



Annex A6.02 – Independent Stakeholder Group Set-up Report

December 2019

As a part of the NGET Business Plan Submission

RIIO-T2

nationalgrid
Electricity Transmission

A6.02 – Independent Stakeholder Group Set-up Report
Stakeholder Engagement'
(December 2019)

Submission annex

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Introduction

In April 2018, Ofgem published “RIIO-2 Enhanced Stakeholder Engagement Guidance – Version 1.” (Referred to in this report as the “SH guidance.”) This document set out Ofgem’s positioning on engagement models for RIIO-2, the associated responsibilities and next steps. These proposals included the establishment of independent “User Groups,” by relevant organisations such as National Grid Gas/National Grid Electricity Transmission and gave guidance as to what was needed, in relation to the recruitment of the independent stakeholder user group chair and members and how the groups would work going forward.

In June 2019, Ofgem published “RIIO-2 Business Plans Guidance Document” (referred to in this report as “BP guidance.”) At 2.6 the BP guidance expected network companies to provide “evidence of appointment of company specific groups.”

This report covers the requirements stated in the SH guidance and BP guidance. See section 4 for the full list of requirements and where in this report you can find the relevant information.

We chose to establish a user group for National Grid Gas (NGG) and a user group for National Grid Electricity Transmission (NGET), with a shared chair and shared membership where possible, complemented by specific members on each group. This decision was made in order:

- to maximise impact and input from experienced stakeholders to both groups
- to make efficient use of stakeholder resources and capacity to engage in the enhanced engagement process
- to allow learning and best practice sharing across the groups to be applied to our business plans
- a single chair can bring best practice across both and is an effective and efficient use of chair resource.

Structure of this report

1. In part 1 of this document, we focus the user group chair role.
2. In part 2, we set out the process currently being followed in relation to independent user group Members and the timely appointment of the user group.
3. In part 3 we set out the governance arrangements of the user group.

Part 1 – The user group chair role

The user group chair is a key role. The chair must ensure that the group functions properly, there is full participation during meetings, that all relevant matters are discussed, and that effective decisions are carried out. The chair also has a critical role to play with regards to liaison with Ofgem and the RIIO-2 Challenge Group, as well as ensuring the appropriate level of engagement with and independence from National Grid. Given this, we wanted to provide focused transparency as to the steps we had followed in making this appointment, such that all stakeholders can have confidence in the process.

Confidential data (i.e. the names of candidates for chair) has not been included in this report, albeit that data has been shared with Ofgem on a confidential basis. However, we do include detailed information as to how many chair candidates were explored and how many passed through each gate-way of our criteria on an anonymised basis.

1.2 Overview of our approach to recruiting the chair

We were determined to run a rigorous selection process, to ensure that we identified the very best candidate for this critical role. We cast our net wide in the search for the right chair, culminating in a high calibre short list. All short-listed candidates were also reviewed by Ofgem, who raised no objections and Ofgem also received a briefing on our longer list of candidates during the process.

Throughout this process, we have been mindful of Ofgem’s criteria and have built further detailed selection criteria of our own to ensure that the successful candidate is unambiguously seen by all parties as a good choice for the role. We have also been innovative and imaginative in our thinking and have sought to consider candidates outside of the “usual suspects,” to underscore the thoroughness of our search.

We set out our approach below in three key areas:

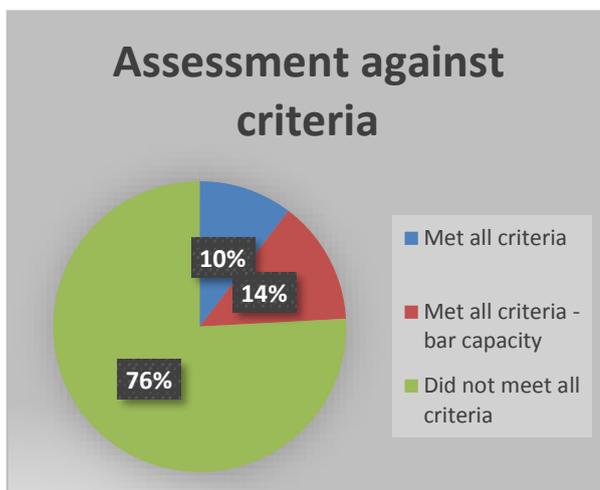
1. chair longlisting - the Ofgem selection criteria and assessment of candidates against these criteria
2. chair shortlisting – further National Grid criteria used at the interview stage and the assessment of candidates against that data
3. management of chair conflicts of interest.

