

Report on Wales and West Utilities Business Plan

Customer Engagement Group
20th December 2019



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Section A

Executive Summary

The CEG undertook detailed scrutiny of the WWU businesses planning process, over a period of 15 months. Our aim was to effectively interrogate the company as they built their submission to Ofgem, to help them produce a Business Plan which reflects the views of customers, consumers and stakeholders. Our work to date culminates in the detailed report that follows. It is convenient to divide this summary into five areas of activity representing 21 Chapters of the WWU plan:

- Track Record
- Meeting the needs of consumers and network users
- Delivering value for money
- Delivering an environmentally sustainable network
- Maintaining a safe and resilient network

Additionally, there are important supporting chapters on consumer value proposition and outputs and incentives

Track record, Chapter 4 of the WWU Business Plan

- During GD1 WWU achieved consistently high scores for customer service; it has increased customer satisfaction scores, reduced complaints, improved complaint handling times and moved to industry recognised accreditation (BSI 18477 and ICS). WWU actively embraced the customer service ethos, sought to change the culture of the organisation and recruited Customer Support Officers as field staff, helping vulnerable consumers, amongst others
- Efficiencies resulted in major savings of £72m during the period and a projected further £81m in future years, resulting in network charges to consumers falling from £154 in 2013/14 to an average of £133 pa over GD1, arising from, amongst other initiatives, innovation projects and excellent procurement arrangements
- Asset management is a key skill and this has been used, amongst other things, to address the challenge created by climate change and WWU has been at the vanguard of seeking ways of decarbonising the gas network and also modelling and on-site testing of ways of delivering heat to homes in a cost effective way
- WWU scored highly for engagement against peers in 2014/15, however they did not maintain this score, and were consistently placed lower in rankings for the rest of GD1.
- In addition, early customer engagement activities had been limited to simple interfaces and some leading questions. These activities succeeded in raising WWU's profile, however, the company had not recognised the complexity of the methods required until late 2018. They have been racing to catch-up, and subsequently have engaged companies who are professionals in the area of engagement research, to good effect.

Meeting the needs of consumers and network users, Chapters 5-7 of the WWU Business Plan

- As indicated, the early engagement in-house was not appropriate to the complexity and quality of engagement required to inform the Business Plan, and in December 2018 specialist companies were brought into re-scope, refine and deliver a programme necessary to achieve the scale and quality required
- Methods were then adopted that were appropriate to achieve engagement (though not truly collaborative) and WWU did stretch themselves by engaging consumers on difficult subjects, like monetised risk and innovation. We believe WWU can do more in future to feedback their findings and to move to a clear system of co-creation where stakeholders can better understand how they can shape future direction, service and accountability

- WWU often appeared to struggle to articulate the strategic framework for their engagement, including the value engagement brings to the business. This has improved over time but needs more thought throughout GD2
- The company has seen an Executive-led move away from an inherent engineering-based focus to one led by customer requirements
- WWU has a track record of innovating to deliver social obligations and has demonstrated strong stakeholder and customer engagement in this area. Partnership working is in evidence and the CEG are encouraged that WWU is keen to seek, and lead on, industry-wide solutions for issues such as the Priority Service Register. Some targets in this section appear conservative, notwithstanding the complexities of the issues and the limited mandate which WWU can impact upon. The CEG expect to see vulnerability to be a central strategic thread in delivery of obligations going forward, and partnership working to be further extended
- Early challenges by the CEG focused on a perceived lack of ambition, that certain solutions were not evidenced, and why targets in GD2 appeared lower than actual performance
- However the final Business Plan better explains solutions and justifies targets set
- CEG welcomes the move to concentrate on the worst served customers, making improved communications a focus and adopting ICS Service Mark as a reputational ODI.

Delivering value for money, Chapters 8-12 of the WWU Business Plan

- A whole variety of factors make the 'value for money' assessment difficult to unravel. WWU was upper quartile performers on efficiency based on totex in GD1. However annual spend in GD2 is greater than GD1 and in the 5-year period for GD2 opex increases from £92m pa in GD1 to £97m in GD2, repex £80m to £88m, capex decreases from £53m to £51m and controllable totex increases from £225m to £236m, equivalent to £59m total increase over the 5-year price period
- Much of these costs are influenced by the changes in opex (loss of meter contract income), and repex (the replacement of small diameter iron mains which require open cut techniques, labour and location of work) and accounting changes by Ofgem. The company claim that this would lead to an average bill of £133 pa in GD2, although using Ofgem's Actual Company Cost of Capital assumptions the bill would be £114 pa: however, financeability issues are not in CEG remit. Nevertheless, stakeholder engagement has tested bills at £133 pa and the majority perceive the offering as 'good value for money'
- The CEG have an outstanding challenge with WWU over the proposed efficiency target, WWU planning 0.5% pa, which is based on Bank of England data of 0.3%: CEG believe aspirations should be much higher
- The CEG notes the level of ambition for innovation has increased and now stands at £13m, supported by a clearly articulated innovation strategy, leading to a net zero ready network by 2035.

Delivering an environmentally sustainable network, Chapters 13-14 of the WWU Business Plan

- Net Zero aspirations with a view to reducing carbon in the atmosphere is a changing scene and WWU have a small dedicated group which has been working on the issue for some time. Utilities like WWU have to balance short-term risks, such as energy supply and energy costs, against the longer-term risk of climate change. Such a pathway needs to be robust against a range of scenarios and be flexible in using the most optimum solution and energy sources
- WWU have been at the forefront of this work and have modelled and tested options in practice with real consumers and with other organisations. The multi-vector approach has been presented to leading energy-systems academics and was well received

- Future concerns will arise around investment requirements, cyber security, automated systems, the potential for AI and heightened international tensions
- On a broader environmental front, following a poor showing in earlier Business Plan drafts the latest, much changed, plan has put environment at the centre of the sustainability agenda. The company has re-focused on sustainability issues and SDGs (Sustainable Development Goals) run through all aspects of the plan highlighting the four pillars of sustainability; economic, social, cultural and environmental.

