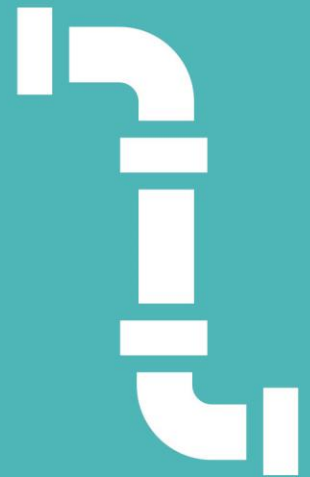




Appendix 5I Summary of CEG challenges



December 2019

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Legal Notice

This paper forms part of Wales & West Utilities Limited Regulatory Business Plan. Your attention is specifically drawn to the legal notice relating to the whole of the Business Plan, set out on the inside cover of The WWU Business Plan. This is applicable in full to this paper, as though set out in full here.



1 Introduction

1.1 Purpose of the document

This appendix is part of a suite of documents that support Chapter 5, Giving customers and stakeholder a stronger voice. Our Customer Engagement Group (CEG) was appointed in the summer of 2018, commencing work in September of that year. This has helped to drive our approach to engagement in preparation for GD2 and has delivering significant value with the group providing us with a broad range of challenges that have helped us to shape our plan.

Meeting at least monthly since their appointment, the CEG¹ have reviewed all aspects of our plan in line with the guidance given to them by Ofgem² and in scrutinising each chapter, have met with business owners and the Exec Team to consider the overall vision and strategy and the detailed plans, alongside the engagement outcomes and how we have reflected this in our business plan. Ofgem asked the CEG to prepare a report to accompany both our July and October business plan. A summary of their ratings is attached to this Appendix as Annex 1.

A summary of the high-level challenges can be found below, noting that there is a detailed challenge log which is attached to the CEG report that is published on the 23rd December 2019. In addition to the number of challenges being identified below. There is only one open challenge which is in relation to the 0.5% efficiency proposed in our business plan, the rest have all been satisfactorily closed.

2 Chapter 1 - Executive Summary/ Strategy (14 Challenges 14 Resolved)

- **Challenge – Strategy & Vision** – The CEG challenged our overall business vision and long-term strategy, and wanted us to demonstrate how this linked to our GD2 plans and beyond. We articulated our vision as we developed versions of our plan and discussed this issue in our face to face meetings with the CEG. The final narrative has been updated significantly to demonstrate our long-term vision.
- **Challenge – Sustainability** – The CEG challenged our ambition on sustainability, explaining that we were behind the curve in this area especially given the positive impact a business of our size could have. We took this challenge very seriously and invested in external support to evaluate our role and our contribution to sustainability. As a result, we have updated our company ambition, aligned our business to the United Nations' Sustainable Development Goals and are committed to both embedding this during 2020 and reporting on our performance.

3 Chapter 2 - Our Consumer Value Proposition (2 Challenges 2 Resolved)

- **Challenge – CVP areas** – The CEG reviewed our CVP evaluation methodology and outcomes. They also challenged us to ensure that we were only valuing service levels or outcomes that go beyond what would be experienced by customers in a business as usual situation. We have developed our CVP further and honed this down to a small number of areas which can be robustly quantified. Our CVP is accompanied by independent substantiation from Sia Partners.
- **Challenge – Ongoing use of CVP** The CEG challenged us on how the CVP will be used within the business to measure and drive performance during GD2 – our thinking on this has developed and a commitment is now included in our plan to use the methodology throughout GD2 to evaluate ongoing and new initiatives.

¹ see Appendix 5J for more information on CEG governance

² Noting that Financing is out of the CEG remit



4 Chapter 3 - Outputs & Incentives (8 Challenges 8 Resolved)

- **Challenge – Outputs Justification** – The CEG and the RII02 Challenge Group challenged our outputs saying they were not fully justified. Significant further work has been undertaken to deal with this and we have created Appendix 3a which also includes our responses to the set of 12 standard questions that the CEG raised for each area of our plan.
- **Challenge – Theft of Gas ODI** – see below chapter 17 on Connecting homes and businesses for further detail.

