



13. We will be transparent about our performance



What this stakeholder priority is about

Public trust in energy companies is low and rebuilding this trust is one of the key challenges we face in the coming years. Stakeholders have told us that high levels of transparency are a key aspect of earning their trust, alongside having a positive impact on the environment, customers and communities we serve.

If we want to truly earn the trust of our stakeholders and earn their confidence in what we do, we need to:

- demonstrate how what we deliver is in the interest of our stakeholders;
- explain our financial and operational performance in a clear and open manner; and
- clearly link our leadership and team incentives to deliver the outputs our stakeholders want.

What you have told us so far

You want:

- to have confidence that the revenue we earn is fair and that it reflects what we accomplish for our customers;
- easy-to-understand and easily accessible information about our financial and operational performance; and
- us to be a fair and responsible business.

What you can find in this chapter

1. What this stakeholder priority is about
2. Track record and implications for T2
3. What our stakeholders are telling us
4. Our proposals for the T2 period
5. The justification of our proposals
6. Our proposed costs for the T2 period

What we will deliver

Based on your feedback, we will be delivering the following commitments:

- We will be clearer about what we deliver for you and how this links to our financial performance, and we will publish key metrics in one place.
- For the first time the Independent Stakeholder Group will challenge us on our delivery of outputs and transparency of our performance.
- We will ensure our leadership team's remuneration is clearly aligned with delivering outputs for you.



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1. What this stakeholder priority is about

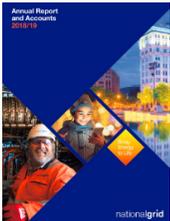
We know you have high expectations of us as the provider of a vital service. We've been closely following the debate about whether private companies should provide essential services and we recognise that some of you are concerned about this. We want to build greater trust in our business by providing full transparency and acting responsibly.

This stakeholder priority is about how we demonstrate that we are transparent in our financial and operational performance, how what we deliver is in the interests of our stakeholders and how we will make sure that we deliver on our outputs and commitments that improve society.

[Citizens Advice has set out five principles](#) for the T2 period. This stakeholder priority aligns to Citizen Advice's principle that "Companies are required to publish complete information on their performance, financial structures, gearing and ownership."

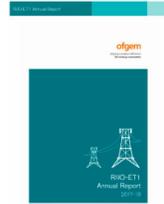
2. Track record and implications for T2

As a large company listed on the London and New York stock exchanges, we already identify and implement best practice. We report significant amounts of information on our financial performance to financial markets, and Ofgem, or through external publications. This provides a greater level of transparency on how we are operating and performing as a business. Our most significant reports are:



Our Annual Reports and Accounts, which detail our financial performance, in line with international accounting standards, and our strategy, vision and significant events. [Annual Reports and Accounts 18/19](#)

Our annual performance report to inform our stakeholders how we are performing against our T1 outputs, refer to annex ET.09 Our Performance to see the latest report.



The annual Regulatory Reporting Pack (RRP) we provide to Ofgem to inform their assessment of our performance [RIIO ET1 annual report 2017/18](#). This reporting pack provides details of our expenditure, the outputs we've delivered and our financial returns. It demonstrates our performance against our regulatory outputs and allowances.

We continue to take a responsible approach to tax. We manage our tax affairs so that we pay and collect the right amount of tax, at the right time, in accordance with the UK tax laws. Our approach to tax is consistent with the Group's broader commitment to be a responsible and sustainable business and therefore continues to be guided by our purpose and values.

Learning for the T2 period

The Regulatory Instructions and Guidance (RIGs) set out what we must report in the RRP each year. In the T1 period, the RIGs have required a more detailed breakdown of our capital expenditure data, increasing the number of input cells from around 15,000 to more than 200,000. We want to establish whether we can provide better information to our stakeholders, including Ofgem, at a lower cost to consumers. We may be able to achieve this, simply by focusing more closely on what our stakeholders want to know, rather than provide information on what we think they want to know.

A key learning point for us from the T1 period is that more of our T2 business plan should be covered by outputs so that our stakeholders will be better able to see how we are delivering against our business plan and provide more coverage on different outputs. We also recognised that we needed to link the Annual Report and Accounts to our regulatory performance, which now has the strategic performance overview, providing clarity on how we are performing.

3. What our stakeholders are telling us

We took the opportunity to engage with stakeholders to understand what aspects of transparency are important to them.

The engagement log contains detailed information on our engagement approach for this priority and how we have responded to challenges from the Independent Stakeholder Group. It details how we have reached the proposals outlined in this plan based on that engagement. This log can be found in Annex NGET_A13.01. A summary of our engagement activities and outcomes is provided in the table 13.1.



