

NATIONAL GRID ELECTRICITY TRANSMISSION INDEPENDENT USER GROUP

2021 Annual Report



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Chapter 1 – The National Grid Electricity Transmission Independent User Group

Introduction

The National Grid Electricity Transmission Independent User Group (NGET IUG) was set up in July 2018 as part of Ofgem's Enhanced Stakeholder Engagement Guidance¹ for RIIO-2. Following the submission of our report on the NGET RIIO-2 business plan to Ofgem at the end of 2019, National Grid decided to continue with the Group on an enduring basis to help its journey to become a truly stakeholder-led business. The Group also decided to change its name from 'National Grid Electricity Transmission Stakeholder User Group' to the 'National Grid Electricity Transmission Independent User Group' where 'Users' are defined as those who are, or who represent the interests of, existing or future customers or end-users of the electricity transmission system operated by National Grid.

Since then, we have worked jointly with, and had excellent support from, NGET to develop and produce an IUG framework for delivering on our purpose and maximising our impact. The framework includes a forward plan, inputs we can expect from NGET, evaluation criteria, logs and dashboards to track progress and IUG outputs. This has been the basis for delivering our in-year responsibilities.

This report sets out our purpose and provides an overview of our activity and impact in FY2021.

The NGET IUG Purpose

Our role in the RIIO-T2 business planning process was to assess the quality of NGET's stakeholder engagement, to ensure that stakeholder priorities were embedded in the NGET business plan and to scrutinise and challenge the business plan propositions, using our independent areas of expertise.

Working with NGET, we have reviewed our governance, refreshed our membership and re-defined our purpose within three areas of focus as follows:

1. **To scrutinise and challenge company periodic business plans:**
Scrutinise and challenge the development of company regulatory business plans, consistent with Ofgem requirements
2. **To monitor, interrogate and enhance transparency of performance against commitments:**
 - a. Hold National Grid to account in delivering its business plan commitments by monitoring delivery and enhancing transparency
 - b. Act independently and publicly share its assessment as the voice of National Grid's stakeholders
 - c. Shaping National Grid as the pathway to Net Zero is developed and challenging how it responds to external change
3. **To act as a critical friend for strategy, culture and processes in key areas:**
 - a. Provide input and challenge to National Grid's priorities and activities

- b. Provide input and challenge to National Grid's stakeholder engagement and ensure that it's part of decision-making processes and plans
- c. Help National Grid to become more stakeholder-led; demonstrating fairness, legitimacy and consumer-focus throughout the business.

We have remained cognizant of all relevant Ofgem guidance on the role of User Groups.

The NGET IUG Members

The NGET IUG is an independent group of stakeholders who use the electricity transmission system now and who also represent the existing and future interests of that stakeholder constituency.

The Group is chaired by Trisha McAuley OBE, an independent consumer expert and experienced Non-Executive Director appointed by NGET in line with the Ofgem Enhanced Engagement Guidance².

There are currently 10 members and group membership is drawn from a wide range of different interests to reflect the perspectives and expertise of energy providers, the Electricity System Operator, suppliers, end consumers, direct customers, industrial and commercial users, innovation, new business models and the environment.



Figure 1: NGET IUG Members

The NGET IUG 2021 Work Plan

At the beginning of 2021, we worked closely with NGET to develop and agree a work plan (see figure 2 on page 5) which focused not only on monitoring progress with delivering their RIIO-T2 commitments

but also considered how they needed to position themselves to deliver the government's net zero ambition.