5 Chapter 4 - Track Record

- No high-level challenges received – detailed challenges included in the challenge log (Appendix to the CEG report 23rd, December 2019)

6 Chapter 5 - Giving customers and stakeholders a stronger voice (71 Challenges 71 Resolved)

- **Challenge – Engagement Strategy** - The CEG challenged our strategic approach to engagement and requested evidence to support this. In response we have developed our stakeholder strategy further both for our business planning engagement and we have also enhanced our strategy for engagement during GD2 further.
- **Challenge – Triangulation** – Early in the process the CEG challenged us on how we were going to balance and trading off differing opinions and conflicts we were likely to receive from different customer and stakeholder groups. In response we appointed an external expert to support us and we undertook a full triangulation exercise which has informed our decision making and is evidence in our business plan and appendices.
- **Challenge – Customer Segmentation** – the CEG challenged our approach to customer segmentation and stakeholder mapping. This was to ensure our engagement was inclusive and reflective of our diverse stakeholder base whilst also using appropriate methods to reach the breadth of stakeholders. Our approach has developed significantly in this area including the use of customer personas and stakeholder segmentation in our research.

7 Chapter 6 - Customer Service (9 Challenges 9 Resolved)

- **Challenge – ICS ServiceMark** – The CEG was concerned that our ICS commitment was based on a small-scale prompted survey, and was not part of the standard ICS ServiceMark survey. However, once we had explained and evidenced that the assessment criteria is based upon an statistically robust external benchmarking survey the CEG understood the value of this new reputational ODI.
- **Challenge – Community Fund** – The CEG challenged us to look at best practice elsewhere before developing our Community Fund. We welcomed this challenge and following discussion with UKPN and NGN we are now learning from others as we go into GD2.



8 Chapter 7 - Social Obligations (21 Challenges 21 Resolved)

- Challenge – Vulnerability Strategy** – The CEG challenged us on the fact that we did not have a vulnerability strategy; that we were insufficiently demonstrating the outcomes we wanted to achieve for those living in vulnerable situations; and that our partnership approach was insufficiently strategic. We have provided our vulnerability strategy within the business plan and have demonstrated the way in which this aligns with Ofgem’s vulnerability strategy. In response to this challenge we have also developed a new partnership evaluation tool which was created by experts to assess new and existing partnerships included in Appendices 7A and 7D.
- Challenge – FPNES ambition** – The CEG and the RII02 challenge group both challenged our FPNES ambition in GD2, which is lower than it was in GD1. We took time to explain to the CEG how our engagement with partners and central heating system funding providers has led to this forecast. This will continue to be an area that we review proactively and on a regular basis and we are committed to undertaking additional connections if funding is available for more heating systems.

9 Chapter 8 – Customer Bills (4 Challenges 4 Resolved)

- Challenge – Customer Bills** – The CEG challenged us to better justify what is best for customers, with clearer links to fuel poverty and to our vulnerability strategy, and to the future of energy. In response we have developed ‘Consumer Value Proposition’ which demonstrates the additional value that is delivered to different groups of customers. This was reviewed by the CEG. Our willingness to pay research showed overall acceptance for our customer bill.

10 Chapter 9 – Cost Efficiency (14 Challenges 13 Resolved)

- Challenge – Efficiency level** – The CEG has consistently challenged our 0.5% (£18m) efficiency proposal. Their view is that this lacks ambition, which in line with the feedback we also received from the RII02 Challenge Group. While we understand that the 0.5% per annum efficiency target (compounded) may seem low, it is well above the current UK economy average forecast of 0.3% per annum (Bank of England TFP); as such it creates a very stretching target of over 2.5% per annum by 2026. This is also combined with the cost already taken out of the business to date and our leading position on efficiency within the industry. Our willingness to pay research showed overall acceptance of our 0.5% efficiency proposals. This is the only challenge we have been unable to come to a satisfactory agreement and therefore cannot be closed – this remains as an area on disagreement.