1.3 Chair longlisting - Ofgem selection criteria

The criteria for the independent user group chair appointment as set out at 2.15 of the SH guidance consisted of:

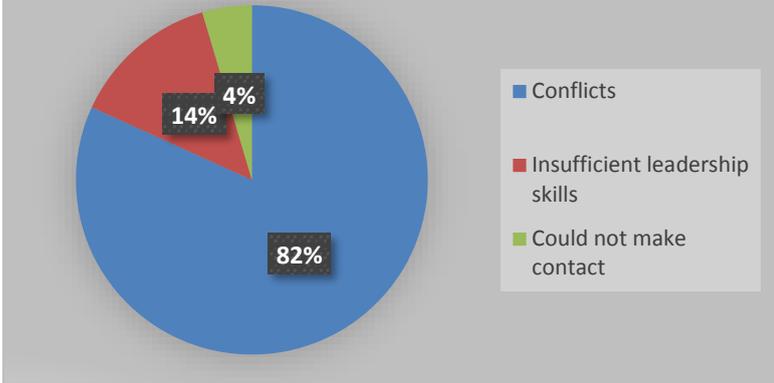
- the chair must act as an individual and not as a representative of a particular organisation
- the chair must have a strong track-record of challenging opinions, assumptions and vision
- experience of operating in the energy, or other regulated utility sectors would be desirable, but not essential.

It was also highlighted within the SH guidance that it was important that the chair must have “sufficient capacity” to dedicate the time required for the role.



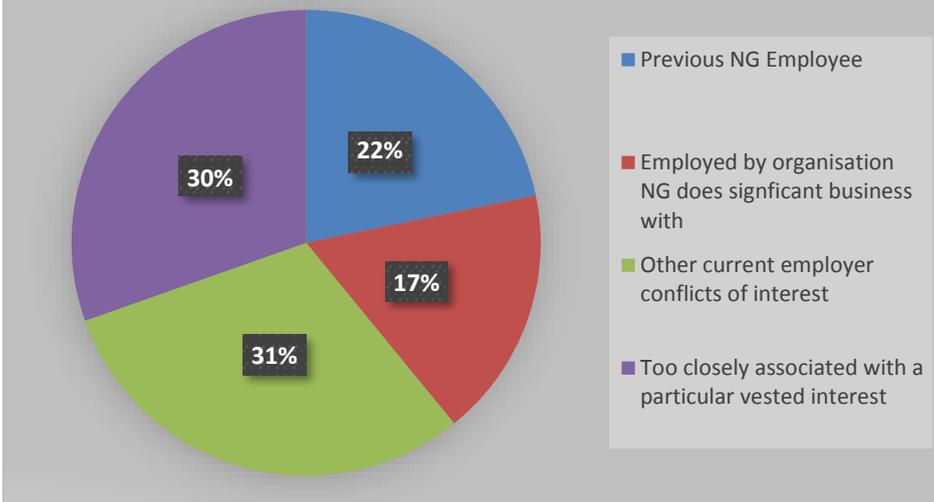
We used these criteria as the foundation for our initial long-listing exercise and identified 29 potential candidates. Seven of the candidates met all criteria bar potentially having the time to do the job. From these seven, three did have the capacity and were interviewed.

Reason for rejection



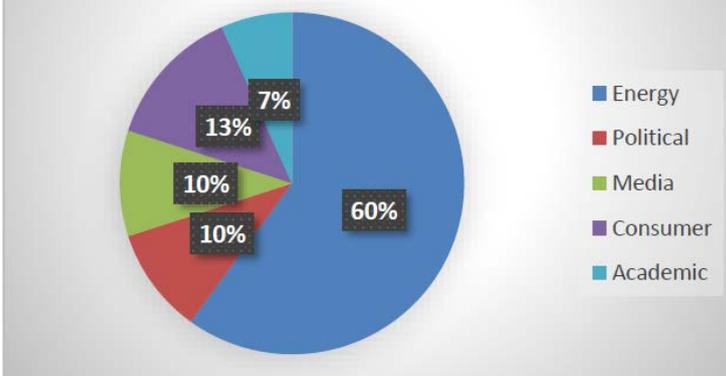
Of the 22 candidates where we identified more than one factor other than capacity as to why we did not take them forward, most rejections were based on potential conflicts of interest.

Identified type of conflict of interest



Potential conflicts of interest took a variety of forms and some candidates were ruled out on more than one conflict of interest ground.

Long-listed Candidates Background



Previous energy industry experience was desirable rather than essential and, in casting our net more widely, inevitably several candidates who had no obvious energy background were thoroughly evaluated. A number of the candidates identified below as primarily having an energy background, also had a strong consumer background

Long-listed candidates we would have interviewed who ruled themselves out on capacity or conflicts grounds



1.4 Chair shortlisting/interview stage

We focused our interviews with short-listed candidates around four key areas.