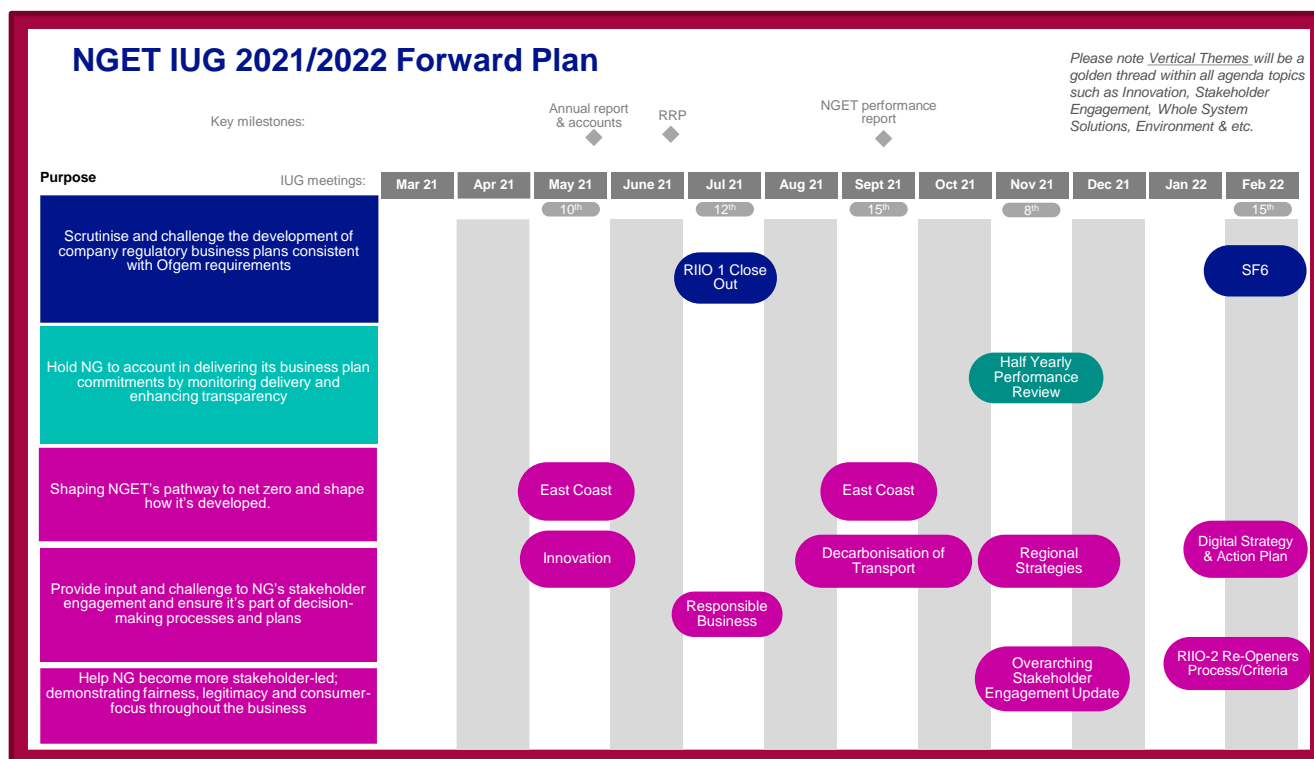


Figure 2 : IUG 21/22 Workplan

Process for Delivering Our Workplan

The process followed to deliver this workplan involved NGET providing us with a scope for each topic, with clarity on the nature of the support required from the IUG. This, in turn, enabled us to produce a set of evaluation criteria setting out what good looks like, which helped to shape the pre-read content and the ensuing discussions. The discussions then either result in challenges where the topic related directly to business plan developments, further deep dives where it related to monitoring performance on commitments or recommendations where we have acted as a critical friend. Challenges and recommendations are logged, and the NGET responses tracked.

The meetings were held on a bi-monthly basis and each meeting had a member of the IUG sharing a Customer and Safety moment. These served to remind all of the importance of having the customer and safety at the forefront of business strategy and operations. Business updates were also provided by NGET as a standing agenda item. These updates provided an overview of performance in a number of key areas and culminated in half year and end of year deep-dives into overall performance against business plan commitments.

Topics Reviewed

Figure 2 above depicts what we reviewed during the course of the year. For innovation, we discussed and provided feedback on the NGET strategy and plans for developing innovation in RIIO-T2, and the approach they were taking to ensure stakeholders were at the heart of their decision making. We also reviewed the steps they were taking to develop their innovation culture.

At the end of the RIIO-T1 price control period, even though the focus of this Group is RIIO-T2, NGET updated us on their performance story over the RIIO-T1 period, summarising the areas of the RIIO framework which worked well and areas for improvement over RIIO-T2.

Other areas we looked at were NGET's approach to developing their updated Digital Strategy and Action Plan and an overview of the Re-Opener process with a deep dive into SF6.

In the following chapters, we provide a closer look into five key areas where we provided considerable input and give a view of some of the difference we made. The areas in question are: Business Performance, Stakeholder Engagement, East Coast, De-carbonisation of Transport and Responsible Business.

Chapter 2 – NGET Business Performance

Summary of Presentations

During the RIIO 2 process, NGET committed to provide the IUG with performance insights throughout the RIIO 2 price control to assist with the IUG's role of monitoring, interrogating and improving the transparency of NGET's performance. NGET's intention was to provide a dashboard covering progress against Price Control Deliverables (PCD), Output Delivery Incentives (ODI) and managing uncertainty, where relevant, for each of the stakeholder priority areas.

