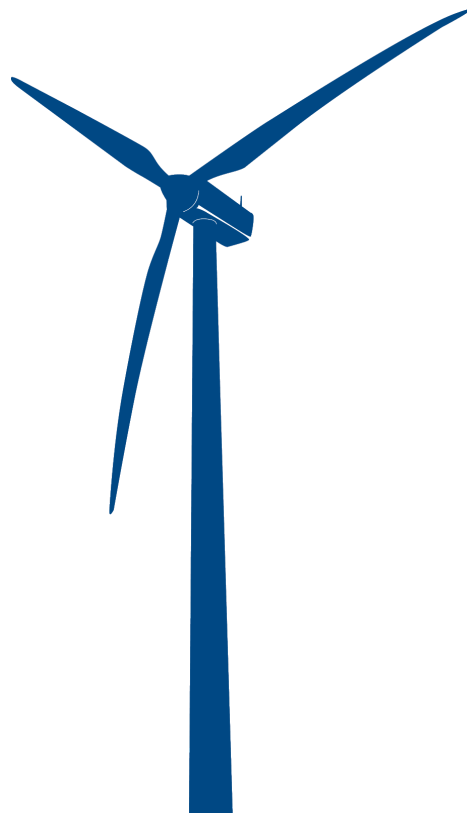


RIIO-2 Business Plans Draft Guidance Document

Citizens Advice submission
February 2019



Contents

Contents	1
Introduction	3
Q.1 What further detail on the proposed content of the Business Plan do you think network companies require?	3
Deliverability	3
Cyber resilience	3
Q2. Is there other information that we should be requesting in order to assess a network company's Business Plan?	3
Changes from Second Draft to Final submission	3
Framing elements	4
BP section on support for consumers with vulnerabilities	4
Proposed outputs and incentives to be underpinned by consumer and stakeholder views	4
Workforce resilience	5
Enabling whole system solutions	5
Cost drivers	6
Innovation	6
Enhanced engagement	6
Consideration of options	7
Business plan data templates	7
Financial information	7
Uncertainty mechanisms	8
Proposed approach for new assets	8
Anticipatory investment	8
Real Price Effects (RPEs)	8
Q3. What further information do network companies require on characteristics of a Business Plan that we need to consider in assessing its quality?	9
BP section on support for consumers with vulnerabilities	9
Enabling whole system solutions	9
Enhanced engagement	9
Consideration of options	9
Proposed approach for new assets	9
Business plan incentive	9

Q4. Are there other characteristics that we should consider in assessing the quality of a Business Plan?	9
Proposed outputs and incentives to be underpinned by consumer and stakeholder views	9
Proposed characteristics of a poor plan	10

Introduction

We welcome the guidance that Ofgem has provided detailing the expected RIIO-2 Business Plan content in its consultation document 'RIIO-2 Business Plans Draft Guidance Document', published 21 December 2018. We support the purpose of this guidance in assisting companies and stakeholders to better understand the type of information that Ofgem requires and how the information might be assessed. In addition, we believe that this guidance will prove very helpful and provide greater consistency to the RIIO-2 Challenge Group, the User Groups, and the Customer Engagement Groups that will be scrutinising the Business Plans.

Q.1 What further detail on the proposed content of the Business Plan do you think network companies require?

Deliverability

Companies should provide details and assurance about how they will ensure their plans are delivered over the course of the price control period.

Cyber resilience

It would be valuable for Ofgem to specifically refer to the National Cyber Security Centre's Cyber Assessment Framework as the chief reference guidance when assessing the cyber resilience of a company (if Ofgem will be using this) or give more specific guidance on how Ofgem will be assessing appropriateness, proportionality, and efficiency for cyber resilience.

Q2. Is there other information that we should be requesting in order to assess a network company's Business Plan?

Changes from Second Draft to Final submission

The challenge group will see the first and second draft plans submitted by companies but as it stands it will not review the final submission. We think that as a result companies should be required to justify and evidence any substantive changes, or drafting changes in response to challenge, that they have to the business plans following the submission of the second draft. A summary table or

log of these should also be provided, detailing the change, the evidence, justification, any challenge and who provided the challenge.