Maintaining a safe and resilient network, Chapters 15-21 of the WWU Business Plan

- WWU have developed and used sophisticated approaches to the maintenance, risk and cost of a substantial pipeline network. Plans for GD2 are based on a comprehensive data and detailed risk assessment and consumers generally consider the significant investment a priority to maintain a safe and reliable gas supply
- However, there are large increases in total cost associated with the new investment and without detailed information on likely unit costs it is difficult for the CEG to verify the total outlay: using current unit costs and knowledge of the proportion of 'open cut' mains to be replaced calculations would put the cost in the right order
- The company has taken feedback from Local Authorities, other stakeholders, and from consumers, and the consensus is that the current programme is the most acceptable bearing in mind the likely disturbance. Also, when challenged about the impact of this work on vulnerable consumers, in addition to current policies, WWU now has plans to assess the impact of asset failure on the most vulnerable by mapping PSR (Priority Service Register) to meter points and meter points to assets
- WWU has a skilled, flexible workforce. However, it is facing new agendas with regard to consumer/customer co-creation and future skills must reflect this. This issue, together with the current industry-wide recruitment difficulties, have been addressed head on by the company, who have modelled future employee numbers and skills required, alongside policy changes bringing commitments to apprentices and diversity issues
- In addition to such workforce resilience, it is critical to recognise the challenges of 'new technology'. Cyber threat has to be a key issue going forward, particularly the threat through third party connections to WWU systems, and the company now makes security in this sector a part of contractual agreement with suppliers. In addition, there has been a clearer response on CEG challenges regarding the lines of responsibility from Board level and the reporting structure when there are breaches of security.

Other key chapters:

Customer value proposition, Chapter 2 of the WWU Business Plan

- The unavoidable late emergence of the CVP due in large to Ofgem processes, as well as such a detailed appendix, did not provide sufficient time for proportionate interrogation
- However the CEG is pleased this section of the Business Plan now provides significant detail behind each proposal and focuses on added value rather than BAU. WWU's Social Return on Investment Tool (SORI) is particularly helpful. These techniques offer substantial promise for prioritising and justifying investment going forward.

Outputs and incentives, Chapter 3 of the WWU Business Plan

- The CEG concluded that the Company was meeting the needs of customers. Although engagement could have been stronger from the beginning, now that broader detail has been provided there is sufficient evidence to support the outputs and incentives proposals
- The CEG did not reach a consistent view on the bespoke financial output related to 'Theft of Gas'. One member believed that some incentive design elements were not sufficiently justified by the Company¹
- In addition, the CEG suggests that Ofgem consider the way it sets targets for interruptions to supply across GDNs in order to prevent performance slipping in GD2.

Conclusion

In conclusion, in the areas upon which we can comment, the CEG is of the subjective view that the WWU Business Plan is fit for purpose, and has been developed constructively by WWU with best endeavours, and the interests of customers and consumers at its heart. Our single outstanding challenge covers WWU's proposed efficiency target.

We have seen a marked improvement in the quality and detail of the plans presented to the CEG through this process, as evidenced by the changes in our RAG ratings from July 2019 to December 2019 ([Appendix 1](#)). This step by step improvement in content and presentation has been backed (albeit latterly) with sound data and evidence, and it is clear from our interactions that WWU have benefited from the scrutiny process, something they openly admit. ([Appendix 5i](#))

In addition, the CEG have compiled a detailed, chapter-by-chapter RAG rating of the final Business Plan ([Appendix 2](#)).

CEG believes WWU understands where it needs to place its emphasis in order to further improve throughout the GD2 process, and that it will work diligently to meet the targets it sets out. The issue of financeability is outside our Terms of Reference.



¹ It should be noted that discussions in this space continued post-publication of WWU Business Plan.

Introduction to our Report

In seeking to facilitate the forthcoming Price Review of Gas Distribution Network (GDN) companies Ofgem, the regulatory body, directed that companies' Business Plans should place emphasis, in addition to value for money, upon:-

- Greater customer engagement
- Supporting the energy system transition to a lower carbon operation (Net Zero)
- Improving networks and their operation

To support these goals Ofgem instructed each company to appoint an **independent group** of people, a Customer Engagement Group (CEG), who would challenge the company on all aspects of the Business Plan, except for financeability; report in full to Ofgem in December 2019, and subsequently be available for specific discussions. The CEG appointed by Wales & West Utilities is made up of nine people, drawn from a wide variety of skills and interests, to better enable scrutiny of the Business Plan ([Appendix 3](#)):-

The WWU CEG began its work in September 2018 with the summary Terms of Reference to:

‘Provide their views to Ofgem and the RIIO-2 Challenge Group in the form of an independent report that will be submitted alongside WWU’s final Business Plan in December 2019.

Provide independent challenge to WWU and views to Ofgem on whether WWU’s Business Plan addresses the needs and preferences of consumers’.

The full terms of reference are found in [Appendix 4](#)

By way of structuring our understanding and response to the Business Plan topics the CEG used a framework of questions to help us test the validity of WWU proposals ([Appendix 5](#))

The CEG held monthly meetings during the period September 2018 - December 2019. The group received papers on chosen topics a week before each meeting as the focus for debate with WWU; subsequently the CEG would have ‘independent time’ to discuss and agree on broad issues of challenge.

Areas of work were then charged to individuals or subgroups who would delve into more detailed aspects of WWU proposals in conjunction with WWU staff, to harness information, and decide on the challenges to resolve, or seek further actions. This was important to the CEG because the group was skills rich but time poor; many of the group having limited capacity due to other commitments. Original assumptions for time commitments needed by the CEG were underestimated, largely because of the amount of data presented for interrogation. Following the monthly meetings, major challenges and some issues for clarification were presented to the senior WWU Director overseeing the process for response. ([Appendix 5](#))

WWU were always helpful in supplying information and answering questions, and senior executives, and staff in general, were always willing to give their time: the Chief Executive and two independent Non-Executives joined meetings at different times.

There have been three major iterations of WWU’s Business Plan; 1 July 2019, 1 October 2019 and, the final version, 9 December 2019. Short, interim reports were submitted to the RIIO-2 Challenge Group by the CEG in July ([Appendix 7](#)) and October ([Appendix 8](#)) as precursors to this more detailed report, submitted to Ofgem in December 2019.

Also on record are challenges and questions for clarification made to the company during the period September 2018-July 2019:

- [Appendix 9](#) shows the Agendas of CEG meetings during this period
- [Appendix 10](#) gives the challenges made by CEG for this period, and the progress in their resolution
- [Appendix 6](#) presents the correspondence between CEG and WWU on the principal challenges.

This introduction is preceded by an Executive Summary of the final (December 2019) CEG Report to Ofgem. The body of our report analyses the detail in each of the chapters of WWU's 2021-2026 Business Plan and seeks to give some indication of the quality and acceptability of the plan as measured subjectively by the CEG. (There was no calibrated methodology for measuring quality across the other gas network companies, but relative changes were subjectively monitored amongst the three draft plans by the CEG). This report was presented to Ofgem, the regulatory body, on 22 December 2019.

Substantial resources were required by the company in supporting CEG group ([Appendix 11](#)) which provides broad costs incurred by CEG members for the exercise. [Appendix 5i](#) describes some of the principal changes that WWU made on the basis of the CEG challenges. At all times the Company was helpful and cooperative in providing data and staff to service the CEG, and very open in both their discussions and the provision of any data analysis required. In particular the CEG was fortunate to have the benefit of a first-class secretarial service (Laura Davis). The CEG thanks WWU Directors and staff for their open and helpful approach to the process.