NGET presented on RIIO 1 performance in July 2021, and then covered the progress of the RIIO 2 dashboard as part of the business update at subsequent meetings. NGET's internal business performance reporting has developed since the RIIO 2 process, and during the 6 monthly performance update at the November 2021 meeting, NGET presented the current performance dashboard which included progress against the ODIs and with asset replacement (which covered the majority of the PCDs).

IUG Impact

NGET are now more candid about their performance, the challenges as well as the areas of strength, and the associated reporting is now much more transparent. We have particularly welcomed NGET's willingness to share their internal performance dashboard with the IUG.

It was clear from the performance dashboard that NGET are running behind on the delivery of asset replacement in year 1 of RIIO 2. This is in part due to the restrictions that NGET introduced following a current transformer (CT) failure at their Hutton substation to ensure that the failure of similar CTs would not cause any harm to employees or the general public.

Whilst the current performance dashboard is clear, it is difficult to compare this with the scope of reporting commitments made during the RIIO 2 process, and we have therefore requested that NGET provide a map from the current dashboard to that discussed during the RIIO 2 process.

We are also interested in the cost incurred to deliver the PCD commitments. This information is not yet available, but NGET have undertaken to provide this later in 2022 in line with their Regulatory Reporting Pack commitments.

Chapter 3 – Stakeholder Engagement

Summary of Presentations

In NGET's RIIO 2 Business plans, they committed to a stakeholder 'led' approach to their business planning. This was because they recognised that engaging their stakeholders was key to the successful and timely delivery of their commitments for a clean, fair and affordable energy future.

Within their Stakeholder Strategy, they set out their priorities for the next five years as follows :-

- Enable the energy transition for all
- Deliver efficiently for our customers
- Grow our organisational capability
- Empower our people for great performance

At the beginning of 2021, therefore, NGET took us through their updated Stakeholder Strategy and approach which encompasses Ofgem's engagement guidelines, the principles of AA1000 Stakeholder Engagement Standard and our best practice stakeholder engagement guidelines. Later in the year, NGET demonstrated how the Stakeholder Strategy was being applied to some of their key projects like Responsible Business, East Coast and Decarbonisation of Transport

NGET has also shared an updated commitment at a leadership level to their published Stakeholder Charter in order to bring stakeholder input into their big decisions, through the insight gathered from the engagements they undertake.

Over time, we have encouraged NGET to demonstrate the steps they are taking to ensure the stakeholder engagement is being embedded from the very top of the business. We also asked them to consider how they would ensure that the culture within the business supports decision making and feeds into relevant governance.

IUG Impact

NGET has come a long way in their journey to becoming a stakeholder-led organisation. The senior leadership team have taken steps to demonstrate their commitment by refreshing and signing up to delivering the stakeholder charter. The approach to bringing Stakeholder Materiality to the NGET Exec was presented in Feb 22, including the introduction of Directorate Engagement Plan Leads to look across programmes of work to ensure there was a drumbeat of engagement planning, working through to execution, and also ensuring that there was a golden thread through to decision-making /action planning.

NGET is also designing/rolling out engagement metrics, including specific ones we suggested around Inclusivity and Representation, to complement the quality of engagement. These metrics will sit at the Directorate performance scorecard level. Also, in response to our feedback, NGET is designing an approach to measuring how well their engagement approach is embedding across the business, to highlight training/coaching gaps across its colleague base.

NGET have undertaken a review of the tools that colleagues have access to, to enable them to carry out all phases of stakeholder engagement, from defining its purpose; planning; implementing it; acting on what has been learnt from stakeholders. This has been done to ensure that colleagues have the right guidance and support regarding stakeholder engagement approaches. We are clearly beginning

to see the difference this is making in areas such as East Coast and Decarbonisation of Transport which are discussed later in this report.

NGET has focused on re-establishing areas of internal accountability for stakeholder engagement and created an internal stakeholder community of practice so that those leading on plans can collaborate and share, to further support their culture of being stakeholder led. It will be important for the IUG to track all of this work through to delivery

We asked NGET to collaborate more with others on research/consumer impact. In response, NGET has joined the ESO / TO Insight sharing group and reached out directly to Ofgem's Head of Insight to see what they can learn and where they can share approach, such as the Consumer Archetype work. NGET have indicated that there is a potential to expand to other utilities and collaboration with other networks is already under way regarding developing a standard Social Value calculator.

