



# Annex

## A7.01 Assurance Report

### December 2019

As a part of the NGGT Business Plan Submission

## Annex A7.01 – Assuring our plan

We are committed to being a responsible, transparent business with the highest standards of governance. As part of this, our Board recognises that we have a duty to ensure our RIIO-2 Business Plan is robust, accurate and assured in order to justify the legitimacy of the plan and maintain transparency and openness with our stakeholders. As a regulated monopoly, at a time of political and public focus on energy and the companies within the sector, this is even more important.

In this annex we detail how our assurance strategy provides confidence we have created a high-quality plan. The Board have been fully involved with the assurance strategy and challenged the approach at each step to ensure we have a comprehensive assurance and governance programme. This work has allowed the Board to make the following statements regarding the plan.

- The Board owns the overall strategy and direction of the Company's Business Plan.
- The Board is of the opinion that the Company's Business Plan is accurate<sup>1</sup> and based on high quality data. The Board has reached this conclusion through implementing an overall strategy for data assurance and governance that has sought to deliver a Business Plan that is accurate and based on high quality data.
- The Board has challenged and satisfied itself that, in the opinion of the Board, expenditure forecasts included in the Company's Business Plan are robust<sup>2</sup> and efficient<sup>3</sup>.
- The Board has challenged and satisfied itself that, in the opinion of the Board, the Company's Business Plan is ambitious<sup>4</sup>.
- In the opinion of the Board, the Company's Business Plan represents good value for money for existing and future gas consumers as a consequence of it being a robust, efficient and ambitious plan.
- The Board has sought to implement a strategy to satisfy itself that the Company's Business Plan achieves stakeholders trust and confidence and is of the opinion that this is achieved as a result of the high levels of transparency and engagement with stakeholders during its development.

Based on our assurance programme and our assessment of financeability in Annex A22.01 the board make the following statement regarding financeability. For the purpose of this statement, we define financeable and financeability as applying to the baseline totex forecasts (i.e. excluding totex funded by uncertainty mechanisms) in our 9 December business plan submission only and meaning:

- generating sufficient cash to achieve quantitative Baa1 credit rating thresholds for each year of the RIIO-2 price control period under the March 2017 Moody's Grid Regulated Electric and Gas Networks Rating Methodology and Fitch and Standard & Poor's core metrics; and
- complying with the requirement in the Company's licence to use all reasonable endeavours to maintain an investment grade issuer credit rating based on the actual capital structure of the Company.

In giving this statement the Board does not provide assurance that the investor offering is sufficient to balance risk and reward or that financeability (as defined above) of the Company can continue to be achieved beyond the RIIO-2 price control period using the assumptions set out by Ofgem. The Board is providing this assurance statement as required by Ofgem under paragraph 4.117 of the “RIIO-2 Sector Specific Methodology Decision – Finance”, dated 24 May 2019. In providing this assurance statement the Board is not agreeing to the financial framework and the working assumptions proposed by Ofgem and this statement should not be construed as doing so. On this basis, the Board provides the required assurance that, in its opinion, the licensee is financeable on both a notional and actual capital structure basis based on Ofgem’s financial framework and the assumptions that are made in the Company’s Business Plan prior to the Final Determinations. This statement is based on the prevailing market conditions at December 2019 and internal modelling of credit metrics which has not been tested with rating agencies.

Such assurance is subject to an increase in revenue of £100m per annum through the application of financeability levers. Many such measures are not in line with good regulatory practice, are not sustainable in nature and could be disregarded by rating agencies in their assessments. The scale of the adjustment is such that we do not agree with applying the measures. They should therefore not be used ahead of the more sustainable measure of using a higher return assumption. However, such adjustments would provide additional cash in the RIIO-2 period to enable credit metric thresholds to be achieved.

