

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

**Wednesday 12th and
Thursday 13th June 2019**

Attendees:

CEG Chair: Zoe McLeod

CEG Members: Rish Chandarana (RC)
Tony Diccico (TD)
Helen Fleming (HF)
Mike Foster (MF)
Simon Griew (SG)
Dr Kerry Mashford (KM)
Victoria Pelka (VP)
Ian Rowson (IR)
Martin Silcock (MS)
Leslie Sopp (LS)
Janet Wood (JW)

Apologies: John Kolm-Murray (JKM)

Cadent Staff: Mark Belmega (Director of Customer Strategy) (MB)
Richard Court (Director of Regulatory Strategy) (RCo)
Dave Moon (Director of RIIO 2) (DM)
Chris Rison (Director of RIIO2 Deliverability Strategy) (CR)

Technical Secretary:

Simon Hames (CEG Interface Manager) (SH)

**CEG
Report Writer:** Alison Ward

Secretary: Anne-Marie Clarke

These high level minutes provide an overview of the ninth session held on the 12th and 13th June 2019 (the **Meeting**).

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

Wednesday 12 June 2019

Welcome, declaration of interest and independence statement

The Meeting began with the Chair, Zoe McLeod (ZM), confirming 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 made by CEG members.

ZM confirmed that the purpose of the Meeting was to provide feedback to the Company on the CEG comments on the Company's draft Business Plan to inform the Company's next version of the Business Plan and for the CEG to clarify its messages on the Company's Business Plan.

Cadent staff provided an overview of the final Ofgem methodology that had been released.

ZM held a private session with CEG members to prepare for the next agenda item

Foreword & Executive Summary

Various CEG members led the questioning on five challenge themes that had been identified from the questions raised by the CEG members on the material presented by the Company.

The CEG raised a number of observations and questions during this session, including but not limited to around the themes of: strategic gaps/weak emphasis, hyperbole and claims, Business Plan USP, engagement messaging and figures & bill impact.

Key questions were:

Theme	Question/Observation
Strategic gaps/ weak emphasis	Acknowledgement of still finding feet post sale by National Grid. How have you changed your approach to reflect what customers wanted in the plan? There is no story around regional variation. What are the future needs of customers? What are you doing on innovation/building a culture of innovation? What is your wider strategic approach to resilience eg financial, workforce resilience/diversity? What is your consistent story on multi-occupancy buildings (MOBs) in light of the recent announcement? There is nothing on trade-offs eg consideration between current and future customers, individuals and society.
Hyperbole and claims	Generally there are a number of statements which need to be more explicit and/or provide examples.
Business Plan USP	What makes this Business Plan exceptional and deliver on the new vision to be loved, to be aspired to? What is the USP?
Engagement messaging	Can you justify the number of insights quoted? Please list the research techniques and group under headings eg inform, consult, participate More detail and emphasis on ongoing engagement. We are not clear on what you mean by customer.
Figures & bill impact	Please explain the numbers in relation to the decrease in totex on a like-for-like basis. What evidence do Cadent have for consumer acceptance/willingness to pay for the overall increase in totex?

ZM held a private session with CEG members to prepare for the next two agenda items. The CEG members were split into two groups to each address an agenda item and the agenda items ran concurrently.

Commitments (Environment)

On behalf of the CEG, Janet Wood, supported by various CEG members, led the questioning on five challenge themes that had been identified from the questions raised by the CEG members on the material presented by the Company.

The CEG raised a number of observations and questions during this session, including but not limited to around the themes of: business strategy and ambition, engagement and insight, sustainability, energy system transformation and supporting decarbonisation.

Key questions were:

Theme	Question/Observation
Business strategy and ambition	Does Cadent want to lead the low-carbon transition? You have declined to engage with customers on the issue, due, from your statements, to its complexity and you state this is the role of BEIS?
Engagement and insight	Engagement is scattered throughout the appendices and it is hard to discern a strategy. Please explain the strategy and what you are trying to achieve
Sustainability	How did customer engagement drive your choices of what targets to set in what areas? Which areas have you decided not to target and why? How do the targets benchmark against other GDNs and does the ambition match engagement outcomes?
Energy system transformation	How have you tried gain consumer feedback through your standard survey approaches? How will you monitor customer attitudes and the value they place on this? How will this allow you to manage uncertainty in this area? How will you manage uncertainty arising from Ofgem's focus on 'whole systems' in the transformation and communicate this to consumers?
Supporting decarbonisation	Can you map the engagement with consumers and stakeholders that led to the focus on hydrogen deployment? How will that be revisited as Cadent and industry decarbonisation plans develop? How does it vary across regions and stakeholder groups?