Section B

Detailed Commentary on WWU Business Plan Chapters

WWU Chapter 2: Consumer value proposition

Introduction

Ofgem introduced the requirement for a Consumer Value Proposition (CVP) relatively late in the Business Plan process. WWU have made significant improvements in this section in recent months. The CEG was able to challenge the approach, process and presentation of value. The level of detail and information within the appendix is considerable and important, but not easily interrogated in detail, within the time and resources available to the CEG.

Initially the CVP reflected business as usual (BAU) proposals with little detail or justification for process, decision or value. It is now more focused on additionality, the process is well-founded and substantiated. Importantly, there is strong detail (in appendices) on the calculation of value and decision-making.

CEG scrutiny

- The unavoidable late emergence of the CVP, and in particular of the detailed appendix, did not provide sufficient time for proportionate interrogation
- The final text now reflects most of the concerns and challenges raised by CEG, namely:
 - Distributional impact on customer segments
 - Focus on additionality, rather than statements of better BAU
 - Substantiation of process and use of SROI tools
 - Details behind each and every proposal and investment decision
 - Indication of how CVP will drive future decision making and corporate culture
 - A drill down on value for vulnerable consumers and on theft of gas.

WWU BP areas	No of challenges raised	No of challenges closed	No of outstanding challenges	No of formal meetings	No of additional calls/sub meetings on topic	Shadowed engagement events
Our consumer value proposition	2	2	0	5	2	N/A

Engagement and Golden Thread

This CVP section displays the same strengths and weaknesses on customer and stakeholder engagement as the Business Plan in general. The Social Return on Investment (SROI) tool and the substantiation of process by SIA Partners provides significant assurance of the focus on customer value. It has enabled WWU to develop a strong narrative on financial and social value across key customer segments.

Key areas of strength

- The robustness of the SROI process, its substantiation and how WWU will use the methodology of the CVP and its outcomes within business decision making and reporting
- There is now a significant amount of detail sitting behind each proposal, not just numeric, but in relation to how WWU worked through the various proposals and the distributional impact on customer groups
- The CVP section is focused on areas of added value, rather than BAU
- The value to vulnerable domestic and non-domestic customer segments is well highlighted
- The CVP (including appendices) provides a good narrative, albeit applied retrospectively in the Business Plan, regarding the trade-offs and thinking behind WWU's decisions, and their value for customers

- WWU have provided greater detail and justification of value, outcomes and outputs. WWU also responded on how performance against the CVP will positively impact on the culture and focus of its business.

Key areas of concern, disagreement or challenge

- Due to the late requirement for a CVP by Ofgem, its assumptions and values played relatively little part in the stakeholder and customer engagement process, this should be addressed in continued engagement through GD2
- The distributional impact has improved but gaps remain, in particular regarding current and future customers, different regions and sectors
- A very large amount of relevant detail was provided unavoidably late and we were unable to submit to line-by-line interrogation.



WWU Chapter 3: Outputs and incentives

Introduction

The formulation of outputs and design of incentives is at the core of the regulatory process for utilities. Outputs are what the company will deliver for its customers and report against transparently in the coming years.

WWU is putting forward just under 30 outputs for the next price control period, the majority of which are prescribed by Ofgem. Based on customer engagement and research, WWU is proposing seven bespoke outputs, which are unique to the company. Beyond these formal outputs, WWU has made a further 15 commitments to its customers, that it will report against on an annual basis, each with an Executive Director as a sponsor.

Commentary on individual outputs and targets is contained in the individual chapters other than for 'Theft of Gas' and 'Interruptions to supply' which receive commentary below.

CEG scrutiny

The CEG challenged WWU, as appropriate for each output, on the measures they used, the level of ambition of targets, and their evidence base. An overall challenge on early drafts, from the CEG and the RIIO-2 Challenge Group, was that the level of justification and optioneering was not sufficient. This has improved over various Business Plan iterations.

Outputs and incentives were on the agenda of formal meetings on six occasions and attracted eight challenges during the period. Additionally, there were two subgroup meetings with WWU to clarify CEG understanding of the issues.

WWU BP areas	No of challenges raised	No of challenges closed	No of outstanding challenges	No of formal meetings	No of additional calls/sub meetings on topic	Shadowed engagement events
Outputs and incentives	8	8	0	6	2	N/A

Key areas of strength

- The 15 voluntary commitments will be reported on annually, have an Executive Director sponsor, and the consequences of non-delivery are directly linked to executive pay, making them in effect powerful reputational ODIs
- WWU have identified consequences for non-delivery for bespoke outputs, for example if they don't achieve the ICS accreditation, the membership fee will be returned to customers
- Many outputs go beyond what the regulator requires the company to do. For example, the bespoke output around voluntary interruption payments shows that the company has really listened to its customers in this area. The company offers to pay compensation from 12 instead of 24 hours of interruption and offers this for planned as well as unplanned interruptions. WWU do not consider a property as connected to gas, until gas is available at the appliance, when in theory they could count it from when gas is available at the Emergency Control Valve. Finally, WWU will visit a home within two hours, where the customer was not available when WWU completed the planned work, and subsequently contacts WWU to say they are ready to be reconnected. All these voluntary commitments are proactive and stretching
- There is general support for increased environmental focus in the Business Plan, providing extra focus and support for the WWU environment related outputs. The bespoke environment output has increased following acceptability testing with customers, and we believe the target to be stretching overall (there are low ambitions around some environment targets as noted in our chapter below, but these have low impacts on decarbonisation). Progress against the output is measurable, appropriate and reportable
- All bespoke outputs, bar one, are reputational ODIs or PCDs, so they come with no financial risk to consumers

- The CEG consider WWU a highly committed company who are keen to deliver first class service. We are pleased they have included reputational targets in their Outputs and Incentives Plan (BSI 18477; ICS Service mark accreditation)
- From the evidence we've reviewed, we are confident that the proposals represent things which WWU customers want, need, or accept
- The CEG is confident that WWU will address all of the performance targets with a view to being a top performer.