Table 13.1 Summary of our engagement

Purpose and approach	Understand views from a wide variety of stakeholder in relation to transparency, our current reporting and what else might be needed through bilateral meetings, a webinar, publications and consultations on our website and a number of workshops with Ofgem and other stakeholders.			
What our stakeholders are telling us	Consumer Groups, Environment Groups and Others <ul style="list-style-type: none"> Want a clear line of sight between activities, operational performance and financial reward Want to understand difference between allowed costs and actual costs with narrative focussed on the 'why' not just the 'what' Want to be able to compare performance across the different networks (Environment elements) 	Customers (generation and demand) and Network Operators <ul style="list-style-type: none"> Want granular detailed operational information at frequent levels Want communication to continue in order for us to meet our licence obligations Want transparency reporting in relation to the new regulatory financial performance reporting set by Ofgem Want to be involved with setting out the priorities of our business plan 	Energy Suppliers <ul style="list-style-type: none"> Want to have sight of our business planning process Want to understand what is subject to change in our business plan 	Regulator <ul style="list-style-type: none"> Want analysis to ensure we have delivered what we have been given allowances for Want to have enough analysis and justification that our business is run efficiently Want to be able to understand financial performance and if this is valid Want consistent reporting across networks and sectors where possible

4. Our proposals for the T2 period

The table below outlines how what stakeholders are telling us links to the proposals we are making and the associated consumer benefits.

Table 13.2 Our proposals for the T2 period

Stakeholder Feedback	Our proposals	Output type	T2 Baseline cost £m	Consumer benefit
Want a clear line of sight between activities, operational performance and financial reward which is easy-to-understand and easily accessible	<p>Increase the scope of our annual performance report and communicate our performance to our stakeholders</p> <p>Publish the data and reporting requirements for annual regulatory reporting process to Ofgem and prepare our system for the data exchange service</p>	LO	1.2	<p>Ensure consumers only pay for the work we must carry out</p> <p>Better understanding of the role we play in the industry and society</p> <p>We are an inclusive organisation which helps promote future talent</p>
Want to have confidence that the revenue we earn is fair and they want us to be a responsible and fair business	<p>Retaining the Independent Stakeholder Group to hold us to account on our reporting</p> <p>For proposals that relate to us being a responsible and fair business, refer to section 4 in Chapter 11 <i>We will care for the environment and communities</i></p>	Commitment	N/A	
Want to have sight of the business planning process and what has changed	Introducing the annual business planning process – see chapter 6 section 3 <i>Giving stakeholders and consumers a stronger voice</i>	Commitment	N/A	
Need to ensure that pay and reward is aligned to our business plan outcomes	We are all aligned and committed in delivering the right outputs for the T2 period	Commitment		



5. The justification of our proposals

In developing our proposals, we have reviewed what others have done, used benchmarking to determine the options we are progressing.

The step change in transparency from the T1 period is that we will be reporting on more aspects that will include output measures, financial metrics and key societal benefits, using online digital platforms.

5.1 Increase the scope of our annual performance report and communicate our performance to our stakeholders

We will do this by:

- making a stronger link between the activities we carry out, our performance metrics, and the financial reward we receive for the whole business plan
- explaining the outputs we have to deliver and the progress we have made towards delivering them and explaining how we have returned any funding for outputs we have not delivered
- providing comparisons with other companies where we can – one example is that we are working with the Scottish Transmission Owners on common environmental metrics
- explaining how our costs have differed from our forecast costs and why
- focusing our reporting on how our financial performance relates to how we've delivered for our customers and consumers
- report on all the key metrics in one place.

We are committed to widening the scope of our performance reporting to include key societal measures. This will demonstrate how we are operating as a fair business and making a positive contribution to the society that we serve. We believe this is an attractive proposition for all our stakeholders, including investors. You told us that we should continue our reporting in the annual performance report, so we will ensure that we enhance the reporting to include what has been discussed.

We will tailor our reporting to our stakeholders' needs and clearly and simply set out what you want to know in a proactive manner. We will continue to engage with you to improve our annual performance report and adapt it to your changing needs.

To increase the accessibility of data and reporting, we plan to invest in our insights platform to structure our data to support Ofgem's energy data exchange service. We will do this by:

- working with our stakeholders and Ofgem to maximise the value of data held in our business and ensure that key data items are accessible
- integrating our insights and enterprise resource planner platform with the portal to service key financial and performance data

- proposing an allowance of £1.2m to be included in the business plan to deliver this requirement.

