

**Minutes and actions of the National Grid Electricity Transmission
Independent User Group (User Group) Meeting**

Meeting Number:	NG-UG15
Meeting Date:	7 th Oct 2020
Location:	Microsoft Teams
Start Time:	9:15 – 12:30
Attendees:	<p>Chair: Trisha McAuley (TM) Technical Secretary: Amelia Affum (AA), Charon Balrey (CBa)</p> <p>Members:</p> <ul style="list-style-type: none"> • Julie Cox (JC), Energy UK • Barry Hatton (BH), UKPN • Joe Howe (JH), University of Chester • Tom Knowland (TKn), Leeds City Council • Denise Massey (DM), Energy Innovation Centre • Zoe McLeod (ZM), Independent Consumer Advocate • Eddie Proffitt (EP), Major Energy Users Council • Ben Watts (BW), ADE • Julian Leslie (JL), National Grid, Electricity System Operator • Roz Bulleid (RB), Green Alliance • Will Webster (WW), Oil and Gas UK • Andy Paine (AP), Vattenfall <p>Invitees:</p> <ul style="list-style-type: none"> • Chris Bennett (CBe) National Grid Director of UK Regulation • Mark Brackley (MB), National Grid Project Director, RIIO T2 • Clive Elphick (CE), National Grid Sufficiently Independent Director • Cathryn Ross (CR), National Grid Sufficiently Independent Director • Nicola Shaw (NS), National Grid Executive Director UK <p>For Agenda Item</p> <ul style="list-style-type: none"> • Jeremy Cohen (JCo), Head of Responsible Business, National Grid
Apologies:	<ul style="list-style-type: none"> • David Wright (DW), National Grid Director Electricity Transmission & Group Electricity Chief Engineer

Highlights for External Publication

Agenda Reference	Description
	<p>At the 15th meeting of the Independent Electricity Transmission User Group, the members were provided an overview of NGET's response to the Draft Determination.</p> <p>The other key topic presented to the Group was Responsible Business. The User Group was briefed on the five pillars the Responsible Business Framework was based on, namely:-</p>

	<ul style="list-style-type: none"> • Environment • Economy • Communities we serve • People and • Governance <p>There was a discussion on the external inputs for each of the pillars and how they had been shaped by dialogue with stakeholders, as well as the resulting commitments and ambitions for each pillar. This was followed by a question and answer session.</p> <p>The next meeting is on the 30th November 2020.</p>
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Minutes

Agenda Reference	Minutes	Action Reference and Owner
1.	<p>Welcome from the Chair,</p> <p>TM welcomed everyone to the meeting and proposed that the minutes for May, June and August be signed off, as no comments were received further to circulation.</p> <p>TM also proposed for the action log to be updated offline and circulated as actions had either been taken over by events or completed. The Group consented to this.</p> <p>TM then talked about the focus of the day being on the Responsible Business Charter and explained that Charter had already been launched before the Group had opportunity to review so her concerns had been raised with JCo and CB. It was explained that given this was a topic that impacted both NGET & NGGT, the gas only User Group members had therefore been invited to dial into the session.</p> <p>TM informed the Group that the second agenda item would be on NGET’s response to the draft determination and welcomed the NG Sufficiently Independent Directors - CR and CE - and NS whom she had invited to present their views.</p>	<p>UG15-01 AA/CB to update actions log offline.</p>
2.	<p>Responsible Business Charter</p> <p>JCo opened by apologising that the User Group were not given the opportunity to review the Charter before publication. He set the context around discourse that took place between UK & US to produce the Charter and explained that there would be a lot of opportunity for the User Group to input during the implementation and the evolution of the Charter.</p> <p>He then explained how NG applied the key principle of ‘Total Societal Impact’ to understand how a company’s core operations & capabilities impact society. He explained the approach applied to come up with the Responsible Business Framework, how it led to the creation of the External Advisory Group, the development of the Responsible Business Charter and how this was used to effectively manage how NG responded to COVID.</p>	