Key areas of concern, disagreement or challenge

- The CEG would have liked improved levels of justification to have been provided in WWU's Business Plan, additionally we note that justification varied by output. For example, it is not possible for every output to present past, present and forecasted performance. In places, only a qualitative assessment of different options is provided, without comparing costs. The [Justification Document](#) also draws very little on existing literature and research to inform commitments
- The CEG understands that it can be challenging to clearly articulate how a business has balanced different views and sources of information to arrive at a proposal. For WWU this is particularly noticeable in cases where stakeholder views were conflicting. Overall, the company could have better described how stakeholder feedback impacted their proposal, target or expenditure levels. We have found WWU able to articulate this better in person during CEG meetings than in writing; face-to-face their arguments and rationale have been more compelling
- The CEG was split in its assessment on WWU's proposed financial upside incentive on Theft of Gas:
 - The incentive would encourage a proactive approach to identifying theft of gas incidences, which has the benefits of increased gas safety and fairer distribution of gas network costs
 - The proposed incentive design guarantees consumers a benefit of £250k and only beyond that would WWU recover their cost. The company is taking the risk therefore, in case they don't recover the initial £250k
 - The CEG did not come to a common view: one member was concerned as to whether the threshold (£250k) was stretching (given in the past few years WWU never recovered less than £300k), and whether the 50/50 split above the £250k threshold was appropriate²
 - However, in the context of the wider plan, the bill impact of this output is very small, and the proposal is also supported by 57% of customers who were surveyed.
- WWU's research has shown reliability, and therefore interruptions as a key priority to their customers. The CEG initially challenged WWU's target on interruptions as unambitious, but on better understanding of the current structure of this target, and WWU's logical approach, the CEG were content with the proposal. However, the CEG believes that Ofgem's incentive design encourages companies to put forward very cautious targets, as companies can build in a buffer to avoid breaking this Licence Obligation. For example, WWU's current average interruption duration performance, including large incidents, is 8 hours, but the company is putting forward a target of 10 hours. CEG is concerned that this licence condition may act as a barrier to further service improvements and would encourage Ofgem to review this mechanism.

² It should be noted that discussions in this space continued post-publication of WWU Business Plan.

WWU Chapter 4: Track record

Introduction

The information for the CEG review of WWU's Track record is taken from commonly available performance information provided by WWU and Ofgem, and from CEG's developed experience and understanding of the background and 'culture' of the organisation. Ofgem has indicated that they will not judge GD2 Business Plans on companies' track records; they did indicate that they 'will consider how deliverable we believe the plans to be in the context of past performance and the level of commitment provided for delivery of the outcomes set out in the plan'.

In general terms WWU have met all of the mandatory performance measures that have been agreed with Ofgem in GD1, and there are areas where the company has gone above and beyond (e.g. seeking to demonstrate their skills by achieving external accreditations). In particular (as all companies were directed) WWU has adopted a positive attitude to customer service, and has sought to find ways of enabling customers, consumers and other stakeholders to influence targets of performance and the value for money delivered by the service. Performance against Incentive Targets shows that against a total available for customer satisfaction and stakeholder engagement, £13.3m and £13.1m, the amount earned was £12.9m and £4.9m respectively. This again reflects issues around the early stakeholder engagement.

CEG Scrutiny

As Track record was not going to be considered in judging the quality of WWU Business Plan (2021-2026), and because of the limited time available to the group to study the Track record, this chapter received less detailed enquiry than other Business Plan chapters. Nevertheless, it gave valuable background into the company and the success it had achieved in GD1.

WWU BP areas	No of challenges raised	No of challenges closed	No of outstanding challenges	No of formal meetings	No of additional calls/sub meetings on topic	Shadowed engagement events
Track record	0	0	0	1	2	N/A

Engagement and Golden Thread

The CEG were pleased to note WWU's enthusiastic approach to engagement with consumers and stakeholders, and how, at an early stage, they had decided on changing their culture and their workforce planning. They had also decided to address some of the feedback on how they had been perceived as a company. The CEG soon learned that this enthusiasm was not balanced or supported by strategy and following a CEG challenge, WWU did develop a vision of the future and a strategy for a wide variety of issues ranging from customer engagement, maintaining assets and championing a Net Zero future.

Engagement with stakeholders and consumers improved throughout the process and is reported on further in Chapter 5.

Key Areas of Strength

- Complaints performance improved during GD1 and customer surveys indicate that performance has increased from 8.6 to 9.18 out of 10 (in part by reducing inconvenience to consumers during pipe repairs and new installations)
- WWU has enthusiastically addressed social obligations to vulnerable consumers with specific training for field staff and was apparently the first GDN to achieve a British Standard for Inclusive Service Provision (BSI18477). Additionally, they have started to address the issues around the Priority Services Register (PSR). The Company has a good record in dealing with vulnerable consumers and the fuel poor and is keen to build on the progress already made

- There is no doubt that WWU has excellent engineering skills and this has been demonstrated throughout GD1
- Asset management is a core skill and WWU does seem to be at the forefront of building assets and maintaining them in a safe, scientific way, alongside a recognition of the general inconvenience this work entails. Again, they have awards from RoSPA recognising the company's focus on safety both for their staff and the general public
- WWU utilised their core skills at an early stage in GD1 as a basis to address what has now become Net Zero (Chapter 13). To their credit a small expert team was set up with a view to exploring the challenges and solutions, and wherever possible to test options by modelling and onsite testing
- This has helped WWU to develop views on the feasibility and cost of different options and to set out a possible route forward for this challenging issue. However, the whole endeavour is hampered by a lack of any real strategy from the UK Government
- WWU vision for their cities is that they will be supplied by decarbonised gas (e.g. Hydrogen) and the rural areas by biogas with 'smart' systems optimising the use of renewable electricity, with gas supporting the times when renewables are not available because of weather or other conditions
- General performance has been very good with set targets met or exceeded
- WWU have embraced the opportunity to involve wider stakeholder contribution to the future plans. However, the Company has struggled to adopt the best methodology to analyse and configure those decisions, and they were slow in committing to use the best techniques (Chapter 5)
- WWU have already involved its staff in determining the future direction and already made significant changes to its workforce to anticipate the challenges ahead
- WWU have substantially outperformed the financial settlement for GD1 with consumer 'bills' falling substantially.
- WWU's engineering focus has provided a basis to develop a very creditable vision of decarbonisation of energy in the Net Zero scenario

Key Areas of Concern, Disagreement or Challenge:

- Whilst WWU's vision of a hybrid mix of decarbonised gas, renewable and traditional gas in its area has to be a serious option for the future, the strategy proposals may well be hampered by a belief that a gas distribution company has a vested interest in maintaining a role for gas in the future energy supply
- Some of the data on general performance made it difficult to compare WWU in line with other GDNs – certainly WWU does well against the average performers but the CEG would have liked to have seen more comparative data across the sector. Certainly on Ofgem assessments WWU are placed in pole position for totex efficiency and this is reflected in the overall costs that are currently charged to consumers, WWU claim this has brought the annual 'bill' down from £154p.a. to £121p.a. during the period 2013/14 to 2018/19. This may be a mixture of the efficiencies WWU has made and the generosity of the original settlement in 2013. WWU claim an outperformance of £421m over the period 2013-2021. However, the company has certainly achieved big savings in contracting activity for repex delivery, in general contracts and purchases, and through innovative ways of delivering services.