Notes:

1. For the purposes of the assurance statement the Board define ‘accurate’ as being reliably evidenced by sound rationale and assumptions
2. For the purposes of the assurance statement the Board define ‘robust’ as: (a) Being able to withstand changes due to uncertainty and external factors. This is achieved through assessment of risk and uncertainty and the use of uncertainty mechanisms, and (b) Being based on evidence and reasonable assumptions.
3. For the purposes of the assurance statement the Board define ‘efficient’ as: We have justified with evidence that, (a) The need, timing and volume of proposed investments is in the best interests of consumers based on assessment of relevant options, (b) As we enter into the T2 period our costs to deliver stakeholder desired outputs, benchmark better or in line with external or internal historic comparators where appropriate and will remain there through the T2 period.
4. For the purposes of the assurance statement, the Board defines an ‘ambitious’ plan as one which contains future service commitments and output performance commitments including delivering world class safety and network reliability and supporting the move to Net-Zero by 2050.

## 1 Existing National Grid procedures

National Grid believes it is crucial to have a clear sense of what we stand for as a Company. Our vision is to exceed the expectations of our customers, shareholders and communities today and make possible the energy systems of tomorrow.

We have to play an active role in helping to shape the changing energy landscape. Our values are unambiguous: every day we do the right thing and find a better way. Our values define the mindset and behaviours important for our business. They also guide us to achieve the right outcomes and our desired culture.

As a Board we know the importance of creating a stable, reliable and sustainable business that benefits both our stakeholders and wider society. We have well-established governance structures that include comprehensive risk management, strong controls and financial discipline to support our position as a responsible business.

### Governance

We aim to achieve high standards of leadership and governance. At the National Grid plc level, we comply in full with the provisions of the UK Corporate Governance Code 2016 (the Code), the latest statement on compliance with the code is contained in the National Grid plc 2018/19 annual report which is available on our website. National Grid Gas Transmission is not required to comply with the Code; however, the Board is mindful of the principles of the Code and develops its governance and oversight of the Company considering the wider range of stakeholders in its business. The principal areas of the National Grid Gas Transmission Board governance, together with an explanation of areas where it considers that it has operated consistently with the main principles of the Code, are set out in the Corporate Governance statement of the National Grid Gas Transmission 2018/19 annual report available on our website.

We have applied the same high standards of corporate governance to the RIIO-2 Business plan submission.

### Risk management

The National Grid Gas Transmission Board is committed to protecting and enhancing our reputation and assets, while safeguarding the interests of our stakeholders. It has overall responsibility for the Company's system of risk management and internal control.

Overall risk strategy, policy and process are set at the Group level by National Grid plc with implementation owned by National Grid Gas Transmission. Our enterprise risk management process provides a framework through which we can consistently identify, assess and prioritise, manage, monitor and report risks.

We agree these top risks through implementation of our top-down/bottom-up risk management process including at UK Executive and Gas Transmission Executive. Each risk is assessed by considering the financial, operational and reputational impacts, and how likely the risk is to materialise. The business identifies and implements actions to manage and monitor the risks. The risks and actions identified are collated in risk registers and reported at functional and

regional levels quarterly. These risks and any associated management actions are cascaded through the organisation as appropriate.

The Board assesses these risks and monitors the risk management process through risk review and challenge sessions twice a year.

### **Internal control process**

We have a number of processes to support our internal control environment. These processes are managed by dedicated specialist teams, including risk management, ethics and compliance management, corporate audit and internal controls, and safety, environment and health. Oversight of these activities is provided through regular review and reporting to the Board and appropriate Board committees.

Monitoring internal control is conducted through established boards and committees at different levels of the National Grid plc organisation, policies and practices are then flowed to National Grid Gas Transmission plc for implementation and action. Deficiencies are reported and corrected at the appropriate entity-level. The most significant risk and internal controls issues are monitored at the Senior Executive and National Grid plc Board level. The Audit Committee is responsible for keeping under review and reporting to the Board on effectiveness of reporting, internal control policies, Bribery Act legislation, appropriateness of financial disclosures and procedures for risk and compliance management, business conduct and internal audit.

### **Reviewing the effectiveness of our internal control and risk management**

The Board continually monitors and assesses the effectiveness of our internal control systems and risk management processes covering all material systems, including financial, operational and compliance controls, to make sure they remain robust. The latest review covered the period 1 April 2018 to 24 July 2019. In this review, the Board considered the effectiveness of areas such as the control environment, risk management and internal control activities, including those described below. It noted that no significant deficiencies and material weaknesses had been identified by the review and confirmed that it was satisfied the systems and processes were functioning effectively.

