

**Independent Customer  
Engagement Group  
(CEG):  
High Level Minutes**

**Thursday 3<sup>rd</sup> October 2019**

# Attendees:

**CEG Chair:** Zoe McLeod (ZM)

**CEG Members:** Rish Chandarana (RC)  
Helen Fleming (HF)  
Simon Griew (SG)  
John Kolm-Murray (JKM)  
Dr Kerry Mashford (KM)  
Ian Rowson (IR)  
Martin Silcock (MS)  
Leslie Sopp (LS)  
Janet Wood (JW)

**Apologies:** Mike Foster (MF)  
Victoria Pelka (VP)

**Cadent Staff:** Mark Belmega (Director of Customer Strategy) (MB)  
Richard Court (Director of Regulatory Strategy) (RCo)  
Dave Moon (Director of RIIO2) (DM)  
Chris Rison (Director of RIIO2 Deliverability Strategy) (CR)

*Cadent staff supporting specific agenda items:*

Dave Angell (Head of Procurement & Supply Chain) (DA)  
Alison Dunbar (Assurance Manager) (AD)  
Jim Godefroy (Performance Excellence Implementation Manager) (JG)  
Colum Goodchild (Asset Strategy & Investment Manager) (CG)  
Debbie Mitchell (Stakeholder Strategy Manager) (DMit)  
Leigh Page (Commercial Services Manager) (LP)

*Technical Secretary:*

Simon Hames (CEG Interface Manager) (SH)

**Cadent Board:** NA

**External Attendees:** *External attendees supporting specific agenda items:*  
Stuart Cooke (Regulatory Consultant) (SC)  
Matt Copeland (CEG NEA Representative) (MC)  
Richard Druce (NERA External Economist) (RD)  
Andy Sinclair (PwC External Assurance Consultant) (AS)

**CEG Project Manager:** Alison Ward (AW)

**Secretary:** Anne-Marie Clarke (AMC)

These high level minutes provide an overview of the fourteenth session held on the 3<sup>rd</sup> October 2019 (the **Meeting**).

The use of the word Cadent and Company are used interchangeably and refer to Cadent Gas Limited.

## Welcome, declaration of interest and independence statement

The Meeting began with the Chair, Zoe McLeod (ZM) reconfirming to the CEG members that the CEG was formed of independent experts acting in an independent capacity, the CEG operated in a fair and balanced manner and behaved in a transparent way.

There were no additional or changed declarations of interests or declarations of hospitality received made by CEG members.

ZM and the CEG members held private sessions prior to each agenda item to prepare their questions and observations on the material presented for each agenda item.

## Assurance and governance

The CEG raised a number of observations and questions during this session, including but not limited to around the themes of: status and scope of assurance work for the Business Plan, Ofgem's requirements and expectations in relation to assurance, risks and risk assessment and assurance during delivery of RIIO2.

Key questions and observations were:

Theme	Question/Observation
Status and scope of assurance work for the Business Plan	What is the status of assurance work now? How has the Board been involved in developing the assurance plan? How have you determined and used best practice? How will you describe the assurance activities undertaken, their outcomes and the assurance you have taken from them for the final plan?
Ofgem's requirements and expectations in relation to assurance	How do you understand Ofgem's expectations of accuracy, ambition and efficiency? How is this shaping your planned work? Will your assurance programme provide sufficient confidence that you can meet Ofgem's requirements?
Risks and risk assessment	Is your assurance work being shaped by an assessment of risks to the customer as well as to Cadent? Which of your data do you consider to be high risk? Has recent enforcement action impacted your approach? How does the external context factor into your risk assessment and assurance? How is your dynamic approach to risk assessment operating in practice?
Assurance during delivery of RIIO2	To what extent have you considered how assurance over delivery of RIIO2 will be obtained? How might it be linked to continuing engagement activities? How do you think about providing assurance given the changes to your business under the transformation plan and potentially significant externally driven changes?

## Cost overview

The CEG raised a number of observations and questions during this session, including but not limited to around the themes of: efficiency and benchmarking, customer engagement and customer impacts, confidence assessment and scenarios and sensitivities.

Key questions and observations were:

Theme	Question/Observation
Efficiency and benchmarking	How do you know this plan is efficient? What external benchmarking have you undertaken beyond UK Gas Distribution Networks (GDNs) and Ofgem's review of business support costs? How do you plan to address our open challenges on efficiency, benchmarking and contracting strategy?

