

# **The Customer Engagement Group for Scottish Power Energy Networks**

## Terms of Reference

# Contents

<b>1. THE OBJECTIVE OF THE CUSTOMER ENGAGEMENT GROUP .....</b>	<b>3</b>
<b>2. BACKGROUND .....</b>	<b>4</b>
<b>3. THE ROLE OF SP ENERGY NETWORKS AND OFGEM .....</b>	<b>5</b>
3.1 The role of SP Energy Networks.....	5
3.2 The role of Ofgem within the wider RII0-2 price control process.....	6
<b>4. RESPONSIBILITIES OF THE CUSTOMER ENGAGEMENT GROUP .....</b>	<b>7</b>
4.1 The role and scope of the group .....	7
4.2 The main objectives and expectations .....	8
4.3 Working practices .....	9
4.4 Outputs .....	9
<b>5. MEMBERSHIP OF THE GROUP .....</b>	<b>10</b>
5.1 Group composition.....	10
5.2 CEG meeting quorum members .....	10
5.3 Responsibilities of key roles.....	10
5.3.1 Chair .....	11
5.3.2 Members.....	11
5.3.3 Secretariat .....	11
5.4 Period of appointment & termination process .....	12
5.4.1 Chair .....	12
5.4.2 Members.....	12
5.5 Remuneration .....	12
<b>6. INDEPENDENCE &amp; TRANSPARENCY .....</b>	<b>13</b>
6.1 Group independence .....	13
6.2 Ensuring transparency .....	13
6.3 Conflicts of interest .....	14
<b>7. REVIEW, EVALUATION &amp; APPROVAL PROCESSES.....</b>	<b>15</b>
7.1 Approving the ToR.....	15
7.2 Reviewing and amending the ToR.....	15

## **1. THE OBJECTIVE OF THE CUSTOMER ENGAGEMENT GROUP**

The Customer Engagement Group (CEG) has been established by SP Energy Networks (SPEN) to provide independent challenge on whether the SPEN business plan addresses the needs and preferences of the company's customers and stakeholders.

## 2. BACKGROUND

The Energy Regulator, the Office of Gas and Electricity Markets (Ofgem) controls the prices that the electricity distribution network companies in the UK can charge for maintaining and improving the wires and associated equipment that connect homes and businesses to the electricity system.

It does this by holding regular 'Price Controls' when it examines the companies' business plans and decides on the charges that the companies can make. The next Price Control for the electricity distribution companies, called RIIO-ED2, runs from 1st April 2023 until 31st March 2028. (RIIO stands for Revenue = incentive + innovation + outputs.)

To enable Ofgem to make determinations on the levels of pricing that it will allow the distribution companies, they must create a business plan for the period setting out what they think they must invest in for future demands for electricity distribution and for maintenance of the system.

Each of the six distribution companies in the UK has been required by Ofgem to form a Customer Engagement Group to challenge the company's business plans. See [https://www.ofgem.gov.uk/system/files/docs/2020/07/ed2\\_enhanced\\_engagement\\_guidance.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/07/ed2_enhanced_engagement_guidance.pdf).

SPEN is the distribution company responsible for moving electricity to and from around 3.5 million homes and businesses in central and southern Scotland, Merseyside, Cheshire, North Wales and North Shropshire. SPEN is part of the Iberdrola Group.

Due to the scale and pace of changes happening to the energy system, and the level of investment required to deliver this transition, it is essential that electricity network companies are challenged on their assumptions and priorities.

Ofgem expects SPEN to undertake rigorous research to understand what those affected by the company's activities need from it both now and in the future and their willingness to pay for those needs and preferences. This research will form the basis of the creation of its RIIO-ED2 business plan.

The purpose of the CEG is to challenge the business plan and to report to Ofgem on whether it addresses the needs and preferences of current and future customers and stakeholders.