Fostering a culture of integrity is an important element of our risk management and internal controls system. National Grid's values: 'do the right thing' and 'find a better way' provide a framework for reporting business conduct issues, educating employees and promoting a culture of integrity at all levels of the business. We have policies and procedures in place to communicate behaviour expected from employees and third parties, and to prevent and investigate fraud and bribery and other business conduct issues. We monitor and address business conduct issues through several means, including a biannual review by the Audit Committee.

Overall compliance strategy, policy and frameworks are set at the National Grid plc Group-level with implementation owned by National Grid Gas Transmission. The business is responsible for identifying compliance issues, continuous monitoring, and developing actions to improve compliance performance. We monitor and address compliance issues, through several means including leadership meetings and biannual reviews by the Audit Committee.

A feature of our internal controls system is our three lines of defence model. This model is a way of explaining the relationship between functions and how responsibilities for risk and controls are allocated and monitored. Each business function owns and is responsible for managing its own particular risk and controls (the first line of defence). Central management teams (the second line of defence) act as an advisory function on implementing the principal risk assessments and actions taken to mitigate and manage those risks. Our internal audit function then audits selected controls to provide independent assessments of the effectiveness of our risk management and internal control systems (the third line of defence).

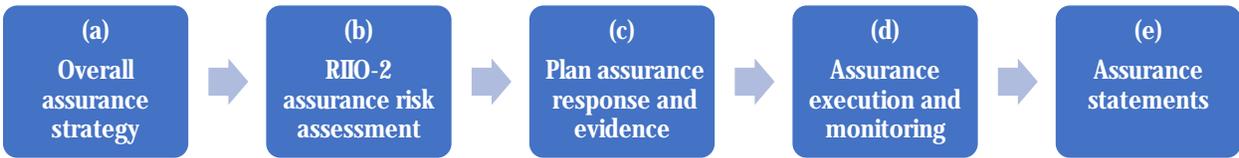
The Certificate of Assurance (CoA) from the CEO of National Grid to the National Grid Group Board provides overall assurance around the effectiveness of our risk management and internal controls systems. The CoA process operates via a cascade system and takes place annually in support of the Company's full year results. The Audit Committee considers the CoA and provides a recommendation to the National Grid plc Board in support of its review.

**Regular business planning process**

National Grid has an established business planning cadence, we prepare a three-year rolling forecast which is refreshed quarterly. We also undertake an annual process to update our strategic business plan, which forecasts our business performance over a 10-year period. We have used these well-established policies and processes as the basis of our T2 Business Plan.

**2 RIIO-2 Business Plan assurance**

A key aspect of our assurance approach is to build on our well-established assurance framework and business as usual knowledge and processes. Our approach is summarised in the diagram below:



**a. Overall assurance strategy**

Our assurance strategy leverages existing processes, controls and assurance activities and focuses assurance efforts on the areas where our RIIO-2 plan builds on those sources of information.

We have not retested existing processes, controls and assurance activities as part of the RIIO-2 process but have instead obtained assurance confirmations from the Director of National Grid Gas Transmission plc which confirms underlying business and assurance processes have been in place and working effectively in the period.

T2 business plan submission assurance		
	Information	Assurance
T2 Business plan	T2 business plan process overlays BAU processes focused on stakeholder engagement, efficiency and ambition strategy, data and narrative building	T2 business plan assurance program
Business as usual	Our plan is built on our BAU processes, key building blocks: asset health, connections and capacity and business planning processes	BAU assurance over existing processes

This approach ensures we efficiently leverage the robust framework already in place and allows resources to focus on the RIIO-2 specific areas. Details of business as usual assurance framework is presented in section 1 above.

### **b. RIIO-2 assurance risk assessment**

We have performed a bottom up and top down risk assessment over our RIIO-2 Business Plan. In this assessment we considered all activities which would be undertaken in preparing the RIIO-2 Business Plan. When assessing the risk, we have considered the likelihood of an issue occurring and the impact of the issues that may occur. Factors included in the assessment of likelihood were the degree of complexity, level of change and subjectivity and the ownership and accountability in each area. Factors considered in the assessment of impact included monetary, environmental, statutory or regulatory and consumers impacts.