- (1) Ability to demonstrate independence from National Grid/ other interests
- (2) Industry experience
- (3) Capability, insight and experience as a chair
- (4) Capacity - which has some mandatory elements (time/ agreeing the fee) and some more exploratory aspects around leadership, people skills (working with user group members/secretariat etc) and resilience.

The rigorous nature of our long-listing process meant that we had three very strong candidates for the final interviews. All candidates met all relevant criteria, albeit, there were differentiations in the scoring. Our selected candidate's points of differentiation were two-fold, as she scored strongest on "experience, capability and insight as a chair", and also demonstrated the strongest vision.

1.5 Management of chair conflicts of interest

We have taken vigorous steps in relation to managing chair conflicts of interest:

- we conducted our own screening of candidates' known interests, when compiling our long list
- we asked all short-listed candidates to fill out a more formal declaration of interest's form
- we shared the short-listed candidates' names and conflicts of interests forms with Ofgem and gave Ofgem a right of veto over all candidates
- we asked Experian to do a final Director check of the successful candidate's declarations of conflicts of interest
- the terms of the chair appointment are such that it is an obligation that the chair declares any new interests that arise during their time as chair and we will run further periodic background checks.

1.6 Chair Remuneration

We have agreed that we will pay our user group chair a day rate plus expenses and have shared these figures with Ofgem.

1.7 Chair contract

The chair contract is covered in the Terms of Reference: Chair Section as below:

The Chair will be appointed first (as ratified by Ofgem) and must act as an individual and not as a representative of a particular organisation, or group of stakeholders. Ordinarily, the Chair shall convene the Stakeholder Group meetings.

Once the Chair is appointed, National Grid cannot dismiss the Chair unilaterally without first notifying both members of the Stakeholder Group and Ofgem. Ofgem must understand the exact reasons for dismissal and may require further information, including through direct contact with the Chair and other members of the Stakeholder Group, ahead of any dismissal. The Chair will be in place, as a minimum, until Ofgem has issued draft determination (estimated for Q3 2020).

If the designated Chair is not available, then a formal nominee shall be agreed in advance of the meeting with all Stakeholder Group members. The Acting Chair will be responsible for convening and conducting the Stakeholder Group meetings and for informing the Chair as to the salient points / decisions raised and agreed to at the meeting.

The Chair will keep under review the membership of the Stakeholder Group. The Chair will attend National Grid Electricity and Gas Board meetings at least once a year to provide an update on the Stakeholder Group in addition to any meetings with Ofgem and any potential open hearings.

Part 2 - User group member selection process

In this section, we will cover SH guidance requirements as below in relation to the user group members.

2.1 Overview of our approach to recruiting user group members

User group members are key to the successful functioning of the user group. As with the user group chair role, we shared the names of specific candidates with Ofgem on a confidential basis, but for the purposes of this report, data is included on an anonymised basis.

In determining our member type list and profile, we reviewed Ofgem's requirements, identified suitable member categories and identified what we were looking for members to bring in terms of time commitment. Our user group chair was part of the final approval process to sign-off the appointments.

2.2 Member Profiles

We sought a cross-section of members that met the membership expectations outlined by Ofgem. We looked for user group members who fulfil the following criteria:

- appropriate background and experience to challenge our plans
- current position is of an appropriate level of seniority to be credible, while allowing time and attention to detail to give robust challenge required
- brings relevant energy/regulatory experience
- ability to fill a specific seat (based on existing or relevant position) including; shipper, distribution network, large user, new business models
- ability to provide representation as an individual
- experience of representation on industry forums or working groups
- able to give time commitment to do all necessary review and challenge ahead of meetings
- commitment through to draft determination
- no perceived conflicts of interest.

Where we are able, we looked first to fill positions with stakeholders able to input robustly to both electricity and gas transmission.

As with the independent user group chair, we were keen to reach as wider pool of potential candidates as possible and to that end, utilised a number of routes.

- we first raised awareness by speaking on our need to recruit candidates at all Ofgem RIIO- 2 stakeholder events and had several conversations at these events

- we highlighted the opportunity through suitable trade associations (Energy UK and Energy Intensive User Group)
- we held a webinar and raised awareness through a newsletter
- we asked Citizens Advice for suggestions on possible consumer or sustainability representatives
- we worked with our own stakeholder team to identify further potential leads and engaged 1:1 with a range of potential stakeholders who we felt met potentially met our criteria.