11 Chapter 10 – Using competition to deliver best value

- No high-level challenges received – detailed challenges included in the challenge log (Appendix to the CEG report, 23rd December 2019)



12 Chapter 11 - Our innovation strategy (15 Challenges 15 Resolved)

- **Challenge – Innovation Engineering Focus** – The CEG challenged our innovation portfolio which was originally heavily focused on technical engineering and lacked consideration of customer service and vulnerability innovation. In response to this challenge we have reviewed our focus and widened our business as usual and innovation portfolio, while also responding to Ofgem’s guidance to invest innovation to support those living in vulnerable circumstances.
- **Challenge – Innovation Leadership and Governance** – The CEG challenged us about the extent to which innovation is embedded within our business. We were able to demonstrate this and have updated our business plan to reflect this, noting that innovation is intrinsic across the entire organisation and has enabled the delivery of a number of efficiency savings, service improvements and other benefits – and will continue to do so in GD2.

13 Chapter 12 - Dealing with uncertainty (1 Challenge 1 Resolved)

- No high-level challenges received – detailed challenges included in the challenge log (Appendix to the CEG report 23rd, December 2019)

14 Chapter 13 - Our net zero ready vision for 2035 (28 Challenges 28 Resolved)

- **Challenge – Environmental Ambition** – The CEG challenged the level of ambition in this area noting that the focus was on compliance rather than proactive leadership. The CEG also commented that we had undertaken limited engagement on this topic. The feedback on the level of ambition was echoed by the RIIO2 Challenge Group. Given that this is an area of growing importance for our customers and colleagues we undertook further engagement and as a result have increased the level of ambition significantly in terms of our net zero ready network, improving biodiversity and reducing emissions and waste.

15 Chapter 14 - Environment Action Plan (10 Challenges 10 Resolved)

- **Challenge – Environmental Ambition** – The CEG challenged the level of ambition in this area noting that the focus was on compliance rather than proactive leadership. The CEG also commented that we had undertaken limited engagement on this topic. The feedback on the level of ambition was echoed by the RIIO2 Challenge Group. Given that this is an area of growing importance for our customers and colleagues we undertook further engagement and as a result have increased the level of ambition significantly in terms of our net zero ready network, improving biodiversity and reducing emissions and waste.

16 Chapter 15 - Asset Resilience (5 Challenges 5 Resolved)

- **Challenge – Drivers of workload** – The CEG challenged us to demonstrate how the different workload drivers impacted on investment and how this linked to monetised risk and ultimately to benefits for consumers. We recognise that this is a complex area and one that we have spent time discussing with the CEG. We have articulated this more clearly in our business plan.



- **Challenge – Vulnerable customers identification during planning** The CEG challenged us on how we bring the needs of vulnerable customers into our asset investment decision making. In response, we have now mapped our PSR to meter points and meter points to assets. This means we can assess the risk of asset failure on the vulnerable in our network and manage this risk appropriately.

17 Chapter 16 - The distribution network (4 Challenges 4 Resolved)

- **Challenge – Increased Repex Costs** – The CEG challenged the increases in repex costs, first to clarify their understanding and secondly around the robustness of the evidence we were providing about these cost increases. A similar challenge was raised by the RII02 Challenge Group at the deep dive sessions in October 2019. We have spent time explaining this, walking through unit costs and demonstrating what is changing and the drivers behind this. The narrative has also been strengthened and additional appendices have been included in our business plan and this challenge is now resolved.