Chapter 4 – East Coast - Offshore Wind

Summary of Presentations

East Coast was first presented to the IUG in May 2021 where NGET explained the UK Government's ambition to connect 40GW of Offshore wind by 2030 and their role in facilitating the necessary investment. They elaborated on the scope and scale of challenge for NGET in that achieving the ambition would require the connection of 30GW in the next 9 years. Bearing in mind that the last 20 years had seen 10GW connected, the message was clear that the required onshore electricity network infrastructure will not be delivered by 2030, without meaningful action. It was also clear that there was a great dependency of NGET on various parties including Ofgem, the Department for Business, Energy and Industry Strategy (BEIS), the Offshore Transmission Network Review (OTNR) and the need for holistic network design, a deliverable from the Electricity System Operator (ESO), if targets are to be achieved.

We recommended NGET provided ongoing validity and visibility of the range of work being done with the OTNR to ensure that considerations and activities relating to delivering the 2030 mandate are effectively joined up. Given the pace and timing of the work, and the considerable number of projects involved, we asked NGET to be clear on how they were gearing up resources to deliver this step change from the current level of project delivery.

NGET also provided an insight into their engagement approach which seemed to be overly focused on the political stakeholder segment. We highlighted the need for NGET to fully identify all relevant stakeholder segments and it was acknowledged that the objective for the engagement should be to obtain buy-in from stakeholders on the expedience of accelerating the timeline and what would need to change to enable that. We asked NGET to consider how they could lever their position to bring the voice of the community, and consumer, to some of our high-level discussions.

We also recommended that NGET ensured that overall engagement aligned with their Stakeholder Strategy which had been developed with support from the IUG. Within that, we recommended that they considered how regional voices will be heard and factored into the decision making and that they provide transparency about the approach to engaging with the wide and diverse range of stakeholders involved. They were to also consider how the trade-offs between the various interests will be identified and addressed transparently.

A further update was provided to us in November 2021, and again in February 2022, focusing on stakeholder engagement. NGET took us through their stakeholder engagement key outcomes and their approach across national, regional and local levels (and their respective audiences) with an overview of the entire engagement landscape over the long term. They also talked about the public consultations across the major projects, together with the decisions and policy timelines to enable the delivery of Governments' 40GW by 2030 ambition, shedding a comprehensive spotlight on the Bramford to Twinstead consultation. An overview was also provided on the 'What If' digital campaign, where they are looking to elevate the debate so that consumers can understand the larger societal challenges of achieving net zero.

IUG Impact

Following the IUG's recommendations back in 2021, NGET reviewed their East Coast stakeholder engagement plan and took a step back to include a whole system approach, with clear timelines

across engagements, and transparency on the insights captured, whilst being aligned to the NGET responsible business charter.

NGET demonstrated, through their most recent update, that they are beginning to look through difference lenses to focus on the wider community and societal objectives rather than just themselves, whilst providing practical advice as well as taking more of a leading role.

NGET and the ESO have worked together to agree a strategy for engagement with local stakeholders including the MPs, which includes face to face meetings.

NGET are in the process of developing their net zero campaign and they have reported that they have taken on board our recommendation to carefully consider on how to communicate net zero to avoid any possibility of having the message misconstrued by others. We look forward to them sharing the full campaign with us once formalised.

NGET has also informed us that they will be adopting the use of engagement logs to help promote better transparency across the whole of the engagement process. We have long supported NGET's use of engagement logs to identify and map stakeholders, record their priorities and concerns, and track how that engagement had made a difference to the business.

The Energy Security Strategy of April 2022 increases the offshore ambition to 50GW by 2030 further increasing demands on NGET and other stakeholders. The IUG will be considering the implications of this for NGET throughout 2022.

Chapter 5 – De-carbonisation of Transport

Summary of Presentations

NGET presented to the IUG in Sept 2021, where they shared an introductory overview of transport de-carbonisation, specifically focusing on their role, vision, campaign aims for the year ahead and their recent activities and stakeholder insights from across the transport sectors.

This was followed by a deep dive into their stakeholder engagement approach, strategy and expected outcomes in Nov 2021. There was an in-depth exploration into their target audience (per sector) and their planned / upcoming engagement activities and approach. NGET also shared stakeholder insights from their engagement with stakeholders to date, along with the recommendations they shared with government around HGV de-carbonisation.

The IUG acknowledged the extent of the work that was being undertaken in this area, including engagement with a range of stakeholders. Nevertheless, we could not get a sense of NGET's strategic approach to transport De-carbonisation and whether the engagement that had been undertaken had been done meaningfully and effectively and with an eye to least cost to consumers in the context of the RIIO-2 Business Plan and beyond. We, therefore, recommended that NGET to produce an over-arching Transport De-carbonisation Strategy, setting out desired outcomes, objectives and their specific role in the transport de-carbonisation agenda. This was to include their stakeholder engagement strategy, covering expected outcomes. They were also to include evidence of whole system engagement and of the effective use of consumer insight and meaningful collaboration with DNOs.