### 3. THE ROLE OF SP ENERGY NETWORKS AND OFGEM

#### 3.1 The role of SP Energy Networks

SPEN will be expected to ensure the effective working of the CEG, including all steps from the planning and set-up of the group to putting in place appropriate governance arrangements. Specific requirements include:

- a) designing and running their own programme of engagement with their customers and stakeholders and demonstrating that they have done it well
- b) having in place an independent CEG. Companies with more than one licensee will need to decide whether to have a single Group covering all of their licensed areas, or a separate Group per region. Whichever decision they take, they will need to justify their approach and ensure their broader engagement activities allow for appropriate regional representation and national consistency.
- c) recruiting a Chair that acts in an independent capacity (rather than representing a particular organisation, or group of stakeholders). Ofgem expects companies to ensure Chairs and members are recruited with sufficient capacity to dedicate the time required for the role.
- d) ensuring the CEG is appropriately resourced, e.g. by providing the necessary secretariat support, training/induction for Group members.
- e) ensuring the CEG has access to relevant data including information on past performance, Totex forecasts and out-turn performance (and reasons for the variation).
- f) providing the CEG with access to comparative data from other network companies and other background data to inform the Group's decision making.
- g) ensuring timely access to staff to enable the CEG to perform their role. The company's Board will be expected to be fully engaged with the Group and this should be reflected in the governance arrangements.
- h) ensuring their Business Plans are available to the CEG with a reasonable amount of time for the Groups to review and comment on, before the companies submit their business plan, and the Group submit their reports, to both the RIIO-2 Challenge Group and to Ofgem.
- i) SPEN will also issue external and internal communications on behalf of the CEG to ensure stakeholders are kept up-to-date throughout the RIIO-ED2 business planning process. All materials will be approved by the CEG Chair and/or the CEG membership prior to publication.
- j) In addition, Ofgem expects the company to provide them with a detailed report of the arrangements they are putting in place to ensure independence of CEGs (including but not limited to):
  - i) how companies have recruited and remunerated particular members of the CEG
  - ii) what checks have been carried out to ensure any potential conflicts of interest have been highlighted and managed
  - iii) what other resources or information have been made available to CEGs, including comparative information on company performance

iv) what access CEGs have to network company staff including non-executive members of the company Board.

k) The company's Board will be fully engaged with the Group.

### 3.2 The role of Ofgem within the wider RIIO-2 price control process

Ofgem will continue to enable and encourage SPEN to deliver high-quality customer engagement throughout the RIIO-ED2 planning period. Ofgem will facilitate the challenge provided to SPEN through the following activities (but not limited to):

- a) organising regular joint CEG Chairs meetings – to share information and learning.
- b) providing a point of contact for the Chairs of each CEG and the Ofgem Challenge Group to use and make themselves available for bilateral engagement.
- c) keeping this guidance up to date as appropriate.
- d) providing guidance to CEGs and CG on the required content of their report.
- e) identifying and sharing good practice as required, so CEGs are clear of the benchmarks against which they can assess companies.
- f) providing clarification on the policy challenges to CEGs where this may aid their work.

## 4. RESPONSIBILITIES OF THE CUSTOMER ENGAGEMENT GROUP

### 4.1 The role and scope of the group

The CEG will work independently from all other bodies involved in the price control process.

The role of the CEG is (including but not limited to):

- a) identifying key concerns of all stakeholders and determine how well these have been accommodated in the company's Business Plan.
- b) providing scrutiny of individual company Business Plans through monitoring development of these plans.
- c) indirectly driving culture change towards stronger and more effective stakeholder engagement within the companies through continued interrogation of company's approaches and assumptions.
- d) influencing company decisions earlier in the process of Business Plan development.

The CEG will scrutinise and provide expert challenge across a range of topics, including but not limited to:

1. The company's overall priorities and approach; for example, at a strategic level does the company understand the range of changes happening within and to the energy system that could impact its activities.
2. The company's approach to sustainability and resilience, including, for example, consideration of the future of gas and implications for network services associated with the energy system transition.
3. Proposed outputs and associated total expenditure ("Totex") budgets (including level of cost efficiency improvements,) for example has the company demonstrated whether its proposals for expenditure efficiency/service quality improvement are sufficiently stretching? What evidence has the company provided to allow them to assess how the output targets and expenditure proposals:
  - compared to historical levels of performance?
  - compared to other network companies?
  - compared to other industries?
4. The quality of stakeholder engagement the company has undertaken to inform their proposals, including whether their business plan proposals demonstrate value for money by taking account of any willingness to pay research.
5. The approach and support provided to vulnerable consumers.
6. The company's approach to innovation, including incorporating innovation into business as usual, and including innovative approaches and initiatives from leading global network companies.
7. The range of scenarios the company has considered to anticipate future network requirements and the company's approach to managing uncertainty and associated risks. This should include testing the business plans against more extreme scenarios (both

significantly lower and higher demand) to ensure the business plan remains robust in the face of unforeseen changes.