Commitments (Quality Experience)

On behalf of the CEG, ZM, supported by various CEG members, led the questioning on six challenge themes that had been identified from the questions raised by the CEG members on the material presented by the Company.

The CEG raised a number of observations and questions during this session, including but not limited to around: general comments, ODIs, guaranteed standards of performance (GSOP), interruptions, multi occupancy buildings (MOBs) and connections.

Theme	Question/Observation
General	There is a need for stronger link to the chapter back to the overall journey. The journey should include where Cadent intends to be at the end of RII01 and its ambition for RII02. There needs to be focus on strengthening the narrative around the evidence base, golden thread, optioneering and pulling out where you think you have been innovative. The chapter would benefit from showing the segmentation of customers upfront.
ODIs	What was your approach and rationale to deciding the ODIs and what you believe the

	<p>overall impact will be as a result?</p> <p>Do you seek to get funding through base allowances? How do you demonstrate the value importance of incentives? Are you looking to differentiate between those incentives that are critical and those that are nice to have? What incentives proposals didn't make the cut? What size customers will this apply too? What are you achieving in the 15 minute call if you are not doing the capacity check?</p> <p>Have you tested the 15 mins call duration with customers (i.e. why not 15mins opposed to 1hrs)? You need to be very clear on how all your ODI measures link back to your strategy and the reasons why you are making changes or proposals. Have you got a view now on which ODIs will have the highest financials associated to them?</p> <p>Can you explain your approach to stretching targets?</p>
GSOP	<p>What is missing is that you understand what your different customers need – this needs highlighting. The work we are seeing from the Engagement Team is good as far as the process but what we are not seeing yet is how this will be applied for each of the outcome areas and this breakdown will support that well</p> <p>We would like to see more on enhancing accessibility as it currently looks like this is just something you are thinking of doing and, misses out all the detailed work that has taken place in the background already. Previously you presented us with a view of the biggest reasons for customer dissatisfaction – informing customers, internal communications and the make safe process. Where is this referenced in the business plan? How you will keep customers better informed on disruptions in the future? What is not being made clear in the business plan is that you have set yourself new minimum standards over and above what is required by the regulator.</p> <p>How does a person claim to Cadent, how do they know what the process is? Have you thought about the challenge of creating a GSOP for community disruptions?</p>
Interruptions	<p>Mains replacement and disruptions on communities is mentioned in the plan but how are you thinking about disruption more generally? Personalising welfare packages – can you provide an insight as to what are the range of costs and benefits of the items you are looking at?</p>
MOBs	<p>How are you planning on addressing all the points in the recent MOBs board report?</p>
Connections	<p>Could you explain more what you mean by making the commercial framework work for our customers? Are you thinking as acting as some sort of broker or exchange for gas demanded or capacity? Is Cadent seeing itself as a counterparty?</p>

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Commitments (Network Resilience):

On behalf of the CEG, Simon Griew, supported by various CEG members, led the questioning on five challenge themes that had been identified from the questions raised by the CEG members on the material presented by the Company.

The CEG raised a number of observations and questions during this session, including but not limited to around: customer/stakeholder engagement (including steel pipe issues), plan optimisation/justification, pipes above safety threshold and enhanced maintenance, taking account of decarbonisation, and impact on outputs and costs.

Key questions were:

Theme	Question/Observation
Customer/stakeholder engagement (including steel pipe issues)	Where has Cadent's thinking got to on the question of engaging customers on network resilience? How is Cadent taking ownership of risks associated with steel pipes? How are discussions with the HSE over steel pipe replacement going and what are the timescales for this? How is customer/stakeholder engagement shaping your proposals for the London medium pressure scheme?
Plan optimisation/justification	The draft refers to over 20 options that you have modelled. Has this been done yet or is this planned? Which options have you tested with customers? In modelling an 'optimum' plan, please could you explain which are genuine constraints and which constraints you are imposing on the model? How sensitive are the model outputs to data/modelling limitations/assumptions? Is any assurance being provided in relation to the modelling itself?
Pipes above safety threshold and enhanced maintenance	How robust is the proposal to use qualifying leaks to judge whether or not to renew mains? Would there be any value in extending the CIPS process to medium pressure mains? What are the implications of the enhanced maintenance surveys both for our response and for costs and benefits?
Taking account of decarbonisation	How is the longer term use of the network taken into account in your network resilience and decision-making? How in practice are you "being cautious given the risk of different potential pathways on decarbonisation?" Have you stopped talking about a vision of a plastic network? Do you still have that vision?
Impact on outputs and costs	Why are you forecasting such a big reduction in average scheme length given the superstring approach? What is the intuition around the benefit charts in the appendix? Does the forecast reduction in interruption minutes look low? It would be helpful to have costs and benefits quantified more clearly throughout the Business Plan.