We have combined the impact and likelihood risk assessments in reaching the overall risk assessment. This risk assessment has been tested internally through review by corporate audit and externally through review by EY and findings incorporated into the final assessment.

### **c. Plan assurance response and evidence**

After performing the risk assessment, we considered mitigating actions. We planned a comprehensive assurance programme incorporating the three-lines of defence model which is regarded as best practice. In considering mitigations our plan included supporting work and evidence as well as the appropriate assurance response. The results of the risk assessment and the assurance response is detailed in the table below. This risk assessment and response has been tested internally through review by corporate audit and externally through review by EY.

Risk assessment		Assurance plan					
		1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>			
Risk	Overall risk level	In team reviews and controls	Separate team review	Corporate audit	Governance reviews	External review/assurance	User/challenge group
		Risk that underlying BAU processes are not effective, leading to inaccuracies in the underlying data used by T2.	L	✓		✓	✓
Risk stakeholder feedback is not correctly interpreted and included in the plan	H	✓			✓	✓	✓
Risk that we do not select the right level of ambition and efficiency for our plan	M	✓	✓		✓	✓	✓
Ofgem guidance is not correctly included in the plan or the wider Ofgem intent has not been understood and affected in the plan	M	✓	✓			✓	
Risk that governance is not effective	M	✓		✓			
Risk the plan is not financeable	H	✓			✓	✓	
Risk data or narrative does not reflect the BP decisions and overall strategy	M	✓	✓		✓		
Risk totex data or financial metrics are in accurately calculated	H	✓	✓	✓	✓	✓	
Risk final documents are internally inconsistent	M	✓	✓	✓		✓	

#### d. Assurance execution and monitoring

We have completed all of the work in our assurance plan; a high-level summary of the work performed is detailed in section 4 below. We engaged EY to review the results of the assurance work and other evidence obtained in mitigating the risks. This review considered the assurance work performed and other evidence and consisted of a review of the scope, findings and responses for each element.

#### e. Assurance statements

We have implemented a comprehensive assurance programme and are committed to ensuring our plan is accurate and represents good value for consumers. To demonstrate this commitment the Board have made and signed a series of statements which are included in the Executive Summary to this document.

To enable these statements to be made we have mapped the evidence from our assurance programme to show the key pieces of information that supports each statement. A high-level summary of the work performed and how this maps to each assurance statement is detailed in section 4 below.

The EY work mentioned above concluded that, ‘the evidence gathered and included as Proof Points does allow the Board to make the Board Assurance Statements.’

### 3 Board review and challenge of the RIIO-2 Business Plan

The Board has established a robust governance structure over the RIIO-2 Business Plan programme. This compliments the existing governance structures which are in place as part of business as usual. The governance structure for the programm is detailed below:



The National Grid Gas Transmission plc Board owns the overall strategy and direction of the Company’s Business Plan. A governance structure exists to report into the Board on a regular basis. The Transmission Price Review Overview Group (TPROG) is attended by members of the Group Board, UK executive and RIIO-2 programme leadership and steers RIIO-2 preparations. A monthly update from the programme is given at the UK Executive meeting which includes the Executive directors of the Transmission Business. The steering group meets monthly and propose positions on key RIIO-2 issues and are attended by Entity Directors and Senior Leadership of UK Regulation.

The Board has shaped the strategy for the RIIO-2 Business Plan and has engaged in comprehensive challenge and review throughout the development of the Plan.

The strategy for the RIIO-2 Business Plan was initially set out and debated at The National Grid Gas Transmission plc Board meeting in November 2016. Subsequently the strategy and direction of the plan has been discussed at a quarterly basis at Board meetings.

Board deep dives were held on 10<sup>th</sup> June 2019 and 7<sup>th</sup> November 2019. These days were dedicated to review and challenge of the key aspects of the RIIO-2 Business Plan and in both sessions the assurance approach was scrutinized.

The Board undertook its final review of the work that had been undertaken to provide assurance over the business plan at its meeting on 26<sup>th</sup> November 2019 and unanimously gave its approval for the signature of the Board Statements and submission of the Business Plan.

## 4 Statement detail

The work that has been undertaken to provide evidence and assurance over the plan is summarised below by statement.