Customer engagement and customer impacts	Where will we find the Golden Thread that links the choices you've made in this chapter back to customer engagement? What is the impact on customers of the reduction in spend on Repex and on new customer commitments (compared to the July draft of the Business Plan)? How are you intending to address the challenge "for all areas where Cadent is proposing to do work in order to provide services that customers love, a clear justification needs to be provided, including robust customer engagement input"?
Confidence assessment	What assessment has Cadent made of the confidence levels in its costs in the Business Plan? What impact has there been of this work – a move to uncertainty mechanisms? More work to specify costs?
Scenarios and sensitivities	To what extent have you considered the sensitivity of the plan to a range of scenarios (examples given)? Is the payback period on CBA Repex an input or output in to your modelling? Is 14 years an average payback or the longest payback?

## Risk and uncertainty

The CEG raised a number of observations and questions during this session, including but not limited to around the themes of: changes since version 1 of the Business Plan (July), engagement and operation of uncertainty mechanisms and protection of customers.

Key questions and observations were:

Theme	Question/Observation
Changes since version 1	What are the reasons for the large increase in spending associated with uncertainty mechanisms, compared to the July draft of the Business Plan? What elements that were base Totex are now in uncertainty mechanisms? Are all the new uncertainty mechanisms material and do they pass Cadent's assessment criteria? What is the customer bill impact if these uncertainty mechanisms are all used?
Engagement	We have consistently encouraged Cadent to engage customers on risk and uncertainty and on the specific measures they want to use to manage this. Once we have reviewed the Business Plan content on this we will comment.
Operation of uncertainty mechanisms and protection of customers	Can you explain the operation of the uncertainty mechanisms from a customer perspective: impact on bills, how customers can be confident these costs will be carefully controlled? Can you tell us how the risks you identified have been brought in to you day to day risk management framework? What other risks are included in your risk register?

## RIO2 stakeholder engagement strategy

The CEG raised a number of observations and questions during this session, including but not limited to around the themes of: aims and strategy, Cadent's engagement story and embedding a more stakeholder centric business, engagement methods and processes, balancing regional and central engagement, partnerships, engagement plans and wider deliverability.

Key questions and observations were:

Theme	Question/Observation
Aims and strategy	It is good to see the first aim of engagement as supporting delivery of the Business Plan. However, we are not sure you are doing justice to the range of engagement activity/aims. Could you bring out the strategic purpose of engagement more clearly?
Cadent's engagement	Where do you see yourself on your engagement journey? What is the aim for the end of

story / embedding a more stakeholder centric business	RIIO2?
Engagement methods and processes	How will you ensure a two-way conversation with consumers? How will you identify and employ more innovative approaches? How will you anticipate and plan for the future needs of consumers?
Balancing regional and central	You say that the regions will have autonomy for their engagement plans, but other engagement will happen at central level – who will do what? How will you ensure these approaches are aligned and complimentary?
Partnerships	We recommend you better articulate the value of partnerships and how you will facilitate this. How will you identify and manage where you collaborate/have partnerships and where you don't or even compete?
Engagement plans	We welcome the initial thinking on the engagement plans but think this needs substantial further development. For each being clear on what are the engagement aims/need, who are you engaging with, on what issues, how, and if you can, when. What engagement will you carry out to deliver on your "trusted to act for society" outcome?
Wider deliverability	How do you evaluate the extent to which this plan meets the requirements in 2.7-2.9 of the business plan requirements document? Can you explain more your rationale for an incentive? Can you break down the costs in this section? How will you measure success?

### Findings from quantitative research including willingness to pay / acceptability testing

The CEG raised a number of observations and questions during this session.

Key questions and observations were:

Question/Observation
The example on 'willingness to pay' is helpful. Please explain this. Please can you clarify the current level of service and the conflicts you mention?
Please can we have NERA's view on the methodological robustness of the quantitative BOT surveys for the purposes for which they are being used?
Please can we get an understanding of your design of the qualitative elements of the acceptability testing ahead of their delivery?
Has NERA been involved in understanding how in practice the valuations are being applied in order to get assurance that their usage is sound?
Please explain and justify the graph on CSat (Customer Satisfaction) score.

### Vulnerability strategy

The CEG raised a number of observations and questions during this session, including but not limited to around the themes of: aims and overarching strategy, expenditure and resource, partnerships, identifying individual customers in need and the Priority Services Register (PSR), going beyond to never leave a customer vulnerable without gas, carbon monoxide and tackling affordability and fuel poverty.