Having spoken to all candidates, we produced a short list of those who were able to commit the time necessary and reviewed this (along with the associated candidate biographies) with the chair, to determine final membership.

2.3 Remuneration of user group members

It is our policy that we will pay user group members expenses but will only pay remuneration where members work for a non-commercial organisation. We have identified four such potential member positions, which are rooted in sustainability, innovation, consumer and the small customer space.

2.4 Timely appointment of the user group

We began our recruitment process in early 2018 and as far as we are aware were the first to convene our independent stakeholder user group on 6 July 2018.

2.5 Management of member conflict of interest

We have taken vigorous steps in relation to managing member conflicts of interest. We discussed potential conflicts with all members prior to appointment (including it in the relevant member profile). All members were required to sign a conflict of interest form. This is reviewed periodically, and members have an ongoing responsibility, detailed in the terms of reference for the user group, to notify to the chair any potential conflicts which may arise following appointment. The members have a hospitality log which is updated following each meeting to record any hospitality not specifically referenced in member contracts.

Part 3 – Governance arrangements

In this section, we cover business plan and SH guidance requirements in relation to the governance arrangements of the user group.

The user group created their own key objective ‘to enhance the voice of stakeholders and positively impact the National Grid business plan(s) through critical review to deliver a sustainable, ambitious and cost-effective outcome for consumers and stakeholders.’

3.1 Terms of Reference

Formal Terms of Reference agreed by the user group include: bringing their experience, new insights and engagement skills to challenge National Grid’s engagement plans; scrutinise and provide expert input and challenge to National Grid’s business plan; and identify areas of agreement or disagreement with our plans to report back to Ofgem. Terms of Reference can be found here:

<https://isug.nationalgrid.com/files/Stakeholder-Group-ToR.pdf>

3.2 Forward agenda

The independent stakeholder user group were provided with induction packs which formed the basis of discussion at the first meeting. The user group were also invited to attend and number of site visits, including the Gas National Control Centre. We have provided information on RII0-1 performance through a webinar, written papers, presentations and sharing of the RII0-2 Challenge Group information request on historic performance.

All standard agendas include time for a closed session with members, without National Grid representation. These closed sessions have increased in duration and depth of discussion as the business plan drafts have progressed. The meeting dates from the user group from set up in July 2018 through to the final business plan submission in December 2019 are as follows:

	NGGT	NGET
SG1	6 th July 2018	
SG2	30 th and 31 st July 2018	
SG3	2 nd October 2018	3 rd October 2018
SG4	28 th November 2018	29 th November 2018
SG5 (early visibility of playback consultation)	11 th January 2019	10 th January 2019
Planning Meeting: members only	23 rd January 2019	
SG6	21 st February 2019	22 nd February 2019
SG7	17 th April 2019	16 th April 2019
Planning Meeting: members only	21 st May 2019	
SG8 (review of 1st iteration of the business plan)	19 th June 2019	20 th June 2019
Planning Meeting: members only	23 rd July 2019	
SG9	15 th August 2019	14 th August 2019
SG10 (review of 2nd iteration of the business plan)	4 th September 2019	3 rd September 2019
SG11	9 th October 2019	10 th October 2019
SG12 (review of final iteration of the business plan)	21 st November 2019	22 nd November 2019

3.3 Access to staff, including the Board

We have taken steps to ensure that the chair has access to company board members, both through one to ones and attendance at board meetings. Our UK Executive Director, several company directors and the Sufficiently Independent Directors have attended meetings of the independent stakeholder User Group. Attendance by the National Grid CEO is planned for the October 2019 meeting. We have a full National Grid senior leadership programme plan of interactions with the user group, this forward agenda is reviewed regularly with the chair.

A high calibre technical secretary was appointed to each user group on a full-time basis. These roles, whilst fully funded by NGG and NGET, report directly to the independent Chair. The technical secretary facilitates arm's length interactions with wider National Grid employees.

The independent stakeholder user group has also appointed a dedicated report writer to support in producing the user groups' reports.

3.4 User Group website

The stakeholder independent user groups website is available here: <https://isug.nationalgrid.com/>
Published here are the National Grid commitment statement, Terms of Reference and minutes of meetings.