	<p>JCo talked about the five pillars the Responsible Business Framework was based on, namely:-</p> <ul style="list-style-type: none"> • Environment • Economy • Communities we serve • People and • Governance <p>He spoke in detail about the external inputs for each of the pillars and how they had been shaped by dialogue with stakeholders and went into the detail of the resulting commitments and ambitions for each pillar.</p> <p>This led to a number of questions and discussion on a few areas.</p> <p>Q & A</p> <p>An action was raised for JCo to send through the list of the members of the Responsible Business Advisory Group.</p> <p>Some members of the Group considered that the plan for environmental was not ambitious enough. RB offered to provide additional feedback on other areas NG could consider.</p> <p>With regards to the “People” Pillar the Group questioned whether applying the living wage would be considered as a step change and queried why this was not explicitly stated in the charter. JCo reminded the Group that the Charter was for both the UK & US and explained the legal challenges in aligning with the US.</p> <p>There was also a discussion around what was included in diversity and how this had been defined.</p> <p>The User Group enquired from NG how they intended for the overall environmental ambition to pass through to the supply chain in terms of the standards NG would expect them to adhere to. They also asked about what enablers NG would put in place to help the supply chain step up to those requirements. JCo explained that NG’s plan to achieve this was by working with the government, post Brexit, to craft the right criteria and added that ultimately the ambition is to influence the supply chain to be responsible businesses. NS also explained the business as usual processes in place to enable discussions with the supply chain around delivering projects for net zero.</p> <p>NGET was queried as to whether there was scope going forward to effectively communicating the Responsible Business framework to the British audience as this did not seem to have been done so far. JCo explained the steps that were being taken to communicate the responsible business framework but took on board the feedback to ensure it was effectively tailored for the British audience.</p> <p>NGET was also questioned on whether what was being proposed in the charter was over and above the business plan and were asked about the level to which the Charter was contingent to the business plan. This led to</p>	<p>SG15-01 JCo to send out the list of the members of the Responsible Business Advisory Group</p>
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	<p>a further discussion on the challenges with having a Charter covering both the UK and the US.</p> <p>CB informed the Group that he believed 90% of what was in the business plan would be robust against final determination. TM informed the Group that there was a need to establish a process to ensure alignment between the group commitments and the final business plan commitment. This was essential so as to ensure a common baseline at the start of RIIO 2 in April. It was also necessary as it would ensure clarity between the role of the Responsible Business Advisory Group and the User Group whose focus is on the transmission businesses only. TM to discuss further with CB.</p>	<p>UG15-02 TM to further discuss with CB the steps that need to be taken to ensure alignment between the Group commitments and the business plan commitments.</p>
<p>3.</p>	<p>NGET Draft Determination (DD) Response</p> <p>The Chair reminded the Group that the purpose of this item was to better understand the impact of the DD on the NGET Business Plan and its commitments. This was to ensure that, the User Group had a common understanding of the final business plan commitments and their rationale come the start of RIIO-2</p> <p>MB begun by telling the Group about the constructive dialogue that had taken place with Ofgem and across the sector since the draft determination and focussed on the 3 key areas where changes were expected, namely:</p> <ul style="list-style-type: none"> i. Reliability and resilience of the UK’s electricity supply ii. Pace of progress towards net-zero energy system iii. Regulatory stability and investor confidence in the sector <p>Reliability and resilience of the UK’s electricity supply</p> <p>MB explained the gaps in the evidence that had been submitted for Reliability between what NG thought was required and what Ofgem was asking for. He spoke about the healthy progress that had subsequently been made with Ofgem since submitting the additional evidence and the hope that this would lead to an increase in the allowances for Reliability. He noted, however, that there were still issues to be resolved in some areas.</p> <p>The Group questioned the root cause for the lack of evidence, as to whether it was down to Ofgem not providing sufficient guidance or whether it was down to a misunderstanding around the level of evidence Ofgem required. MB explained that explicit discussions had been held with Ofgem on the evidence required which led to an agreement that evidence would be provided on a portfolio basis verses an asset by asset approach. He explained that the business plan guidance was not prescriptive on the precise evidence required and thus NGET had proceeded on a portfolio approach.</p> <p>There was also a discussion on specific projects like Dinorwig/ Pentir and Sheffield where Ofgem has indicated that they will not fund the full project</p>	

in the baseline but this was a concern as the project had already commenced. MB spoke about how NGET was working to convince Ofgem that it would be in consumers interest to maintain and use re-openers to address any continued funding requirements.

WW highlighted that the User Group would need some easy to understand metrics (both the top down and bottom up) in order to fulfil their role. The Group also discussed the disparity between the objectives of the NARMs framework and the reality of delivering it.

Pace of progress towards net-zero energy system

MB took the Group through the three key areas NGET was concerned about with regards to net zero. They were the framework for larger projects over £100m, creating network capacity for smaller projects and projects that connect customers to the network.