8. What alternatives to the investment proposals has the company considered, including from parties offering alternative and non-network based solutions.
9. Any issues of particular relevance to a local region – including any significant investment choices in their area – and provide challenge to decisions made by the company when considering competing interests and perspectives.

Ofgem does not intend the CEG to discuss or review financial topics (such as the cost of capital, treatment of debt and the level of gearing in the company) however it does expect the Group to develop views on the approach taken by SPEN in relation to key financial decision tools, such as cost benefit analyses. The CEG is expected to form a view on the validity of underlying assumptions to underpin its analyses, specifically with reference to associated risks and scenarios, as well as timeframes associated to assessed benefits.

The CEG has been instructed not to attempt to scrutinise matters of cyber Information Technology (IT) and cyber Operational Technology (OT) with SPEN as these are matters of national security and may involve sensitive information that may not be appropriate to share with external parties.

The CEG will hold no decision-making powers or ownership of the business plan.

The CEG will also have its own page on the company's website which shows (including but not limited to):

- a) the membership of the CEGs, how this was decided and a code of conduct on any conflicts of interests
- b) its terms of reference, governance arrangements and ways of working
- c) minutes of meetings (anonymised/redacted if information is commercially sensitive) and other documentation, such as a log of challenges raised and the company's response.

#### 4.2 The main objectives and expectations

The CEG is expected to submit independent report/s to Ofgem and to the RIIO-2 Challenge Group. This should be submitted to Ofgem following SPEN's business plan submission in December 2021 and give Ofgem an independent assessment as to the robustness and quality of SPEN's plan. The report/s should provide the Group's views on the matters listed in 4.1 above and any other relevant matter the Group wishes to bring to Ofgem's attention. The report will give Ofgem independent evidence and assurance to consider alongside other relevant considerations in their assessment of SP Energy Networks' business plans.

The CEG report should:

- Highlight areas of agreement and disagreement, including how SPEN has responded to challenges that have been raised through this process
- Highlight where there is disagreement amongst members of the Group so Ofgem can have visibility of a range of views, and the choices that the company has made.

Although the production and submission of a report/s to Ofgem is the main output, the development of the RIIO-ED2 business plan will be an iterative process. To allow the CEG to perform its duties, the group will regularly review the plans, proposals and methodologies as they are being developed.

#### 4.3 Working practices

Throughout the business planning period, the CEG will convene approximately once a month to discuss and challenge SPEN. To do so effectively, the members of the group will dedicate sufficient time to the following activities:

- Participating in meetings, site visits and other group activities
- Meeting formally as a group
- Meeting informally as a group (without SPEN representatives)
- Agreeing on minutes and the formal challenge log after each meeting

The group will also meet with SPEN representatives when deemed necessary or conducive to its effective working.

#### 4.4 Outputs

The CEG will have the following outputs:

##### 1. Formal minutes

Formal minutes will be produced of every meeting, with the support of the secretariat, outlining the topics that were discussed, a summary of the comments from members, any actions agreed and proposed content and topics for the next meeting. Once agreed minutes of the Group will be published.

##### 2. Challenge log

The group will design and agree on a challenge log to record challenges posed by the Group through the process of their work with SPEN, and the company response. The CEG will populate the log after each meeting, listing the areas of formal challenge they wish to raise, and the details of their challenge. This will then be given to SPEN for response.

##### 3. Independent report/s

The Group may produce ad-hoc independent reports and advice to Ofgem and the RIIO2 Challenge Group, as well as its final report to the regulator following the submission of SPEN's RIIO-ED2 business plan in Q4 2021

## 5. MEMBERSHIP OF THE GROUP

### 5.1 Group composition

- An independent Chair
- Up to 10 members

Meetings of the Group are attended by secretariat support staff provided by SPEN, representatives of SPEN, an independent report writer, special advisers appointed by the Group and any other expert or external advisors the Group may invite to attend from time to time.

#### Special Advisers

In addition to the core group membership, a set of ‘special advisers’ (SpAds) will advise the group. These stakeholders will not be members of the CEG or sit in meetings on a regular basis, but instead provide ad-hoc external expertise on particular topics at appropriate points in the business planning process. SP Energy Networks’ faces a unique set of challenges in that its licence areas cover regions in each of Great Britain’s three constituent countries. Ensuring sufficient representation and knowledge of the political, social, economic and environmental issues facing these regions is a challenge the CEG must address.