Commitments (Trusted):

On behalf of the CEG, Helen Fleming, supported by various CEG members, led the questioning on three challenge themes that had been identified from the questions raised by the CEG members on the material presented by the Company.

The CEG raised a number of observations and questions during this session, including but not limited to around: strategy and ambition, ODI and value add and engagement.

Key questions were:

Theme	Question/Observation
Strategy and ambition	"Trusted to act for society" – please can we understand, does this mean you are going beyond your responsibility strategy? The most ambitious stance would be to change the regulation that changes what is set out on the customer's bill. Your status as a good employer is not in here.
ODI and value add	The ODIs are where you are going above and beyond. Are any to move up beyond the standards I'd expect? Are there things here which are new but can be implemented ahead of RIIO2? If you are not looking for financial support you do not need to wait? There are a couple of ODIs where you are asking for a financial reward. Why is it needed? Instinctively it feels wrong to want a financial reward in this area if you also want to be trusted. Ofgem are clear that stakeholder engagement is business as usual. Why do you need an

	<p>additional benefit? What's your view on financial incentive versus a use it or lose it allowance?</p>
Engagement	<p>Stakeholder engagement during RIIO2 will help during RIIO3 so wouldn't you want to be doing this anyway? Can the Board articulate the commercial value to the business of engagement? We would like a better understanding of the work with BritainThinks and the business phase testing, and how does the willingness to pay data fit in and bring your journey alive? Can you broaden your reach to small focus groups eg rural summer fayres, to develop a diversity of views? Community groups? Who is testing the content of your engagement plan? Were you testing assumptions? What do you mean by going above and beyond on performance linked pay? With the Community Fund why not have stakeholders involved? Your fair dividend policy has three lines. Will there be more? Linking to trust, is there the appetite for regional panels/forums?</p>

ZM held a private session with CEG members to prepare for the next agenda item.

Managing Risk & Uncertainty:

Various CEG members led the questioning on three challenge themes that had been identified from the questions raised by the CEG members on the material presented by the Company.

The CEG raised a number of observations and questions during this session, including but not limited to around: customer engagement, proposals and the impact of the final Ofgem methodology and baseline versus uncertainty mechanism.

Key questions were:

Theme	Question/Observation
Customer engagement	<p>The presentation appears to be "fairness for business" rather than "fairness for all". Where does the customer fit in? Can you also articulate from the customer perspective? Is the aim of the story for the proposal of uncertainty mechanisms? Uncertainty mechanisms can be a useful way to allocate risk. As a business how can you best manage risk? Is there a sense check on the risks, threats, opportunities – a landscape to check if anything has been missed? Are you seeking external views? There is an element of reputational risk which would impact on you "being trusted". Have you recognised and understood those things that could undermine this?</p>
Proposals and the impact of the final Ofgem methodology	<p>With Ofgem's revised methodology is there anything which gives you cause to rethink your uncertainty mechanisms proposals? The impact of the assessment of costs as high and low confidence needs to be confirmed in the baseline. Is the assessment of confidence on costs another dimension on risk?</p>
Baseline versus uncertainty mechanism	<p>What work has been done to determine whether something is an uncertainty mechanism or ODI? What is the risk framework you are managing in terms of IT development? Some proposals need to be clearer on the boundary between baseline and uncertainty mechanism. Is there any flexibility on customer engagement on this? Does business to business engagement feed into options testing?</p>

Meeting review

ZM held a private session with CEG members to review agenda items covered during the day after which ZM adjourned the Meeting, advising the Meeting would re-commence on Thursday 13 June at 9am with a private members session.

Thursday 13 June 2019

Meeting recommencement and declaration of interest:

ZM recommenced the Meeting with a private members session to provide reflections on the Meeting held on Wednesday 12 June, to review agenda items from the previous day and prepare for the next agenda item.