Part 4 - Ofgem enhanced engagement guidance requirements

Ofgem enhanced engagement guidance section 2.1	Report reference
recruiting a Chair that acts in an independent capacity (rather than representing a particular organisation, or group of stakeholders).	1.2, 1.3 and 1.4
We expect companies to ensure Chairs and members are recruited with sufficient capacity to dedicate the time required for the role	1.3 and 1.4 (Chair) and 2.2 (members)
ensuring the Group is appropriately resourced e.g. by providing the necessary secretariat support, training/induction for Group members	3.2 and 3.3
ensuring the Group has access to relevant data including information on past performance, totex forecasts and out-turn performance (and reasons for the variation)	3.2
providing the Group with access to comparative data from other network companies and other background data to inform the Group's decision making	3.2
ensuring timely access to staff to enable the Group to perform their role.	3.2 and 3.3
The company's Board will be expected to be fully engaged with the Group and this should be reflected in the governance arrangements	3.3
ensuring their business plans are available with a reasonable amount of time for the Groups to review and comment on, before companies submit their business plan, and the Group submit their reports to both the RIIO-2 Challenge Group and to Ofgem.	3.2
Membership of the Groups established by the companies	Report reference
2.15 An independent Chair will head up each of the Groups. The company will recruit the Chair. The Chair must act as an individual and not as a representative of a particular organisation, or Group of customers. In appointing a Chair, we expect companies to consider candidates that have a strong track-record of demonstrating leadership at a senior level. We expect candidates to have a proven record of challenging opinions, assumptions and vision. Experience of operating in the energy, or other regulated utility sectors would be desirable, but not essential. All candidates should be required to declare any actual, or potential, conflicts of interest that may arise from acting as Chair. Companies must share with us their shortlist of Chairs (explaining how they meet the above criteria) in advance of appointing one. We will highlight any concerns we have and we expect companies to consider these carefully before proceeding with an appointment.	1.2, 1.3 and 1.4
2.17 We expect membership of the transmission companies' User Groups to include users of the network such as shippers, suppliers, generators, distribution networks, large users and from new business models that challenge and provide an alternative to traditional network functions. These parties can sit alongside consumer representative bodies and other stakeholders capable of providing the necessary challenge and input.	2.1 and 2.2
2.18 The Groups in all sectors could also include members who have specialist knowledge and skills that will provide additional input and challenge to the companies.	2.2
2.19 As well as offering challenge to the company's proposals in terms of their projections of cost efficiency and service quality improvements, we expect members to also have expertise in certain topics or the ability to call upon expertise in these areas, for example in non-traditional business models, innovation, fuel poverty, community energy, consumer research etc. This will ensure that the company proposals are subject to robust challenge across a range of topics.	2.2
Governance arrangements and transparency of the Groups established by the companies	Report reference
2.21 It is important that the Chair and the Groups are, and are seen to be, independent from the companies. The risk of capture is real, particularly given the high level of contact between the company and members. To build trust and legitimacy, appropriate governance arrangements must be put in place to ensure transparency and to provide assurance that the Groups are operating at arm's-length from the company. This will provide more	3.1

confidence in the outputs of the Groups with stronger and more transparent governance processes in place	
2.24 We do however expect companies to provide us with a detailed report of the arrangements they are putting in place to ensure independence, and we will highlight any concerns that we may have. We are likely to consider the following (including but not limited to): (a) how companies have recruited and remunerated particular members of the Group (b) what checks have been carried out to ensure any potential conflicts of interest have been highlighted and managed (c) what other resources or information have been made available to Groups, including comparative information on Company performance (d) what access Groups have to staff	(a) 1.1 and 1.6 (Chair) and 2.1 and 2.3 (members) (b) 1.5 (Chair) and 2.5 (members) (c) 3.2 (d) 3.3
2.25 We expect the company to establish the appropriate remuneration package for the Chair role. We want visibility of the proposed remuneration package of the Chair and members alongside the shortlist of candidates for the Chair	1.2 and 1.6 (chair) and 2.3 (member)
2.26 We also expect the company to provide detail on its terms for changing or terminating their contract with the Chair. We expect the contract for the Chair to keep them in position at least until we have issued our draft determination. During this period, we do not expect the company to be able to dismiss the Chair without first notifying both members of the Group and us. We would expect an opportunity to seek further information on the reasons for dismissal, including through direct contact with the Chair and other members of the Group, before the company should proceed.	1.7
2.27 We would also expect the company and the Chair to consider other features of the governance processes (including but not limited to): • the meeting frequency of the Group, and the extent to which the Group will meet without the company being present • maintaining and monitoring a register of member interests	3.2
2.28 Groups should also have their own page on the company's website which shows (including but not limited to): • the membership of the Groups, how this was decided and a code of conduct on any conflicts of interests • its terms of reference, governance arrangements and ways of working • 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.	3.4
BP Guidance	Report reference
2.6 appointment of company specific groups – including timely appointment of groups, governance arrangements at appointment and on an ongoing basis, among other things as describe in the enhanced engagement guidance document.	Full report