Meeting the needs of consumers and customers

Early simplistic polling of large numbers of consumers, customers and stakeholders indicates that many are initially surprised at what the Company does, and at the good value it represents. This is more about general awareness of what the Company does, and not a focus on the GD2 Business Plan process. In addition many stakeholders were also pleased to understand the focus and attention the Company places on 'vulnerable' consumers.



WWU Chapter: 5 Giving customers and stakeholders a stronger voice

Introduction

Chapter 5 of WWU's Business Plan sets out WWU's approach to engagement. Here we comment upon their approach, and whether we think the evidence WWU gathered during the engagement process is robust and has been used effectively. Details of the resulting proposals within the WWU Business Plan are commented on elsewhere in this report.

WWU's GD1 engagement was largely focused around known stakeholder groups, partners, and a critical friends' panel. Whilst WWU scored highly for engagement against peers in 2014/15, they did not maintain this score, and were consistently placed lower in rankings for the rest of GD1.

We acknowledge that for gas networks, wide engagement has not always been considered critical, and were pleased that WWU freely admitted they had much to learn in this area. We found the company keen to learn and willing to engage, and we were pleased to be able to review early drafts of Business Plans, in addition to reviewing the planned submissions to Ofgem.

WWU's initial approach to GD2 Business Plan engagement was managed in-house and was a mix of general quantitative domestic consumer engagement, alongside limited stakeholder engagement. Our early challenges were that much of this engagement appeared leading in nature, and that results seemed to be used to justify business decisions, rather than inform them. During spring 2019 WWU employed a number of specialist companies to help re-scope, refine and deliver their engagement programme which was necessary to deliver the scale and quality of work needed.

The resulting process is much improved. WWU engaged with a wide variety of stakeholders and consumers across Wales and the South West. The methods ranged from one-to-one interviews to large scale surveys, workshops and focus groups. Though the methods were always appropriately chosen for the aim of the engagement, none of the methods were innovative as such or ventured into being truly collaborative. The CEG comment on engagement on particular topics in the following chapters in this report, but it is worth noting that WWU did stretch itself by engaging end-consumers on difficult subjects such as monetised risk and innovation.

Engagement and Golden Thread

The quality of the engagement and research material used was mostly very good. The CEG undertook a deep dive of research and engagement materials ([Appendix 12](#)). From this we believe more can be done to reduce the jargon used in the material to make it more accessible to end-consumers in future research. Across a number of pieces of research, we also found WWU could have given participants more comparative information on performance; and made clear what the minimum requirements on them are from the regulator, to better enable participants to make an assessment of whether proposals were stretching. On a few occasions we also observed that information could have been framed in a more neutral way, to be sure not to bias participants.

That said, although the Company has a clear vision statement for its engagement activities, we repeatedly had to request an explanation of their engagement strategy and for detailed segmentation and stakeholder mapping. While the latter eventually came to fruition, WWU could still improve its articulation of how it has strategically used, and has made strategic decisions, about its engagement approach. We have faith that the company will develop in this area during GD2 as it has done very well in pulling out lessons learnt from its GD1 approach, and has used good practice from other companies in its GD2 approach.

Our response to early draft Business Plan chapters and to the first draft and second drafts submitted to Ofgem, was that more work had to be done to triangulate research findings, and to use evidence to justify the Business Plan. WWU subsequently worked with external consultants to review their engagement and triangulate the findings based on criteria from the Magenta book, which gives us a lot of confidence in the process. The Company also started producing appendices for each commitment to provide detailed justification of each one, which we greatly welcomed.

Most importantly, early drafts didn't show in sufficient detail the relationship between stakeholder and customer feedback, and the commitments proposed in the Business Plan. This has improved through the draft and final justification reports ([Appendix 3A](#)) and throughout the final Business Plan. However, WWU could still improve its description of how they balanced different sources of evidence and views, especially when they are conflicting. We appreciate this is something many companies struggle with.

The CEG believe WWU understand that to deliver an ambitious Business Plan which they can evidence meets the needs of consumers and stakeholders, effective engagement is vital. We have encouraged the company to move to a clear system of co-creation, where stakeholders can understand, via ongoing engagement, how they can help shape future direction, service and accountability. We expect further work to be developed in GD2 to enhance the overall richness and depth of engagement. WWU's plans for GD2, such as introducing a citizens' panel, continuing with a CEG, and moving towards hyper local stakeholder groups, sounds promising in this regard.

CEG Scrutiny:

WWU BP areas	No of challenges raised	No of challenges closed	No of outstanding challenges	No of formal meetings	No of additional calls/sub meetings on topic	Shadowed engagement events
Giving customers and stakeholders a stronger voice	71	71	0	12	4	N/A

CEG have consistently encouraged WWU to:

- Provide evidence of a strategic approach to engagement
- Identify risks and issues, including 'future gazing'
- Be clear about the rationale for methods used
- Apply clear segmentation, with detailed stakeholder mapping, targets and accountability
- Account for legislative, regional and demographic differences across their area
- Be inclusive, reflecting their diverse stakeholder base
- Triangulate findings
- Clearly demonstrate their thought processes, and any trade-offs made in formulating their plan
- Create a clear golden thread to show how evidence justifies decisions
- Provide clarity on their future engagement planning

Key Areas of Strength

- The executive team listened, was open, and there appears to be a genuine desire to embed engagement in the business
- WWU recognised that their early engagement was not fully credible and undertook to employ specialists to bring best practice to their endeavours
- The Company have done well in reflecting on lessons they can learn from GD1 engagement activities, and has taken multiple good practice examples from other companies and used them in their Business Plan engagement
- Future plans for engagement, including a citizens panel, use of sentiment analysis, continued use of the SORI tool, and further collaborative engagement across networks, take on board lessons learnt from this process, demonstrate further best practice, and appear reasonable and proportionate
- The triangulation approach using synthesis and evaluation provided robust analysis, albeit late in the day
- The planned annual audit against stakeholder engagement AA1000SES standard is to be applauded
- There appears to be a willingness to share engagement learning with peers, and to lead calls for policy changes (e.g. PSR) where engagement has shown this will benefit consumers
- Effective partnerships have been developed in many stakeholder segments
- The CEG found engagement open and honest. Whilst not without substantive challenge we appreciated the candor of executives, easy access to materials, and the ability to attend engagement events where practicable.