### 4.1 Ownership of the overall strategy and direction of the Company's Business Plan:

*Work to build RIIO-2 business plan:*

The RIIO-2 programme has its own governance structure with detailed roles and responsibilities and terms of reference. A detailed plan was put in place for each topic to ensure Board review and involvement; this was a dynamic plan which evolved as the plan changed. The Board review included 2 deep dive full day sessions during 2019 to challenge the key aspects of the plan. The board has also been involved in key aspects of stakeholder engagement and interactions with our Independent Stakeholder User Group (SUG).

*Assurance:*

The programme management of the RIIO-2 project was subject to a 2<sup>nd</sup> line review regarding programme management. A joint second and third line review was undertaken specifically in relation to the governance of the programme. EY have reviewed the Board slide decks and related minutes and the Board's involvement in stakeholder engagement and the SUG and affirmed the Board's involvement in all key aspects of the plan.

### 4.2 Accuracy of the RIIO-2 Business Plan

*Work to build RIIO-2 business plan:*

**Accountabilities:** For each aspect of our plan we have assigned clear accountabilities to topic leads. Topic leads are responsible for ensuring all evidence is gathered and in good order for their topic. We have a detailed end product tracker which ensures we have visibility for all documents making up our plan, their owners and the review process for the product.

**Data process:** We established a process which details how data that makes up the business plan is to be built, collected, stored, managed and used. The numerical data quoted throughout our business plan has been managed in line with this process. The plan has been approved through specified governance channels and changes to the plan are subject to strict change control procedures.

**Business as usual:** The plan is based on processes and forecasting techniques we use as part of business as usual including for example our monetised risk and work force planning process.

**Business Plan Data Tables (BPDT):** We have created BPDT in line with Ofgem's templates and created the process for completing these based on tried and tested principles of RRP.

**Investment Decisions Packs (IDP):** For each group of costs proposed in our plan we have created justification reports and CBAs as appropriate. We have used Ofgem templates and guidance as well as past experience to create these using techniques including feasibility studies, optioneering, external benchmarking and historic cost analysis to ensure the best solution is included in our plan.

**Models:** We have built internal finance models to support our financeability calculations and assessments. These models and techniques have enabled us to undertake comprehensive financeability assessments. We have engaged an external expert to build our data consolidation model to enable us to have a key source of data to support our Business Plan.

*Assurance:*

**Accountabilities:** We have used the product tracker to ensure sufficient levels of review have been performed over each topic. Topic leads have provided assurance confirmations over all products within their topic, these confirmations include work over consistency with supporting documents, adherence to Ofgem guidance and link in to stakeholder engagement.

**Business Plan Data Tables (BPDT):** Information within the BPDTs has been subject to Data Assurance Guidance issued by Ofgem. This Guidance has been applied to enable us to risk assess each data table and execute an appropriate audit response. The assessment and response for each table as well as further detail on the assurance process with reference to the tables and data table narrative is included in our Irregular Submission Assurance Report annex A7.02.

**Investment Decisions Packs (IDP):** Justification reports (JRs) and Cost Benefit Analysis (CBAs) have been subject to a 2-level internal review process and a sample of JRs and CBAs have been reviewed by independent external parties. Issues noted during these reviews have been addressed in the final submission.

**Data process:** A corporate audit has been performed over the data process including an end to end review of the process and a detailed external review of the consolidation model performed by PwC. The audit conclusion was 'satisfactory'.

A corporate audit has been performed over the change control process, this process ensures changes between versions of the plan are fully documented, approved and correctly applied. The audit included an end to end review of the process and the audit conclusion was 'satisfactory'.

**Business as usual:** A corporate audit has been performed over the monetised risk process including a review of inputs to the process, controls over the model, review and challenge of outputs, interpretation and use of outputs. The audit found some improvements were required in documentation and process points but found no significant issues.

Confirmations have been obtained from the Director Gas Transmission that the underlying controls, processes and assurance has been in place and working effectively. No significant issues were noted during this confirmation process.

**Models:** An external expert has supported the development or performed a review of our finance and data models.

**Further external reviews:** EY have reviewed our DAG assessment and assurance work over key critical and high risk BPDT, our confirmation of assurance over business as usual activities and our topic lead assurance confirmations. They concluded this work is satisfactory. EY have also reviewed the conclusions drawn from our financeability assessments and concluded these are reasonable.

