviewed the RIIO-2 plan including the proposed investment lines, the commitments and the budget/ totex that are included within our Plan, so that a balanced view of deliverability 'in the round' can be made by network teams, and;
- The Board has spent time with the Network senior management teams to challenge and understand how they plan to deliver on the commitments.
- In a few cases, operational trials of new ways of working have been undertaken to provide small scale but hard evidence of the deliverability of proposals. This is in addition to the business as usual activities that, for most commitment areas, cover similar but not identical performance commitments.

2nd Line of Assurance:

Our top down risk assessment identified deliverability as a key risk area that required assurance. This included assurance over both new commitments and ongoing activities. The three highest scoring risks are outlined below:

- There is a risk that cost savings and efficiency gains that are forecasted in the RIIO2 business plan are unrealistic and are not agreed/understood within the relevant functions in the business.
- There is a risk that the plans which are handed over from the RIIO2 project team to the business lack the necessary (workload) detail to enable operational delivery.
- There is a risk that, compared to current performance level, delivery plans are too ambitious. Although they may meet regulator ambition requirements they will not be delivered through RIIO2 impacting our reputation and relationship with our regulators.

Some of the key controls required to manage these risks are outlined in the summary of First Line Assurance outlined above. Testing of these controls was undertaken by PwC and included:

- A walkthrough of the process to develop the commitments in our Plan;
- An assessment of the summary risk assessment for deliverability (an example of which is outlined in Figure 5);
- Testing a sample of 18 higher risk commitments to assess the consistency of application of the risk assessment process and whether appropriate evidence exists to support:
 - The final risk score / conclusions reached in the deliverability assessment;
 - Whether the commitment is clearly defined and 'SMART';
 - Whether the commitment is measurable during RIIO-2, or whether this needs to be developed in the interim period between Business Plan and RIIO-2 starting;
 - The maturity of delivery plans, particularly where there is a high degree of change expected between RIIO-1 and RIIO-2;
 - Whether customer engagement had been considered in the development of the commitment; and
 - Whether a robust approach to costing the commitment could be evidenced.

3rd Line of Assurance

- There is limited scope for third party assurance of deliverability. It is difficult for an external organisation to be able to understand and assess the capability that we have, especially as, during the planning process, the commitments were being developed. It is also very difficult for an external assurance organisation to be able to provide a positive opinion that a commitment is deliverable or is undeliverable as plans are still being developed and there are external factors at play which may be beyond Cadent's control. Accordingly, we focused on our 1st and 2nd lines of assurance.

Ongoing assurance for the delivery of RIIO-2 commitments

Cadent has made a number of assessments to support the RIIO GD2 Business Plan and analyse the main challenges faced to deliver each of the commitments, and the risk / implications associated with non-delivery. As the Business Plan determination is finalised and RIIO-1 transitions to RIIO-2, the company will continue to plan and adapt or establish the required systems, processes, capabilities and supplier changes that will be required in order to safeguard the delivery of these outputs at the appropriate time in the Business Plan period.

We fully understand the need to deliver on these outputs for our customer base, as we have been informed that these commitments are the most important areas for them as our customers, within the parameters of willingness to pay and our network charges and within the scope of current technology.

The service that our customers experience is dependent on the large teams within each of the four networks that we operate. As is described above, key management and subject matter experts from within the networks have supported the development of the commitments, including by assessing the deliverability of various proposals and ideas as the commitments have moved from concepts inspired by customer engagement insights, to firm commitments.

We have ensured there is a programme of work and assurance to communicate, mobilise and embed the new commitments, and track progress and performance. To ensure that the networks are fully engaged and responsible for the commitments, 'network transition' leads have been appointed at senior management grades in each of the four Cadent networks in October 2019. These leads will have the responsibility for the mobilisation of the RIIO-2 commitments during 2020, in addition to having wider responsibilities for other business change activity that is critical to our success in RIIO-2, including the transition to a 'depot-centric' operating model and the significant shift in our contracting model.

We are also building a central function to support transitional teams. Their focus will be determined by the scale of the change and the risk profile of that change. Subject matter experts have assigned to each commitment. We expect the support to span data & MI, procurement and legal support.

A central project management and oversight committee has been established, led by the Director of Contracts and Transition. It will ensure the overall programme is on-track and that economies of scale across the four networks are achieved, and that resourcing and co-ordination are appropriate. Through this governance group, the mobilisation of RIIO-2 operating model, commitments and contracts will be managed.