Key Areas of Concern, Disagreement or Challenge

- WWU often appeared to struggle to articulate their strategic framework for their engagement, including the value engagement brings to the business. This has improved over time but needs more thought throughout GD2
- The engagement team has been stretched in delivering this expansive Business Plan engagement programme, and in-house expertise had to be supplemented with multiple external consultants. It is encouraging to hear that more funding has been requested for this team, which will be necessary if WWU wants to deliver on its GD2 plan, and truly use engagement to become more effective and efficient
- We conducted a deep dive into WWU's engagement materials ([Appendix 12](#)). From this we believe more can be done to consistently reduce jargon and to give participants more information framed in a more neutral way. It must be noted however that the CEG were only able to review research materials, and cannot therefore comment on verbal explanations given to participants
- The CEG challenged the Company to explain how it co-determined issues and engagements with its stakeholders and customers. Its engagement planning process suggests that the Company decides on which topics it will engage unilaterally. Further scrutiny at meetings has assured this is not the case, and of the internal processes for co-determination; this has now been reflected in the Business Plan, and should be better documented in future
- More work needs to be undertaken to systematically feedback results and outcomes to consumers and stakeholders
- Increased emphasis should be placed on horizon scanning, WWU struggled with articulating this as a concept
- Better targeting of limited resources by prioritisation across segmentation groups will produce improved engagement outputs. This requires more work in GD2, alongside stakeholder mapping and planning.

WWU Chapter 6: Customer service

Introduction

Throughout GD1 WWU achieved consistently high scores for customer service both through Ofgem's CSAT survey as well as the Institute of Customer Service (ICS) accreditation. The Company has increased customer satisfaction scores, reduced complaints, improved complaint handling times and moved to industry recognised external accreditation. In GD1 there was clear evidence that focus on excellent service was executive-led, and that regulatory targets such as time to attend emergencies, or time off gas, were regularly bettered.

The Company says it has recognised the necessary shift from an inherent engineering-based focus to one led by customer requirements. Our key concern as the CEG has been to ensure that this journey is reflected in actions, that the voice of stakeholders and customers is properly understood by the business, and views properly weighted and reflected in the Business Plan. Our initial challenges on early draft of the Business Plan focused on a perceived lack of ambition, and concerns that proposed initiatives and solutions were not appropriately evidenced, or context explained effectively to consumers and stakeholders.

Early drafts also failed to properly show trade-offs which were being made, why certain solutions were being proposed, and why targets for GD2 appeared lower than actual performance in GD1. A lack of triangulation of early results made it challenging to justify assumptions, and we pressed for evidence-led, data driven objectives to be made clear.

The final Business Plan better explains solutions, and to justify the targets the business has set. We welcome the move to concentrate on worst served customers, to making improved communications a focus and to adopting the ICS Service Mark as a reputational ODI.

The CEG have no outstanding challenges in this area, and whilst we are content with the overall approach, members of CEG were not always in agreement with WWU in all areas with regards to final choices made, for example:

- The CEG were ambivalent about the need for enhanced compensation payments for customers affected by GSoP failures, especially as customers have said that an apology and learning lessons is the important thing for them, but the argument that financial challenge focuses minds internally has credibility. Importantly, higher GSoPs payments come out of company profits and not the consumer bill
- The CEG considered the 10-hour interruption target to be unambitious although we can understand that the inclusion of large incidents and this being a license condition, pushes companies to put forward cautious targets. Upon our challenge, WWU committed to an **internal target** of an average of 6 hours (excluding large incidents) as per their current performance, which is very welcome, as a reputational ODI.

The CEG can see continued executive leadership in this area, and a focus on customer service becoming a cultural norm. Going forward we would expect WWU to be continually mindful that they need to embed their customer voice in all the choices they make.

CEG Scrutiny

WWU BP areas	No of challenges raised	No of challenges closed	No of outstanding challenges	No of formal meetings	No of additional calls/sub meetings on topic	Shadowed engagement events
Customer service	9	9	0	8	2	N/A

Engagement and Golden Thread

The engagement behind this chapter is mostly satisfactory. As well as mining existing data, WWU engaged with the general public, domestic and non-domestic customers, national and regional stakeholders, customers in vulnerable circumstances and carers. The methods used for this were all adequate but CEG believes they didn't include anything particularly innovative. WWU engaged on broad questions of priorities and what drives satisfaction, as well as what targets the company should aim for in the areas of customer satisfaction, complaints and interruptions. The one gap we perceive is that little targeted engagement took place with customers who had actually experienced an interruption and whose feedback, therefore, would be more valuable; this should be addressed in GD2.

Key Areas of Strength

- Clear executive leadership and participation in customer service issues, with daily involvement around high level complaints
- Sophisticated customer feedback monitoring and analysis systems which gives the executive ability to act, review performance and make changes quickly
- Willingness to make ICS Service Mark accreditation and BS118477 standard for inclusive service provision a reputational output is important recognition that this area provides a measure for the business and its reputation
- Detailed proposals for how customer journeys for different types of customers will be improved reflects the deep listening that WWU has done
- Focus on improving communications which was the top customer complaint, via Customer Support Officers, and improved channels and platforms is evident. More segmentation work and better demographic data (which is planned) will ensure this effort targets solutions customers want
- The voluntary proposal to measure the end of an interruption from when the customer has gas back at their appliance is much closer to the lived reality of an interruption than the current requirement, and therefore commendable
- Targets are now understandable and clear. We are pleased that triangulation has led to revision of these targets, for example to commitment to attend emergencies in under an hour, which was a customer wish
- CEG repeatedly pressed for effective root cause analysis to drive down complaints, and this appears to be happening
- CEG particularly welcome the focus on worst served customers, and expect to see this area tracked and monitored effectively throughout GD2
- This chapter begins to look at the needs of future customers, something CEG would like to see further developed in GD2
- Engagement in this area is extensive, and CEG are confident that the objectives set are deliverable

Key Areas of Concern, Disagreement or Challenge

- The CEG expect to see a continued focus on root cause analysis, and demonstration that the company is actively learning from mistakes (and not repeating them)
- Better data should be gathered and employed to enable more effective strategic planning for future customers, and to reflect regional differences. Customer segmentation has begun to help in this area but there is more work to do in GD2
- There is great scope for WWU to further explore the use of innovative engagement and genuine co-design to develop its customer service offer. For example, CEG would like to see the planned communications improvements and other service delivery options tested and designed with customers throughout GD2

WWU Chapter 7: Social obligations

Introduction

The CEG were impressed by the attitude of WWU who were open and forthcoming in discussions on the challenging area of social obligations. Whilst noting that their geographic area has distinct challenges, including large numbers of domestic customers not on the gas grid, a high level of fuel poverty, and poor housing stock, WWU appear willing to be innovative, and to explore effective partnership working in this area.

Engagement and Golden Thread

WWU have a track-record in establishing innovative ways to deal with their social obligations (for example [Fresh Data Mapping and Healthy Homes Healthy People](#)). Customer and stakeholder engagement and research included groups, one-to-one sessions and home visits with vulnerable consumers and carers. It also included more innovative engagement methods (for example WWU's engagement with Hijinx, CEG were impressed at the inclusion of the arts, and especially WWU's work with this theatre company that includes actors with learning disabilities). WWU listened to CEG feedback and developed a new partnership evaluation tool, which we are pleased to see in operation. This also reflected the focus on a 'sustainability' golden thread throughout the most recent plan; where there is an attempt to include culture and society as part of the wider mix of engagement (The Welsh Government' clarify Sustainability as including: culture, society, economy and environment).