### 4.3 Robustness and efficiency of the RIIO-2 Business Plan

*Work to build RIIO-2 business plan:*

We have built a robust plan through detailed assessment of risk and uncertainty; this assessment is set out in the NGG\_30\_We Can Finance Our Plan annex. We know the future will likely turn out differently to the common energy scenario and consequently have built flexibility into our plan. Our plan includes ways to adjust our outputs and revenue up or down to make sure consumers only pay for the outputs we deliver. Annex A3.02 – ‘Uncertainty Mechanisms’ provides more information on our proposed uncertainty mechanisms that adjust our allowances to reflect the outputs we must deliver as customer needs change.

We have developed and used a risk model which calculates possible impacts on the plan by risks highlighted by the business. We have used the outputs from this model as a scenario in calculating our financeability and used it to check that uncertainties that could significantly impact the plan have been managed through uncertainty mechanisms.

We have ensured our plan is based on evidence and reasonable assumptions, see section on accuracy above for more details.

We have built an efficient plan through the use of detailed cost benefit analysis, external benchmarking and internal cost analysis. We have systematically built the benefits of our past productivity improvements, engineering and asset management innovations into our plan. We have built in £30m per annum of operational cost efficiency from our RIIO-1 UK efficiency programme.

Where external benchmarks are available we have compared our costs to them and found our costs are in-line or below. Where there are no external benchmarks we have looked at our historic trends and our costs are lower than average. Through RIIO-2 we have included a 1.1% per annum productivity assumption onto our opex and we have built in a 4% efficiency on our capital investments across RIIO-2.

In summary we have embedded our efficiencies from T1 into T2, we have benchmarked these costs and they are in line with benchmark. This analysis provides a high level of confidence that our opex and capex costs are at the efficient frontier as we start the T2 period. The 1.1% per annum productivity assumption applied to our opex and 4% efficiency on our capital investments across RIIO-2 are stretching assumptions, this keeps our cost at the frontier throughout T2.

Our approach to ensure our plan is efficient is set out in A22.02\_RPEs and future efficiency. We have also ensured that our plan delivers desired stakeholder outputs through our stakeholder approach which is detailed in chapter 20 – ‘Our plan is efficient and affordable, providing value for money’.

*Assurance:*

Our draft RIIO-2 Business Plan has been quantified using our current unit costs which have been benchmarked externally. The costs of running the business, including IT investments, have been independently benchmarked by specialist organisations and are in line with or below efficient costs.

We have used third party consultants to support the development of the risk analysis model to ensure the model correctly calculates the impact of risks on the Business Plan.

Justification reports (JRs) and Cost Benefit Analysis (CBAs) have been subject to a 2-level internal review process and a sample of JRs and CBAs have been reviewed by independent external parties. Issues noted during these reviews have been addressed in the final submission.

We engaged Frontier Economics to review our stakeholder engagement triangulation and highlight any areas of misalignment. Issue noted in their report have been addressed ahead of the final Business Plan submission.

EY have reviewed our definition of 'efficiency' and have concluded that the plan does meet that definition.

#### **4.4 Ambition of the RIIO-2 Business Plan**

*Work to build RIIO-2 business plan:*

We set out to create a plan that is ambitious. When challenging ourselves to create an ambitious plan we have considered our plan relative to the past, to our stakeholders' expectations and to the level of uncertainty in each area. Our plan has been shaped by stakeholder engagement, but our ethos has been clear throughout the process that we need to go beyond the standards that have been set in RIIO-1. Please see section 4.3 and 4.5 which detail how uncertainty and our stakeholders have helped to shape our plan.

We have defined ambitious as a plan that delivers world class safety and network reliability and supporting the move to Net-Zero by 2050. To ensure we meet this definition we have included these commitments in these areas in to our plan.

Chapter 13 'I want the gas system to be safe' sets out our commitment to maintain a world class level of safety whilst continuing to pursue the highest levels of safety culture maturity to protect the public, our assets and people.

In chapter 14 'I want to take gas on and off the transmission system where and when I want' we have proposed an asset health plan and projects that will maintain our current level of reliability and availability of 99.99%.