Inherent Limitations

Our RIIO-2 submission is made sixteen months before the commencement of the new regulatory period, which then will run for five years. The work leading up to our submission has been undertaken over a period of almost two years. When devising a large and complex plan and attempting to assess and understand its deliverability in an uncertain and rapidly changing internal (within Cadent) and external environment there are significant inherent limitations.

Our approach is founded on, firstly, understanding the known challenges and performance within the current organisation and regulatory framework, and, secondly, an informed assessment of the likely further risks and opportunities that can realistically be anticipated for the commitments explored in the development of our Plan.

We believe a rigorous approach is needed in assessing the likely and potential events and actions that are required to support the delivery of these outputs, together with the key risks that could impair our ability to execute them, to create a proper and informed deliverability assessment. This is based on our experience from running Cadent as a stand-alone basis for three years and long previously as National Grid Gas Distribution. As with any system of risk management, risk assessment and assurance, there may be risks that are currently unknown or outside of our control that could impact this 'current state' assessment and will need to be managed via our 'business as usual' risk

management and operational response processes. This could include high impact, low probability events, such as a change in legislation requiring GDNs to attend gas escapes within 30 minutes, that are beyond economic and practical means to mitigate.

In terms of assurance, this is best deployed on processes and data / transactions that are currently in place or relate to an historical period of time (for example, previous regulatory performance reporting and data). It is extremely difficult to assure future events and activities with any degree of certainty. In this context the assurance work has focused on assessing the processes followed by Cadent in assessing deliverability risks, together with sample testing the approach taken to assessing the risk and associated mitigation for five outcome measures.

Results from our Deliverability Assurance

The following section provides a summary of the high-level findings of our deliverability assurance from the first and second lines. The annex to this appendix provides a further detailed worked example.

Deliverability risk assessment and mitigation

- To bring what has been a significant body of work together, we have summarised the key risks to delivering on the key commitments and how we believe that these will be mitigated across the remainder of the RIIO-1 period and across the transition into RIIO-2. A summary of the overall risk position, based on the similarity to RIIO-1 and the step change required for RIIO-2, is shown below. The assessments have considered risk factors within four main categories (People, Process & Information, Financial, external) which are further sub-divided as per the figure below:

Figure 03 – Delivery Risk Categories Assessed

People	Process & Information	Financial	External
Skills	Process	Capacity	Stakeholder & Political
ER	Systems	Supply Chain	Materials
Culture	Data	Unit Cost Pressure	Legal
	MI		

Each individual commitment has a score, from 1 to 5, against each of these categories. The table below shows a summary of the overall delivery risk picture associated with the commitments made in each output area:

Figure 04 – Summary of overall delivery risk profile

	People	Process & Information	Financial	External
Resilient Network	2.24	1.42	3.76	2.19
Customer Experience	1.76	2.48	1.74	1.35
Environment	1.56	1.48	1.94	1.43
Trust	1.31	1.07	1.24	1.12
Overall	1.72	1.61	2.17	1.52

The delivery of our commitments naturally will be required to take place in the wider business context of the RIIO-2 regulatory environment. Chapters 9 and 11 of the main Plan describe our cost plan and financeability analysis respectively. In those chapters the key messages include that Cadent is pursuing an ambitious plan to step change the cost efficiency of our organisation for the benefit of our customers, and that the overall financeability picture of Cadent in RIIO-2 will be much tighter than is currently the case in RIIO-1.

Against this background it is not surprising that the most prominent risk category has been assessed as 'financial' (covering 'capacity', 'supply chain' and 'unit cost pressures').

It should be noted that the assessment of delivery risk for each commitment is a relative and subjective exercise, supported by a large number of business subject matter experts across the breadth of our services and commitment areas. The two main purposes of the risk assessments were to: prompt consideration as to what proposed commitment areas may be *undeliverable* (and thus require change or removal), and secondly to provide a 'risk background' against which delivery plans can be drawn, to ensure that delivery plans for commitments reflect the risks and challenges identified. Therefore, it is not necessarily the case that two individual commitment lines' delivery risk assessments can be compared directly.

Annex B to this appendix includes a worked example showing how the deliverability risk assessment for 'services beyond the meter' influenced the development of our commitment in that area.