The CEG believe that ambitions in this area which initially appear conservative, for example the static Healthy Homes Healthy People target, are justifiable when scrutinised. WWU's customer feedback provides the evidence to support their work in this area, which is seen as a priority by many, especially around carbon monoxide (CO) awareness, data sharing and increasing sign-ups to the PSR. CEG see this as a key area to foster trust with stakeholders and customers, and WWU have taken this feedback seriously in their approach.

The CEG believes PSR sign ups should focus on quality not quantity; generally industry PSR data is of questionable quality, and WWU efforts to improve the interaction between utilities in this area are to be welcomed. We are pleased with the leadership role WWU express they want to take with streamlining data and processes across the sector and we encourage the Company to do as much as possible in this area.

The CEG accepts ambitions around FPNES (Fuel Poor Network Extension Scheme) on the whole, given the lack of secure ongoing funding for heating systems. WWU could be clearer on their remit and which outcomes they seek to prioritise, however they are clear about taking a proactive role in the need for partnership working to deliver all of these services and maintain a flexibility if wider funding for heating systems become available; as a CEG we would hope to monitor this area as it could be subject to funding changes over GD2. We accept the main areas of difficulty around the FPNES agenda is that it is increasingly difficult to identify those most in need that are eligible for FPNES, and that ongoing funding for heating systems is in decline and insecure. Given these external realities we feel the target is stretching. We agree with the role WWU is taking in working with partners to deliver this scheme, as well its work to explore what support is available for funding new heating systems. Stakeholder feedback has highlighted WWU should focus on the most vulnerable and fuel poor first, and they have confirmed that this is their priority. WWU have also said that if Ofgem put a reopener in place then they would reforecast numbers and obtain funding in response to any significant change in government policy in England and/or Wales.

CEG Scrutiny

WWU BP areas	No of challenges raised	No of challenges closed	No of outstanding challenges	No of formal meetings	No of additional calls/sub meetings on topic	Shadowed engagement events
Social obligations	21	21	0	8	2	N/A

Key areas of strength

- FRESH vulnerability mapping shows innovation to identify the next level of ‘hard to reach’ citizens. CEG believes communicating this programme more widely should be the next priority, and WWU has identified this as the next area of focus
- CEG feel the Healthy Homes Healthy People project is innovative, joined up and penetrating, reaching the ‘hard to reach’ in communities, and saving people ‘real’ money
- In agreement with multiple stakeholders, CEG believe working towards an integrated PSR is important; there is justification for WWU pursuing industry wide solutions in this area, as they plan to do
- In addition CEG is pleased to see increased targets for PSR sign-ups, and that WWU is contemplating how to ensure the quality of the data; that it is both ‘clean’ and appropriate
- WWU planned GSoP payments are 45-66% above those being proposed by Ofgem (though it should be noted that stakeholders and consumers ranked improved communication and an apology as more important than compensation in during engagement)
- Community Project & Hardship Funds: CEG were pleased to see active learning from experience of other GDNs and DNOs in this space
- WWU’s Social Return on Investment (SORI) tool: Utilisation of this provides a strong evidence base for the value of activities which CEG welcomes
- Several commitments have been improved and/or focused following stakeholder feedback, e.g. increased partnership working to deliver the fuel poor agenda
- CEG welcomes the flexible approach to FPNES in light of the short term commitment by other strategic partners, and the uncertainty about the availability of heating system available. WWU have committed to do more if other areas align. WWU have made the change to identify economical connections which we think is a fair target while waiting for government policy guidance. We encourage more pro-activity to join up the whole service from a customer perspective
- Whilst stakeholder and customer views varied regarding distribution of CO monitors, CEG is content that WWU have reached sensible conclusions. Their plans to form a partnership approach, to focus on communication, and their acknowledgment of the explicit link to vulnerable households, with research showing a direct link between fuel poverty and CO, are all welcome.

Key areas of concern, disagreement or challenge

- The CEG are pleased to see WWU adopt a clearer strategic focus across vulnerability, with their consumer vulnerability strategy and a recent mapping of their Business Plan to Ofgem’s Vulnerable Consumer Strategy. WWU say they want to leave no customer in a cold home, and have committed, inter alia, a £40k hardship fund to directly contribute to that aim. However, there is a dependency on the development of strong partnerships and collaborations with different funding streams, and the success of the strategy will, in large part, require those external collaborations to work well and deliver good outcomes for WWU customers.

- The CEG would like to understand WWU's role in working with other agencies and programmes:-
 - to meet upfront costs of heat pumps, so that they can be affordable
 - to ensure heat pumps are installed in energy efficient homes so they can be efficient as case studies have shown savings of 50% on energy bills are achievable by combining a heat pump and controls with the existing heating system
- The CEG welcome the WWU consumer vulnerability strategy but want to see more assessment of the role and effectiveness of their partnerships in this space
- WWU FPNES ambition is lower in GD2 than it was in GD1, but they have provided acceptable explanations, and demonstrated consideration, approved by Ofgem, of different options and trade-offs, and the CEG are content that the appropriate option has been put forward in this plan. This should be an area for CEG scrutiny going forward, if the funding position changes.



WWU Chapter 8: Customer bills

Introduction

This is a crucial area in the presentation of the Business Plan and the analysis is complicated by a number of factors. There are key areas where policy changes from Ofgem mask some of the growing costs of operating and investing by the company. Additionally, the company has an issue with Ofgem regarding the cost of historic debt, and the Ofgem policy of remunerating debt based on an index for all companies. This aspect of Financeability is outside the CEG remit. [See waterfall graph on page 74 of WWU plan](#). We have challenged WWU to present these data more clearly making it transparent which conditions are approved by Ofgem.

CEG Scrutiny

WWU BP areas	No of challenges raised	No of challenges closed	No of outstanding challenges	No of formal meetings	No of additional calls/sub meetings on topic	Shadowed engagement events
Customer bills	4	4	0	6	2	1

WWU conclude that the average consumer annual bill will be £133 during GD2 which is the same as the average bill at the end of GD1. However, this includes a contribution of payment for underfunding of debt. This discussion is outside of the remit of the CEG.

However, the company has clarified that using Ofgem's Actual Company Cost of Capital assumptions the bill would be £114 p.a.