- 1) *Framework for larger projects over £100m* - MB explained the process Ofgem was proposing and the concerns from NGET that this would delay project delivery. He stated that following constructive dialogue with Ofgem on this, therefore, an Ofgem-led working group had been set up and progress was being made on making changes to the process.
- 2) *Creating network capacity for smaller projects* – MB explained how there was an automatic funding system for this in RIIO T1. He explained how performance had been volatile thus leading to NGET outperforming in RIIO T1. This is, therefore, what has led to Ofgem proposing ex-post funding instead of ex-ante in the draft determination as the way forward. MB further elaborated on the issues with Ofgem’s proposal, in that it would lead to the certainty of funding to allow projects to continue at pace and reduce costs. MB explained the discussions that were therefore underway with Ofgem to establish an ex-ante framework but address the lessons learn from volatility.

TM asked why this approach to address volatility had not been taken before draft determination given it was very fundamental. MB explained that this had been proposed in the business plan but acknowledged that more could have been done to bring Ofgem alongside during the development stages.

- 3) *Projects that connect customers to the network*. MB expressed that NGET agreed with the framework being proposed by Ofgem but noted that there was an issue with the analysis / data set which underpinned the rates being applied. MB explained that this was another area where good progress had been made with Ofgem in building a common understanding around how the data sets could be improved. MB also went through the work NGET was doing with Ofgem to improve the framework for connecting generators and demand.

There was also a discussion about the bigger picture for net zero covering aspects like electric vehicles, heat and transport and JH enquired the extent to which cross business discussions were being held to harness potential opportunities and raise with Ofgem. MB explained that discussions were in train with Ofgem and that Ofgem has proposed a Net Zero Advisory Group (NZAG) to further these discussions. CB also talked about the cross business collaborative discussions that were taking place in parallel but explained that the focus for the network companies was to get all the business as usual requirements in place for final determination. **JH expressed his disappointment that NGET had not managed to fully explore opportunities for delivering the bigger picture for net zero in RIIO-2 and asked for it to be formally recorded.**

The User Group also discussed the regime for connections and the possible implications of any licence changes.

NGET was asked whether they could provide a quantum on how much Ofgem has moved in their decision making further to all the dialogue since draft determination. CB fed back that although discussions have been constructive decisions had not been formally confirmed by Ofgem as yet.

Regulatory stability and investor confidence in the sector

MB explained to the User Group why NGET believed the financials did not stack up in that, the full suite of proposals from the draft determination creates a regime that was not attractive to investors. He explained that the reason why this would be an issue is because it pushes up the cost of capital in the long term, thereby costing more to consumers. He informed the Group that what was being proposed in the draft determination meant the business would have to find a 40% efficiency across 5 years in order to break even. MB talked the Group through the work ongoing with Ofgem on their methodology for cost assessments as well as the additional analysis Ofgem was undertaking subsequent to NGET providing new data.

MB then went through the areas like TI Clawback and the Business Plan Incentives where disagreements still existed and explained that work was ongoing with Ofgem to address these areas of concern.

The Group discussed a need for real clarity on roles between NGET, Ofgem and the User Group and the importance of three way conversations done in a timely way.

The User Group also discussed the Output delivery incentives that were rejected by Ofgem. MB focused on two key incentives - accelerating low-carbon connections and optimising the whole system cost of delivering work – and provided the Group with Ofgem’s latest view. He explained the positive considerations being given by Ofgem as they could now see the consumer benefit. He stated that Ofgem were now looking to the ESO to put bring forward proposals on how they would measure the benefits and also highlighted the support that would be need from the other Scottish TO to finalise this. It was estimated that there was potentially £200-300m benefit a year.

4.	<p>User Group Closed session</p> <p>In the closed session the Group discussed their thoughts on the Responsible Business presentation. Their view was that the process is chaotic the level of feedback from the advisory group as suggested by JCo was not clear. The Group empathised with the journey given it was a product of a negotiation process between a number of internal stakeholders across the UK and US. They discussed that the process felt very much top down and that good practise would be for staff to own it. They also discussed that the Roadmap forward and metrics was critical as was the need to talk about social capital (and other) and how this was embedded in their day to day decision making process.</p> <p>Members agreed to submit feedback which will then be collated by AA and shared with JCo.</p>	<p>UG15-03 Members to provide their feedback on Responsible Business via email cc AA/CBa</p>
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Actions

Action Reference	Target	Responsible	Description	Closure Date
UGDD-01	7/11	CB	AA/CB to update actions log offline	
UGDD-02	30/11	TM	TM to further discuss with CB the steps that need to be taken to ensure alignment between the Group commitments and the business plan commitments.	
UGDD-03	7/11	AA/CBa	Members to provide their feedback on Responsible Business via email cc AA/CBa	