Framing elements

It would be helpful if the following framing elements were required within the Business Plan so that the more detailed elements can be set in context:

- Vision and values.
- Corporate social responsibility policies of the company/its investors or owners.
- The development of the company's strategic view before and during RIIO-1 and its strategic view of the future.
- The company's overarching views on its local, regional, or company specific differences and how this affects the BP including any resulting divergence from the consistent view of the future.

BP section on support for consumers with vulnerabilities

It would be useful to require companies to add a section describing their strategy and plans for supporting consumers with vulnerabilities. We would also welcome within this section that all companies, including transmission owners, outline their prior track record under RIIO-1 to show how they have served consumers in vulnerable circumstances up to this point in time. It would also be valuable to understand how the consumer bill (i.e. the network's cost to the consumer) has developed during the RIIO-1 period and how much money the company returned to its customers through the sharing factor as well as voluntary returns of money.

Proposed outputs and incentives to be underpinned by consumer and stakeholder views

Any proposed output and incentive should be underpinned by the consumer and stakeholder feedback that a company has received. The company should provide a summary of feedback received, which should include negative and positive feedback, and should be presented in a sufficiently segmented manner. In addition to outlining the "value that consumers will receive from a proposed new service level", we would like the companies to describe in qualitative terms what consumer outcome(s) will be achieved through their activities. Further, we would like companies to demonstrate what distributional impact analysis they

have undertaken to understand whether different consumer and stakeholder groups will be differently affected by their actions. Finally, companies should also outline how they intend to measure progress against a suggested output or incentive, and how, and how often, they intend to report against it, unless this is already stipulated by Ofgem.

Asset resilience

It would be useful to add a requirement that the BP includes a reference to a company's assets and their resilience requirements in reference to the forthcoming consistent view of the future and how this may affect resilience.

Workforce resilience

We welcome the proposal that companies should be submitting a strategy to ensure resilience of its workforce. It would be useful for this section to require reference to any staffing needs identified within the forthcoming consistent view of the future, in particular, looking to the likely requirement to be flexible in the nature of the types of future work in the industry. The long term nature of the planning for workforce resilience (RIIO-2 period plus ten years) appears appropriate.

Enabling whole system solutions

It would be useful to require companies to provide a specific reference in the business plan to whole system solutions. In particular, it would be helpful for the company to provide definitions of 'whole system' and 'whole system solutions' and reference their views on whole systems solutions to their understanding of the consistent view of the future.

We would expect that each company would contribute to the Open Networks workstream on whole systems solutions and to reflect this work, and the views from non-network organisations, within its business plan. We note the current wide focus of the Open Networks Project for 2019, which is looking to expand upon their previous work on the electricity system, and is to incorporate the whole energy system, including gas, heat, transport and waste¹ within its project.

¹ [Open Networks Project 2018 Review, Energy Networks Association, p 7](#)

Cost drivers

It may be valuable to require comment by companies on the cost implications identified from the forthcoming consistent view of the future and whole system solutions that may be a driver to future costs.

Innovation

It would be valuable to have companies link innovation to any identified points within the consistent view of the future or to note where there may be differing innovation requirements due to local, regional, or company specific diversion from the consistent view of the future.

Enhanced engagement

We welcome the various proposals for enhanced engagement required by the companies and how these will be evidenced within the business plan, including the need for embedding ongoing engagement within Business as Usual (BAU) activities. We believe it will be an essential element, however, for Ofgem to provide further guidance on how Ofgem will be assessing the robustness, appropriateness and quality of the engagement; for example, if Ofgem will be using an assessment framework which evidences best practice in engagement. This guidance would be helpful to the companies, User Groups, the Customer Engagement Groups, and the RIIO-2 Challenge Group. In particular, we would value receiving guidance as to the minimum requirements required so as to identify when a company has 'failed enhanced engagement' given its importance within the BP incentive mechanism. We would welcome clarification on how Ofgem will assess engagement prior to the final RIIO-2 decision in May.