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

Cost & Efficiency:

Various CEG members led the questioning on six challenge themes that had been identified from the questions raised by the CEG members on the material presented by the Company.

The CEG raised a number of observations and questions during this session, including but not limited to around: starting point in RIIO2, increased totex in RIIO2, innovation strategy, employee engagement, rationale and cost benefit analysis for the transformation plan, and bill impacts.

Key questions were:

Theme	Question/Observation
Starting point in RIIO2	Performance in RIIO1 is seen to be off the pace of other GDNs. How does Cadent explain the divergence and demonstrate that it understands the performance gaps and what it is doing to tackle them and get into the upper quartile?
Increased totex in RIIO2	How firm is the increase in totex at this stage? How are you ensuring you have the strongest narrative to justify the increase? What is the role of assurance including third party assurance to demonstrate this?
Innovation strategy	Cadent say the Innovation strategy is an important part of the efficiency strategy but we have not seen this. What will we see and when? How will it support your plans in this chapter/what are the main features?
Employee engagement	How will employees be involved in delivering a more productive and efficient business? You are reducing the efficiency gap. How much is labour costs and how much is productivity? How do your staffing and innovation strategies work eg constant refresh for new ideas versus jobs for life?
Rationale and Cost Benefit Analysis for the transformation plan	The explanation doesn't pull together the threads and how important data is to becoming a consumer facing business, and how this will deliver cost efficiency. It is important to draw out the IT systems impact and the justification.
Bill impacts	Consider the bill impacts, the range, affordability and the press headlines. There is a high level of uncertainty in the future and future role of gas. How do customers respond to these various influences? Is there a potential for a greater range of bill impacts? This would be interesting to see over a longer term, and to see how sustainable it is. How are uncertainty mechanism accounted for on the bill impact? Please make the link between this and fuel poverty and vulnerability. What is/isn't your role in regard to bill impact?

ZM held a private session with CEG members to prepare for the next two agenda items. The CEG members were split into two groups to each address an agenda item and the agenda items ran concurrently.

Building & Learning From The Past:

Ian Rowson, supported by various CEG members led the questioning on key questions raised by the CEG members on the material presented by the Company.

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

Key questions were:

Question/Observation
General observation is that you need to show how the journey from RIIO1 learning is helping build for RIIO2.
What do you want this chapter to achieve as it is not a chapter that is defined as mandatory by Ofgem?
Do you have a story to tell about leaning & stakeholder engagement from RIIO1 as I can't see it in the engagement chapter?
Has there been evolution in the engagement from past price controls?
Where is the MOB's story best explained in the Business Plan?
Where is pay and reward referenced?

Assurance & Deliverability:

Rish Chandarana, supported by various CEG members led the questioning on key questions raised by the CEG members on the material presented by the Company.

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

Key questions were:

Question/Observation
Please refresh us on the assurance activity taking place and the expectations of the CEGs role. It is important for us to be comfortable with the assurance undertaken.
To what extent are the internal team independent, do they have a reporting line to the Board?
Do the Sufficiently Independent Directors have a specific relationship or role with Ofgem?
It's important to communicate the role of the Board
It's important to communicate what the assurance structures are once the Business Plan is in place. Are there delegated authorities for the execution/delivery phase?
How have you selected your risk assessment criteria? Is there any area which has just fallen outside of the criteria?
Has the Board had involvement in setting the assurance scope framework?
Is there a mapping of where you are getting your third party assurance and the timing of activities?
How likely is it that there are divergent views on the risk assessment criteria table?
Is there a view on the scale of how important each element is? Are there different ways to calculate this so that we can find those with a large impact, and large range?
What are your assurance processes for unexpected external events and developments eg changes in policies?
How do you assure that staff and contractors are aligned through all processes with roles and responsibilities?
Can you reflect on where you are with assurance, what PwC are doing and how the Board is reviewing it?
Are there any areas where deliverability is more of a challenge?

Do PwC look at sensitivities?
Could the job reductions be a risk to the deliverability of the Business Plan?
In terms of data, the GDSPs have a good knowledge on data. Could you lose this knowledge? Contractors had sophisticated optimisation of projects.

Meeting review and next meeting

ZM held a private session with CEG members to review the sessions held during the day, discuss the requirements of the CEG in relation to their review of the Company's draft Business Plan and confirmed the next meeting would be held on 11 July 2019.