Special Advisers will be subject to the same requirements as to confidentiality as CEG Members.

Special Advisers will act as advisers to the group as a whole and not the Chair. SpAd input and advice will not act as a substitute for CEG membership interaction and engagement. The CEG will retain executive decision-making authority in respect of the duties it is expected to carry out as per Ofgem’s Enhanced Stakeholder Engagement guidance and the activities listed in section 4.1.

#### Sub-Groups

The CEG may choose to form sub-groups to discuss certain topics in more detail that may be of a more technical nature or of relevance to a particular region. These groups will meet outside of the regular meeting schedule and will report back to the main group on the issues they have been asked to examine.

In addition, the CEG may invite external advisors and topic experts to their meetings, if and as required. This will help the group gain a better understanding of particularly complex or technical issues, allowing for more thorough scrutiny of SPEN’s proposals.

### 5.2 CEG meeting quorum members

A minimum of seven members should be present for meetings (not including the Chair and independent secretariat, or other representatives/specialists). Members are expected to attend each meeting unless there are justifiable circumstances that prevent otherwise.

If the Chair of the CEG is unavailable, CEG members shall nominate a stand-in Chair for the meeting in question who will assume all responsibilities for convening the meeting.

### 5.3 Responsibilities of key roles

### 5.3.1 Chair

The Chair will head up the entire CEG, acting in an independent capacity, and is considered essential to the group's effective working. The role includes the following responsibilities:

- The CEG will have a working relationship with the SPEN RIIO-ED2 team and the SPEN Customer Engagement Manager
- Between meetings, the Chair will act as a link between the CEG and SPEN, and between the CEG and Ofgem
- The Chair will also be given the opportunity to access the board of SPEN, if required
- Provide direction for the development of the CEG, shaping how the group interacts with SPEN throughout the RIIO-ED2 business planning period
- Facilitating discussion, encouraging all CEG members to express their views
- Be independent of SPEN, able to demonstrate complete impartiality at all times
- Lead the challenge on SPEN's overall priorities and approach, their understanding of changes happening to the energy system and the potential impact of their proposed activities
- Lead the challenge on the quality and extent of SPEN's customer and stakeholder engagement, providing appropriate assurance to Ofgem that consumers' preferences and needs are being addressed
- Act as a spokesperson, taking an independent viewpoint and encouraging the various members of the group to engage and work together
- Lead the group's interaction with Ofgem, either individually or through set meetings involving other Distribution Network Operators
- Alongside SPEN, consider other features of the governance processes (including but not limited to):
  - o the meeting frequency of the CEG, and the extent to which the CEG will meet without the company being present
  - o maintaining and monitoring a register of member interests.

Ofgem expects the Chair to remain in position until it has issued its draft determination (and for the company to ensure, in consultation with the Chair, the relevant members of the CEG are in place and available to participate in Open Hearings).

### 5.3.2 Members

Members are expected to carry out the following responsibilities in order to fulfil their duties:

- Come to each meeting of the CEG fully prepared by reading all briefing materials in advance
- Actively participate in group discussions and encourage others to put forward their views

SPEN and the Chair will jointly consider the appropriate membership of the Group by taking into account regional requirements, the future needs of the energy system as a whole and how to reflect the interests of existing and future consumers in their challenge to the business plan.

### 5.3.3 Secretariat

The Secretariat will serve in an auxiliary capacity to the CEG and at the CEG's sole direction. It is expected that they attend all CEG meetings except where the meetings are in closed session. The secretariat's duties are to:

- Ensure agendas and briefing papers are created and distributed in adequate time prior to the group's meetings – at least one week in advance
- Produce detailed minutes of every meeting containing all relevant and non-sensitive information and topics that were discussed – no later than seven days after a meeting takes place
- Manage the CEG's webpages and publish agendas and minutes publicly
- Maintain a challenge log, listing all areas of disagreement and reasoning behind those
- Keep a list of all actual or potential conflicts of interest of any CEG member or the Chair, and make these publicly available on the SPEN CEG website
- Track, manage and distribute actions and challenges to appropriate SPEN teams
- Ensure the CEG has adequate resources and access to individuals within SPEN

## 5.4 Period of appointment & termination process

### 5.4.1 Chair

The Chair's period of appointment will last an initial period of two years, six months (until February 2022) followed by an optional extension.