We are aware that the CEGs have started developing their own views of what good engagement looks like. We therefore recommend that Ofgem liaises with the CEGs on this issue to ensure that companies are measured against the same assessment framework.

It may be useful for Ofgem to include requirements for companies to evidence the stakeholder and consumer engagement overall strategy, as well as how the company resolved differences between differing stakeholder/consumer views and the needs of future consumers.

We would welcome detail of how Ofgem will assess the following specific engagement topics:

- Stakeholder mapping and segmentation
- Overview of methods used
- Overview of topics that consumers and stakeholders were engaged upon
- Justification showing why the chosen engagement approach was selected as well as whether the scope was appropriate to the company size
- Areas of the business plan that companies did not seek/use consumer engagement to inform, and why
- Whether consumers and stakeholders had sufficient time to input into the business plan
- Representativeness of consumers and stakeholders engaged
- Innovation in engagement
- How the inclusiveness and the accessibility of the engagement approach was ensured
- How responsive the company has been to consumer and stakeholder feedback

Consideration of options

It may be useful for companies to make explicit their considerations balancing the requirements of current versus future consumers (for example relating to affordability considerations).

Business plan data templates

It would be useful for companies to have specific requirements within the data template to include measures relating to vulnerability and ongoing consumer/stakeholder engagement to demonstrate how these elements are built into BAU.

Financial information

We welcome the production of the Business Plan Financial Model for use by companies in calculating expected allowed revenues and assessing financeability of their BPs. This BPFM should prove useful in evaluating the final effect of the various changes incorporated within the RIIO-2 methodology as outlined in Ofgem's consultation paper published 18 December 2018. We would welcome clarification that the BPFM is intended to reveal any unintended consequences

resulting from the methodology changes and the likelihood of the use of the Return Adjustment Mechanism.

Uncertainty mechanisms

This section provides details of company specific uncertainty mechanisms and the information required by companies to justify and explain the mechanisms. It would be valuable for this section to refer to any company specific divergence from the consistent view of the future. It would be useful for Ofgem to test any modelling provided by the company to verify that the additional uncertainty mechanism is robust and covers the issues outlined at Table 1 (page 16 of the consultation document).

Proposed approach for new assets

We welcome the higher evidentiary hurdles to reduce the likelihood of asset stranding or under-utilisation given the rapidly evolving political and technological environment. It would be useful to require companies to explicitly refer to the consistent view of the future in this analysis particularly if the company is developing a project that differs from the consistent view.

Anticipatory investment

We welcome the requirement for companies to provide detailed explanations and justifications for anticipatory investments, given the implications for additional costs for consumers.

Real Price Effects (RPEs)

We note the requirement for companies to provide Ofgem with information relating to proposed input prices indices to enable a better implementation of RPEs for RIIO-2. We note that the RIIO-2 Methodology Sector Specific Methodology at Appendix 1 is currently consulting on possible options to implement RPE in RIIO-2 and assume that the companies will also need to refer to the final selected methodology for RPEs within their business plans.

Q3. What further information do network companies require on characteristics of a Business Plan that we need to consider in assessing its quality?

BP section on support for consumers with vulnerabilities

Please see detail under Q2 above.

Enabling whole system solutions

Please see detail under Q2 above.

Enhanced engagement

Please see detail under Q2 above.

Consideration of options

Please see detail under Q2 above.

Proposed approach for new assets

Please see detail under Q2 above.

Business plan incentive

It would be valuable to assess business plans against a further qualitative element relating to the support for those in vulnerable circumstances, and the achievement of consumer outcomes to ensure capture of this information at a strategic level and as part of the BP incentive assessment process.

Q4. Are there other characteristics that we should consider in assessing the quality of a Business Plan?

Proposed outputs and incentives to be underpinned by consumer and stakeholder views

Please see detail under Q2 above

Proposed characteristics of a poor plan

It may be valuable for additional specified proposed characteristics of a poor plan to include where a company has failed to properly address the needs of their consumers that have vulnerabilities. Additional characteristics of a poor plan could include where there has been a failure to adequately reference the consistent view of the future within its planning framework or to fail to adequately explain any divergence.

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