Plan-wide deliverability reviews: beyond individual commitments

An assessment of the macro challenges and issues on a broader scale than individual, specific commitments has also been made to support a wider review of the appropriacy and deliverability of our RIIO-2 plan. This assessment captured a number of more 'top-down' delivery challenges that are expected to occur, often independently of any individual commitment delivery challenges.

This assessment covered areas such as:

- the market availability and price of key resources such as mains layers;
- greater volumes of reactive work materialising than forecasted;
- the implementation of the transformation programme and consequent financial 'starting point' carried from RIIO-1 into RIIO-2;
- the availability of good quality data information to understand performance accurately and timely;
- the wider environment within Cadent of change, associated with moving to depot-centric ways of working and a new contracting approach to be mobilised and embedded

This 'high-level' risk register for Cadent's operations as RIIO-1 is closed out and RIIO-2 is prepared for supported the RIIO-2 project team, networks including Network Directors, and the company Executive and Board in their individual assessments of the overall deliverability of our Plan.

Mobilisation planning will target the areas identified as being most challenging for Cadent, and regular reviews of the latest risk assessments for the company will be made.

Second Line Assurance Findings

PwC's assessment and testing of 18 high risk commitments concluded that:

- the output cases tested contained good evidence that different options and customer engagement had been considered;
- there were clear links to regulatory requirements (Ofgem and HSE), where these were relevant;
- the proposed collection of commitments is stretching;
- further improvements could be made to remove ambiguity from specific commitments to ensure that there were SMART; and
- further improvements could be made to the company's assessment of deliverability of the commitments it is making and the forward planning for these as the RIIO GD2 period approaches.

Annex A – Letters from assurers

Redacted due to commercial
sensitivity

Annex B. A Worked Example: how deliverability assessments impacted Commitment development

Going beyond to never leave a customer vulnerable without gas - services beyond the meter

As set out in Chapter 7.3 and in Appendix 07.03.11, our customer insights and engagement showed that customers were often dissatisfied with instances where our work led to them being isolated in full, or in part, and leaving customers with the role of coordinating follow up action with a third party, typically a gas safe registered engineer. These situations arise for various reasons, most commonly linked to a report of suspected carbon monoxide or where Cadent attend a property linked to planned work or a public reported smell of gas, and our engineers identify a risk under the Gas Safety (Installation and Use) Regulations (GS(IU)R), and we have to isolate the customer for safety reasons. Customers often do not understand the segregation of responsibilities and competency within the gas industry, and where a vulnerable customer is involved, the impacts from isolating an appliance can be very significant indeed.

As part of our Business Plan development we explored many possible options including:

1. Undertake more work on appliances and customer property through Cadent resources, by extending their competency and putting processes and procedures in place, so that we leave fewer customers isolated in future;
2. Undertake proactive checks of customer gas property during the summer to identify problems during warmer months when the impact of isolation is much less, and;
3. Partnering with organisations who can undertake work at customers' property, to address the issue that required them to be isolated, on our behalf.

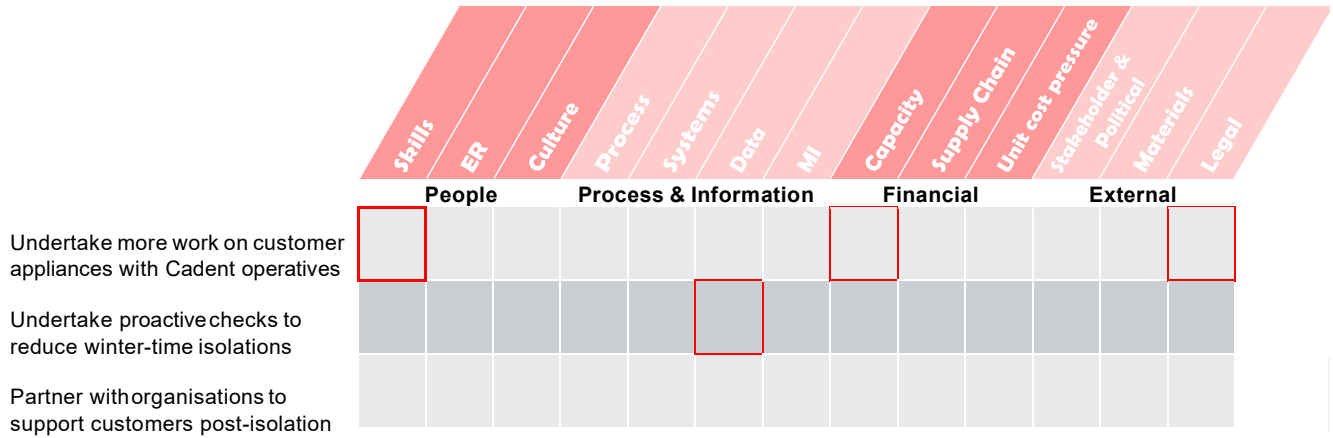
The ultimate choice that we made, the commitment set out in our Business Plan, is aligned with number 3 above. We made this choice in order to address deliverability issues that we identified during our deliverability assurance work.