In the case of the Chair's resignation, SPEN will inform Ofgem immediately. SPEN will then set out to recruit a replacement, following the same process outlined above. Notice should be given at least two months in advance to allow sufficient time to search for, recruit and induct a new Chair.

In the unlikely event that SPEN wish to remove the Chair, SPEN will provide two-months' notice, and issue detailed reasoning to Ofgem.

### 5.4.2 Members

It is intended for all members to serve until the submission of the group's report to Ofgem. This will also allow for a smooth and effective way of working, as the entire group will become more familiar with one another, and benefit from the same learnings and experience.

In the event of any member(s) wanting to resign or not seen as being as effective as desired, the Chair reserves the right to ask for a member's resignation from their position. Notice should be given at least two months in advance to allow sufficient time to search for, recruit and induct a new member.

## 5.5 Remuneration

The Chair will be remunerated, commensurate with the skills, experience, effort and gravitas required to complete the role.

Members may be remunerated in various ways, based on the nature of the organisation they represent and their relationship with SPEN, as agreed upon recruitment.

In addition, all reasonable travel and meeting costs (in line with SPEN's existing expense policy) related to CEG members and the Chair's participation will be covered by SPEN.

## 6. INDEPENDENCE & TRANSPARENCY

### 6.1 Group independence

Members of the CEG are committed to carrying out their joint work in the most transparent way possible. The members will work in a collaborative and inclusive manner to provide the most robust challenge, assurance, and input to the RIIO-ED2 process. The CEG will operate in a completely independent capacity from both SPEN and Ofgem and report directly to Ofgem. Independence is ensured in several ways, including:

1. Selecting a Chair and members who are clearly independent from SPEN
2. A detailed conflict of interest check was carried out during the recruitment process.
3. Members undertake to declare any perceived or actual conflicts of interest to the Chair and SPEN and take appropriate steps to manage any conflicts of interest that may arise.
4. A register of conflicts of interest will be kept and maintained by the secretariat throughout the existence of the CEG
5. A process for raising concerns about a member's independence. If a CEG member has concerns about another member's independence, this should be privately communicated and explained to the Chair. The Chair may then address the issue with that particular member themselves, or raise it with SPEN, as deemed appropriate to resolve the matter
6. A process for raising concerns about the Chair's independence
7. Should any member have serious concerns about the Chair's independence, this should be directly communicated to SPEN
8. The standard agenda for each CEG meeting will include time for a closed session, where members can discuss topics/issues of interest in private
9. The CEG will work in addition (while separate) to SPEN's existing Strategic Stakeholder Panels.
10. Members of the group are all expected to work at arm's length from SPEN, and not substitute their views for those of consumers.
11. Members should act in an independent capacity as far as practical and not solely as a representative of a particular organisation, or group of customers.

### 6.2 Ensuring transparency

To ensure full transparency, all formal processes and arrangements for the group's management and working have been outlined in these Terms of Reference. SP Energy Networks has produced its own Terms of Reference, setting out the company's own specific obligations. As the CEG's transparency extends to documentation and decision-making processes, all relevant outputs and materials will be made publicly available on the SPEN CEG website, including:

- These Terms of Reference
- Copies of the agenda for each meeting
- All meeting minutes and written protocols (excluding sensitive information/data)
- Up-to-date challenge log

### 6.3 Conflicts of interest

Recording and keeping track of all potential and actual conflicts of interest of both the members and the Chair is an essential part of ensuring the CEG's transparency.

The Secretariat will be in charge of recording any conflicts, providing background on the nature and reason and noting any steps required to manage those conflicts. When needed, the CEG will carry out checks during meetings to ensure any potential conflicts have been addressed and resolved.

## **7. REVIEW, EVALUATION & APPROVAL PROCESSES**

### **7.1 Approving the ToR**

These Terms of Reference have been developed and approved by the CEG Chair and CEG members.

### **7.2 Reviewing and amending the ToR**

The CEG will review these Terms of Reference and the effectiveness of the Group every 12 months to ensure they are up-to-date with progress that has been made by the Group, its current way of working and any changes to the process or guidance.

If any member wishes to propose that the TORs are amended the proposal should be raised with the Chair. If the Chair considers it is necessary to amend the Terms of Reference, before they are ordinarily due for review this should be communicated to the Secretariat so that the matter can be considered and decided upon at a forthcoming CEG meeting.