Another area that the IUG identified as requiring attention was around digitisation. We asked NGET to consider the role of digitisation and to ensure alignment with NGET's digitisation strategy.

IUG Impact

Further to the feedback provided, NGET has developed a comprehensive, outcome focused, stakeholder engagement strategy, which has been specifically designed to support the delivery of their transport objectives and desired outcomes.

They have adopted best-practice stakeholder management principles and tools to understand their target audience and target key policy influencers across the various transport sectors. This has also helped ensure that they have a clearly defined approach for how they intend to engage with key stakeholders and what they want them to "know-feel-do" as a result of any specific engagement.

NGET acknowledge that digital will play a significant role in the de-carbonisation of transport as a key enabler to demand side response levers such as smart charging, smart tariffs & Vehicle to Grid (V2G)

technologies. They are clearly working on the premise that digital will be the interface that brings energy and transport together to achieve net-zero by 2050. Building on the recommendations made by the IUG, therefore, they have informed that they will be reviewing the Digital Strategy Action Plan to provide feedback and share stakeholder insights for consideration in future iterations. This presents a real opportunity for consumer insights to be reflected into the strategy to ensure that NGET are meeting consumer needs in the digital space.

Chapter 6 – Responsible Business

Summary of Presentations

In June 2021, National Grid (NG) provided an overview of the Responsible Business (RB) Charter commitments, including current and planned initiatives across the Group and the NG Electricity Transmission (NGET)/NG Gas Transmission (NGGT) businesses to deliver against targets and ambitions. This session was followed in November with a further update on NGET's progress to date and forward plans, with a focus on stakeholder engagement.

In that session, NGET led an open discussion that recognised differing maturity levels in stakeholder engagement across their key focus areas, with pockets of good practice but room to improve on, engaging across the full breadth of the Responsible Business agenda. The development of the NGET Community Strategy was cited as a good example of cross-business collaboration and stakeholder-informed decision making. The cross-industry engagement to develop a Consumer Vulnerability Framework and common approach to Social Value measurement were also discussed.

Headline Insights from the IUG (key recommendations)

The IUG prompted NG to monitor the shift in stakeholder expectations and maximise public value in response, requesting visibility of the governance process in place to do so.

In respect of both Consumer Vulnerability and Social Value, we encouraged a common approach across the utility sector, with a steer to seek out existing good practice rather than create new. Members were also keen to understand how NGET is benchmarking itself across the Responsible Business commitments, and planning to provide a clear articulation of specific, measurable targets, with effective communication to key stakeholders.

IUG Impact

NG is undertaking a review of new business priorities, as well as external benchmarks such as the Climate Action 100+ benchmark, to inform Responsible Business ambitions, and will continue to use established internal RB governance to recommend changes. As a result of the IUG's steer, NGET is also exploring opportunities for benchmarking and ways to bring in more external best practice.

Informed by IUG feedback, NGET plans to publish an ET-focused, high-level summary report in FY23, ensuring alignment to the NG Fair Transition Strategy and Responsible Business Report. The specific content and timing of publication is yet to be determined but will incorporate the IUG's recommendation to structure the report in a way that clarifies what is baseline versus what would be considered genuine leadership in the industry.

Chapter 7 – Conclusions & Next Steps

In conclusion, the IUG welcomes NGET's commitment to the enduring role of the Independent User Group and to its articulation of the valued feedback and constructive challenge that we provide. In reporting on business performance, NGET has been honest and open with us on the challenges it faces, over and above reporting on when things have gone well. Much of our focus has been on our "critical friend" role. NGET has shared its early thinking on a range of key areas and issues of major importance to achieving the UK's Net Zero ambition and of considerable cost to existing and future consumers, and to the integrity and security of our electricity supply in a net zero world. We will continue to perform our role in the RIIO-T2 period, but we will also evolve where we need to in order to equip ourselves as we move towards the planning for the RIIO-T3 framework. We will once again work to ensure that our governance framework is fit for purpose and will refresh our membership to enable the best challenge possible from NGET's existing and future stakeholder constituencies.

We thank the NGET leadership and staff teams who provide the responsive and comprehensive support we require of them timeously and of the highest quality. The IUG will continue to challenge NGET to deliver the best for its stakeholders and for consumers, now and in the future, and we know that NGET will expect nothing less. We expect NGET to continue to show how our work has made a difference.