Chapter 11 'The changing energy landscape towards net zero' we propose a number of options that would enable net zero emissions by 2050. Chapter 16 'I want you to care for the environment and communities' set out our ambition in relation to our environmental action plan.

We have tested our definition and how we have achieved it with the Board.

While ensuring our plan is ambitious we have also tested the deliverability of the plan. This is detailed in the annex A21.01 – 'Deliverability'.

*Assurance:*

The Board review and challenged the level of ambition in the RIIO-2 plan.

EY have reviewed our definition of 'ambitious' and have concluded that the plan does meet that definition.

The SUG have questioned us on the level of ambition in our plan, we have considered and responded to their challenge.

## 4.5 Transparency and engagement with stakeholders of the RIIO-2 Business Plan

*Work to build RIIO-2 business plan:*

Over the last two years we have carried out our most extensive listening exercise ever to create this stakeholder-led business plan. In that time, we've engaged more than 100 times, with 500+ individuals. We have engaged domestic and major energy consumers more than ever before surveying more than 12,000 household bill payers, 750 non-domestic consumers and 67 major energy users. Our stakeholders include customers who pay us for our products and services, consumers including domestic, business and industrial users of gas, government and non-government organisations, regulators, consumer groups, interest groups, consultancies and academics.

*Assurance:*

- We developed our engagement process based on best practice from PWC, Water industry, CAA.
- Frontier assessed our engagement approach and gave us insight to ensure our engagement will be cognitively valid.
- Approximately half way through our engagement process, Truth assessed our engagement to see how representative and robust it is.
- Frontier then assessed our engagement and the outcomes we identified to see if they were robust. They also helped us triangulate consumer research.
- SUG undertook review of our engagement approach, challenged engagement on each topic and then the outcomes of our engagement.

Our engagement has been based on an outcomes focused approach, following the AA1000 Stakeholder Engagement Standard, an internationally-recognised framework for stakeholder engagement excellence. Since adopting AA1000 in 2016, our engagement activities have been independently assessed against the standard on an annual basis. Our assessment scores have increased year-on-year, with the latest assessment rating us at 74%. This places us in the top 15% of all companies assessed worldwide.

We have also used third parties to check that we've engaged a relevant, representative sample of stakeholders on each topic, and that we've correctly translated their views into our proposed plans.

The Independent Stakeholder Group challenged us to make sure we were talking to the right people in a non-biased and non-leading way, and that we were using the right channels as part of a tailored engagement programme. They have pushed us hard to go beyond industry norms for engagement. Details of the groups role and example of the impact of their challenge to us is detailed in the chapter 10 – Giving stakeholders a stronger voice – how we have built a stakeholder-led plan.

We also commissioned a specialist third-party organisation, Truth, to assess our approach and tell us where we could improve. As a result of their assessments, we improved the way we recorded stakeholder views at our workshops to ensure more usable insight and addressed gaps in our direct customer engagement through additional engagement activities.

We commissioned an independent review with Frontier Economics of how we had translated stakeholder input into our plans. In particular, we asked them to test that a 'golden thread' exists between what stakeholders have told us and the content of our plan.

## **4.6 Financeability of the RIIO-2 Business Plan**

*Work to build RIIO-2 business plan:*

We have developed our financeability definition and measures based on credit rating agencies methodologies for debt financeability and market information and investor feedback for equity financeability.

We have used the cost information from our Business Plan and Ofgem's working assumptions as inputs to assess the financeability and have investigated the impact of a range of actions where our financeability definition is not initially met.

We have stress tested financeability of the notional and actual company using totex and macroeconomic scenarios including those defined by Ofgem in their financeability guidance.

The input assumptions and outputs of the financeability model have been subject to internal governance challenge and review.

*Assurance:*

EY have performed a review of the translation of the outputs from our analysis against our financeability definition and have concluded these are reasonable. EY have also reviewed the inputs to our models and calculations with no issues noted.

Second line assurance have performed a check over consistency of assumptions and inputs used in our financeability assessments.

## **5 Conclusion**

We have conducted a comprehensive assurance programme based on the results of this work the Board have made the assurance statements found in the executive summary of the RIIO-2 Business plan.