The deliverability risk assessments for these options were created using input from selected subject matter experts. For this area, the subject matter experts included: the operational skills and competency team, experienced network engineers, vulnerability specialists familiar with the priority services register, and the legal team.

A deliverability survey was also undertaken through the relevant operational senior managers (Emergency Network Managers, in this case) to generate quantitative input.

Figure 5 summarises the delivery risks associated with 'beyond the meter' options.

Figure 5 – Delivery risks associated with ‘beyond the meter’ options



In Figure 5, we set out the deliverability of each of the three options considered for this commitment. The symbols indicate the level of risk, with full/ dark symbols indicating high challenge/ risk and empty/ white symbols indicating low risk/ challenge. The boxes with red borders were the main subjects of dialogue and contention when considering the deliverability of this area of our Plan. They are outlined in brief below:

Option 1 - Undertake more work on customer appliances with Cadent operatives

- The **skills area is a challenge** because very few (<10%) of Cadent’s workforce are qualified to undertake the required checks of appliances and installations under GS(IU)R. To obtain the additional qualifications required would mean each operative undertaking 16 days of training and assessment at external training centres, assuming they pass on first attempts. Once obtained, these qualifications would need to be sustained and would add further time and cost to the competency assurance programme for our field operatives. The cost and capacity impacts, especially, of making and then sustaining such a change are very significant.
- **Capacity was a concern** because, if the competency issue described above could be overcome, then Cadent would be undertaking much more work in customer premises. This additional work – currently completed by other gas industry participants – would add to the duration of jobs and place significant additional strain on our ability to successfully deliver the gas emergency service, due to operatives being occupied with longer-duration customer work. To deliver this service and to compensate for the unintended consequence of longer-duration jobs impacting the gas emergency service, more engineers would be required at significant additional cost.
- **We were concerned about legal risks.** The industry separation of gas transporters (like Cadent) from other industry participants (such as suppliers and gas safe registered installers) is partly to protect customers against anti-competitive behaviours. Our licence restricts our role in order to achieve this. The delivery of this commitment requires a relaxation in this licence restriction. This proposed change could be challenged by other industry participants, thus creating a third major deliverability risk for this proposed commitment.

Option 2 - Undertake proactive checks to reduce winter-time isolations

Data was particularly problematic to the concept of undertaking proactive checks at customer premises. Customer engagement indicated strongly that cold-calling approaches to such checks would not be acceptable due to perceived invasion of privacy, lack of brand awareness and consequent concern/ fear in many customers that cold callers would be regarded as potential scam artists. Furthermore, the prospect of a cold-caller finding a problem with a customer appliance and then being required by law to isolate or condemn an appliance, was seen as a potential source of conflict and poor customer sentiment.

We considered whether we could move this option away from cold-calling by using the Priority Services Register (PSR) to help target customers. This prima-facie 'good idea' was found not to be deliverable on the basis that General Data Protection Regulations outlaw this practice because the consent that customers give under the privacy notice in PSR restricts customer data being used for these purposes. In the absence of an alternative approach to identifying appropriate customers, and given the clear concerns about the approach noted at customer engagement where it was not supported, this approach was not included within our Plan. It may be that the concept is re-considered through RIIO-2 as our relationships, partnerships and Brand awareness all develop.

Our chosen approach: Option 3 - Partner with organisations to support customers post-isolation

In this option, the delivery challenges were easier to resolve. By partnering with a supplier of services beyond the meter, the competency, anti-competition and capacity issues are all ameliorated significantly. The cost of operating in this fashion is also much less, significantly because the costs of developing competency are avoided. This option was ultimately supported by customer groups and internal subject matter experts as being the most appropriate proposal to include in our Business Plan for RIIO-2.