We will ensure that we are compliant with best practice with regards to accessibility to the website and other publications by using industry standard IT applications to deliver external communication or collaboration platforms. These will enable best practice for accessibility to different content across our website. The IT costs to deliver this have been benchmarked by Gartner Inc, demonstrating our investments are in line with external benchmarks. The need and justification of the reporting can be found Annex NGET_A14.01 IT Transform.

5.2 Delivering the regulatory reporting obligations

We will:

- deliver the regulatory reporting requirements for Ofgem based on the enhanced business plan data table requirements, and review these to ensure they continue to be of mutual benefit for T2 reporting
- assure that the data is robust and reliable when submitting to Ofgem
- closely collaborate with colleagues within the business, seeking opportunities to drive efficiencies within the RRP process via automation, including close working with Ofgem on their data exchange initiative.

5.3 Our proposal to retain the Independent Stakeholder Group during the T2 period

An enduring role for the Independent Stakeholder Group in T2 period would add significant value to our business, our customers and consumers. In an enduring capacity, the Independent Stakeholder Group members will bring the following important characteristics to the forum:

- independence
- expertise
- challenging and stretching mindset on our reporting and transparency
- 'out of sector' insight.

An effective Independent Stakeholder Group will therefore be an important, integrated part of our broader stakeholder engagement programme; increasing confidence across the T2 period, improving transparency, challenging our decision-making and our reporting.

The challenge and scrutiny provided by the Independent Stakeholder Group will confirm whether our business decisions reflect what stakeholders have told us. Please refer to chapter 6 Giving stakeholders and consumers a stronger voice which contains more information on the group and associated costs.



5.4 Our proposal to ensure that we are all aligned and committed in delivering the right outcomes

We believe that our people play a vital role in delivering the commitments set out in our business plan. Our aim is to provide a fair and balanced reward framework, that is competitive within the market, to ensure we continue to attract, recruit, retain and engage the right calibre of employees to support the achievement of our business plans, while not over-paying. Our base salary, short-term and long-term incentive levels and pensions are benchmarked against appropriate energy and general industry comparator groups and we aim to position our overall reward at mid-market.

Our short-term bonus plans incentivise the delivery of both financial, strategic and operational measures (such as customer, stakeholder, network delivery, environment, safety and people measures) and the demonstration of our leadership qualities and living our values; measures are subject to change to ensure we reflect the right focus on our priorities. This ensures a clear line of sight between individual performance and contribution and delivery of our business strategy and key objectives, which overall will provide value for our customers and investors.

The annual bonus scheme currently comprises of two elements. The first element has 5 components; bonus will be based on reducing costs (12%), T1 output measure for Network Output Measures (12%), safety (12%), customer satisfaction (12%), employee enablement (12%). The second element relates to personal objectives (40%) that are aligned to priorities of the year, for example this year our focus is on delivering the customer experience transformation as

well as delivering our operational and financial commitments. Now that the corporate responsibility focus is confirmed as decarbonisation and fairness, we expect there to be a strong influence from this strategy through to executive objectives as we move in to the T2 period. We will continue with this framework into the T2 period as this allows the leadership and teams to focus on what is important to our stakeholder and will drive the greatest benefit for consumers.

Our long-term incentive plans also include key performance measures taking account of our financial, strategic and operational priorities. The targets are set by the remuneration committee which is chaired by a non-executive board member. To reinforce the long-term nature of incentives, awards are made in shares after the three-year period. Both our short-term and long-term incentive plans are subject to malus and clawback.

6. Our proposed costs for T2

The costs for these proposals are outlined in table 13.3 below and are captured within our business support functions and operational expenditure. These have been benchmarked and assessed as efficient, which you can read about in chapter 14 Our total costs and how we will provide value for money. We are forecasting an increased cost in reporting requirements to meet the annual reporting obligations expected in the T2 period. The increased cost is primarily due to the further categorisation and granularity of data sought by Ofgem.

Table 13.3 Proposed baseline costs for the T2 period*

Baseline cost	21/22	22/23	23/24	24/25	25/26	Total T2	Annual T1	Annual T2	Subject to Native Competition	Internal benchmarks	External benchmarks
IT Investment	0.2	0.3	0.3	0.2	0.2	1.2	0.2	0.2	✓	✓	✓
Total	0.2	0.3	0.3	0.2	0.2	1.2	High confidence				

*Business Plan Data Tables 4.3a Non-Ops Capex