Key questions and observations were:

Theme	Question/Observation
Aims and	Why have you dropped the commitment to deliver inclusive service?

overarching strategy	Can you explain the rationale for being less innovative than you planned?
Expenditure and resource	Can you explain the costs quoted? How do the numbers relate to the Totex amount we were quoted at our August meeting? How do they compare with equivalent expenditure in RII01? What wider resource are you allocating to this?
Partnerships	What do you hope to achieve with your partnerships? How will you know if the approach is successful? Where did your number of partnerships come from?
Identifying individual customers in need / PSR	Do you have confidence in your PSR awareness statistic? How do you see your performance against each of the good practice areas (previously shared with the Company) and how therefore will you improve performance? How will you measure success given you don't own a PSR?
Going beyond to never leave a customer vulnerable without gas	What options did Cadent consider in relation to never leaving a customer vulnerable without gas and how did you decide on your current approach? How does your 'business as usual' approach for planned interruptions differ from your response in an incident?
Carbon monoxide	How will you measure 'being at risk of CO' poisoning? Is there a model used, a checklist of factors, something else? Are you considering mortality and morbidity? NEA (National Energy Action) believes that CO projects should be done within the 'use it or lose it' allowance if focussed on fuel poverty. How have you addressed this?
Tackling affordability and fuel poverty	What research did you do into the differences in fuel poverty in different regions and how this may drive a different approach in different regions? How did you reach the target for the FPNES (Fuel Poor Network Extensions Scheme) as this seems low?

## Innovation strategy

The CEG raised a number of observations and questions during this session, including but not limited to around the themes of: defining innovation and stepping it up from RII01, culture and strategy, delivering innovation, data, AI (Artificial Intelligence) etc and the whole system approach, and funding.

Key questions and observations were:

Theme	Question/Observation
Defining innovation and stepping it up from RII01	We have questions around whether Cadent is clear for itself and for Ofgem how it defines innovation versus, for example, taking on best practice. Once Cadent has clarity it can properly appraise its performance in RII01 and improvements planned for RII02. How have efficiencies gained from innovation in RII01 been factored in to RII02? Compared to other GDNs where is Cadent catching up? How did you perform on company comparative measures? Do you understand where you will be at the start of RII02?
Culture and strategy	The CEG felt that there were elements and examples of good practice but the strategy is not clear. How will culture changes be embedded and maintained, especially if the depot-centric approach sees divergence? How can you support your staff and their managers so they can risk failure? How does the Board generate and promulgate an innovative culture? Can you explain how you will encourage genuine entrepreneurship and avoid stifling it with corporate risk controls?
Delivering innovation	It is not clear how the individual processes on innovation will come together or how Cadent expects to use them to bring forward different types of innovation. Can this be mapped? Recognition follows successful innovation but how do you give people the confidence and tools to try? How will you assess how well your incentives work? How will you balance competition between depots against joint working/cross fertilisation? What about using regional differences or specialisations?

	What is the Company's attitude to independence? Is there space for entrepreneurial engineers to pursue projects or set up networking systems?
Data, AI etc and the whole system approach	There is a large amount of data now available, much coming from new technologies and Ofgem's guidance has a strong emphasis on realising this potential. There is not much sense of the potential from this, from the customer facing and network sides. How does Cadent's innovation framework respond to this? How does Cadent pull innovation from its growing data lake? How can Cadent use its relationships with non-utility organisations to take a whole-systems approach to innovation and how can it be funded?
Funding	Cadent has several funding sources available and it is not clear how it is justifying its approach and the choice of individual projects. Can you explain? What will the Community Fund support be used for?

## Competition strategy

The CEG raised a number of observations and questions during this session, including but not limited to around the themes of: current and future strategy towards competition, status of draft and competition in delivering Cadent's hydrogen ambitions.

Key questions and observations were:

Theme	Question/Observation
Current and future strategy towards competition	Are you over-claiming on your current approach to competition? Are you market-leading? What are the principles which govern your approach now? Do you have a clear strategic position? Where do you believe that competition isn't appropriate? How do we interpret the 70:30 split? How well developed are the competition-related initiatives in planning and delivering your transformation programme? Can you demonstrate more ambition, for example on open data?
Status of draft	What is your assessment of this draft of the chapter? What is planned to develop it further in terms of structure/content? To what extent do you think it meets the requirements of Ofgem guidance? Could you more clearly state the benefits for customers in terms of efficiency and service, including from your new contracting strategy?
Competition in delivering Cadent's hydrogen ambitions	To what extent have you explored fully the options introducing competitive pressure in delivery of the hydrogen network or other elements of the hydrogen economy and Cadent's potential role? Could you be more ambitious from a competition perspective? How well advanced are your plans?

## Meeting review and next meeting

ZM held a private session with CEG members to review the open challenges and agree new challenges on the material presented.

ZM confirmed the next meeting would be a private members session to be held on 10<sup>th</sup> October 2019.