18 Chapter 17 - Connecting homes and businesses (2 Challenges 2 Resolved)

- **Challenge – Theft of Gas ODI** – The CEG challenged our new theft of gas bespoke financial ODI, challenging in particular why we should receive a share of the benefit from this initiative above £250k recovered. The CEG understood this proposal once we had explained that 90% of the revenue is generated by our proactive approach, how this benefits our customers and that the sharing is asymmetric in customers' favour. There was further challenge relating to when we should recover our additional administration costs and in response we have now amended our bespoke ODI as follows: -
 - Customers receive 100% up to £250k pa of back billing
 - WWU receive 100% from £250k up to £300k to fund our additional administration ³
 - Customers and WWU share 50% each of any money recovered above £300k

19 Chapter 18 - Transmission and pressure management

- No high-level challenges received (Appendix to the CEG report, 23rd December 2019)

20 Chapter 19 - Workforce Resilience (11 Challenges 11 Resolved)

- **Challenge – Diversity** The CEG challenged us in relation to the limited scope of our diversity strategy. Our initial business plan commitment in this area made specific mention of BAME employees but following the CEG's challenge and feedback from other stakeholders around the omission of people with disabilities we have amended the commitment to reflect all aspects of diversity. We have explained this further in our detailed Diversity Strategy.

³ i.e. if we fail to recover £250k, the £50k administration costs in our base totex will be returned to customers



21 Chapter 20 & 21 – Cyber Resilience and Business IT Security Plan (4 Challenges 4 Resolved)

- **Challenge – Cyber Risk Identification** – The CEG challenged our plan, commenting that it failed to fully identify risks and solutions. We have discussed our cyber resilience plans, noting the sensitivity of publishing too much detail. We have also assessed our levels of risks and potential mitigating investment against Ofgem’s guidance (as it is the Competent Authority) and are proposing an uncertainty mechanism to deal with this during GD2.

22 Chapter 22 – Financeability

- Out of scope for the CEG

23 Conclusion and Next Steps

We value the level of challenge provided by the CEG throughout our business planning process and we look forward to working with them further during 2020. The CEG will be providing their assessment to the RIIO2 Challenge Group on our final business plan on 22 December 2019 – this will be published on our website by 23 December 2019.



24 Annex 1 – CEG ratings of WWU July and October 2019 Business Plan

| Section | RAG (July) | RAG (Oct) | Rating (July) | Rating (Oct) |
|--|------------|-----------|---------------|--------------|
| 1. Executive summary | Amber | Amber | A | A |
| 2. Outputs & incentives | Amber | Amber | A | A |
| 3. Track record | Green | Green | G | G |
| 4. Giving consumers and stakeholders a stronger voice | Amber | Amber | U | U |
| 5. Customer service | Amber | Amber | A | A |
| 6. Social Obligations | Amber | Amber | A | A |
| 7. Customer bills | Red | Amber | U | A |
| 8. Consumer Value Proposition (New for Oct) | N/A | Amber | N/A | A |
| 9. Cost efficiency | Red | Amber | U | A |
| 10. Using competition to deliver best value | Green | Green | G | G |
| 11. Our innovation strategy | Amber | Green | A | A |
| 12. Dealing with uncertainty | Green | Green | A | A |
| 13. Our net zero ready vision for 2035 (July: A green energy UK) | Amber | Green | A | A |
| 14. UN Sustainable Development Goals (not in Oct) | Amber | N/A | A | N/A |
| 15. Environmental Action Plan (July: Protecting and improving the environment) | Red | Amber | U | A |
| 16. Asset Resilience | Green | Green | A | A |
| 17. The distribution network | Amber | Amber | A | A |
| 18. Connecting homes and businesses | Green | Green | G | G |
| 19. Transmission and pressure management | Green | Green | G | G |
| 20. Workforce resilience | Amber | Green | A | G |
| 21. Cyber resilience | Red | Amber | U | A |
| 22. Business IT security plan (New for Oct) | N/A | Amber | N/A | A |
| 23. Financeability – OUTSIDE CEG REMIT | N/A | N/A | N/A | N/A |

Key: RAG – Red (R) Amber (A) Green (G) **Rating** – Unacceptable (U) Acceptable (A) Good (G)
Note: The CEG ratings on the final business plan were not available at the time of publication