In considering outputs delivered by customer bills it is clear that for different reasons there are increases in cost. For example, repex costs go up as a result of a change in the size and methods of replacement (see Chapter 16) and opex costs rise as income from using staff on unregulated work (installing smart meters) is falling. However, apart from setting a broad efficiency target of 0.5% pa there is little detail on what other activities will seek to bring down the cost of the bill.

Engagement and Golden Thread

In engagement sessions with consumers and customers WWU has used the proposed £133 average bill p.a. as the central cost, and generally it has been received as an acceptable amount of money for their perceived service.

There have been a series of 'value for money' exercises and workshops with WWU's Critical Friends Panel, customers and stakeholders. Engagement generally concluded that the company was providing 'excellent value for money' at the cost of £133 average bill p.a., but CEG would like to see better comparative data used in these exercises in future.

The CEG challenged WWU to better justify what is best for customers who were categorised as vulnerable and the implications for the Vulnerability Strategy. WWU are developing a consumer value proposition ([Chapter 2 of the WWU Business Plan](#)) methodology which measures the value delivered to different customers and this work needs to be continued in GD2.

Key Areas of Strength

- WWU have a clear handle on the costs that make up the bill
- Customers in general believed the company was delivering 'excellent value for money'.

Key Areas of Concern, Disagreement or Challenge

- Key areas here have centered around the presentation of the information with the issue of 'historic debt' and how Ofgem intend to use an index model for debt costs has detracted from the interpretation of the bill
- Ofgem changes in policy regarding some aspects of repex and opex and change from RPI to CPI mask some of the costs falling to the company and therefore customers.

WWU Chapter 9: Cost efficiency

WWU Chapter 10: Using competition to deliver best value

Introduction

The CEG has grouped the analysis and reporting of these chapters together. They cover the main expenditure incurred by the company over the Plan period (Chapter 9) and how it procures on effective and efficient basis (Chapter 10).

The chapters are coherent and well-structured with supporting data in the various appendices. However, despite the magnitude of the costs and the resulting impact on customer bills, the ability of the CEG to evaluate cost effectiveness is extremely limited.

CEG Scrutiny

From the outset, engagement with the company was positive, but challenging. WWU invested significant time into explaining the structure of the opex, capex and totex costs.

The focus of the CEG in reviewing and challenging these chapters was to ensure the maximum clarity in being able to compare costs across GD1 and GD2. The goal being to enable Ofgem to conduct meaningful assessment and appropriate peer review, as this is outside our capacity.

WWU BP areas	No of challenges raised	No of challenges closed	No of outstanding challenges	No of formal meetings	No of additional calls/sub meetings on topic	Shadowed engagement events
Cost efficiency	14	13	1	10	4	1
Using competition to deliver best value	0	0	0	7	2	N/A

Engagement and Golden Thread

Engagement is covered in other chapters in this report.

Key Areas of Strength

- Chapters are coherent and clearly show changes in costs over the Business Plan period
- Very strong performance in GD1 gives an excellent platform for further efficiency
- Procurement appears to deliver real savings and demonstrates desire by WWU to be a good corporate citizen
- External benchmarking of the procurement activity is very positive
- The Company has a clear view of its cost base and demonstrates how it can mitigate cost increases through effective procurement.

Key Areas of Concern, Disagreement or Challenge

- The CEG are disappointed that we were not able to persuade the Company to set a more challenging efficiency target than 0.5% per annum
- The CEG log lists all of the challenges in this area and how these were mitigated.

WWU Chapter 11: Our innovation strategy

Introduction

This chapter has improved significantly over the Business Plan iterations and we believe it now meets the needs of customers, supported by the input of stakeholders.

The innovation strategy is coherent and links well with other aspects of the plan, providing confidence that it is deliverable and meaningful in the context of the overall business.

The level of ambition has also increased, supported by a clearly articulated and coherent innovation strategy leading to a net-zero carbon-ready business by 2050.

CEG Scrutiny

CEG input had a material and positive impact on this section. All challenges have been addressed.

WWU BP areas	No of challenges raised	No of challenges closed	No of outstanding challenges	No of formal meetings	No of additional calls/sub meetings on topic	Shadowed engagement events
Our innovation strategy	15	15	0	8	2	1

Engagement and Golden Thread

There is evidence of good stakeholder and customer consultation in this area, and clear links between innovation objectives and the need to review skills requirements within the business.

WWU provided useful metrics based on numbers of partnerships and external engagements, although an output-driven rationale for these would be helpful.

The evidence base here is strong, with enough engagement and a resulting chapter which appears to meet the need of current and future customers. There is clear evidence of triangulation, and we can see how engagement has influenced proposals.

Key Areas of Strength

- Coherent links between the innovation objectives and the wider business strategy
- Coherent and logical framework for innovation
- Helpful use of case studies
- The inclusion of a service innovation case study, to complement the more technical examples is a welcome addition, not least because it reflects an area of core strength for the business
- The plan is ambitious, benchmarked, and as far as we can see the level of activity is justified and costed
- Options are well assessed and reasons for choices are well argued
- There is evidence that whole systems implications have been considered, and the proposals have been tested against different scenarios including Net Zero.

Key Areas of Concern, Disagreement or Challenge

- Whilst there are no outstanding challenges, the CEG would have liked to see better evidence of any variation in opportunity, approach, performance or goals between Wales and the South West, or between urban and rural areas.

WWU Chapter 12: Dealing with uncertainty

Introduction

Forecasting costs for the duration of Price Reviews and longer can be challenging and resource heavy. There are many reasons the company might be uncertain about the extent and cost of a particular activity, including legal changes or political intervention, sometimes unknown at the preparation of the plan.

Companies can propose, with proper justification, the inclusion of network uncertainty mechanisms. These depend on what perceived risk there is, where the ownership lies, the materiality of the risk and the frequency and probability over the period of the plan. For example, the challenge created by 'Meeting Net Zero' (Chapter 13) includes many criteria outlined above. Other issues may be much less uncertain but still require, for example, additional investment and financial support.

CEG Scrutiny

WWU BP areas	No of challenges raised	No of challenges closed	No of outstanding challenges	No of formal meetings	No of additional calls/sub meetings on topic	Shadowed engagement events
Dealing with uncertainty	1	1	0	7	2	2

Engagement and Golden Thread

There was relatively little focus on this area in Engagement other than the major chapter dealing with Net Zero.

Key Areas of Strength

- WWU delivered a sensible identification of likely uncertainties and risks with views on costs which in some areas were likely to be uncertain.

Key Areas of Concern, Disagreement or Challenge

- Many of the risks outlined do not materialise during a price period, and CEG did consider that in some cases instead of identifying likely risks in enormous detail there may be an alternative approach that discourages companies from 'throwing in the kitchen sink'
- The CEG would be interested as to whether a financial threshold could be agreed that, subject to Ofgem approval, the Company covers the costs until the next price period, and that any other expenditure is subject to detailed scrutiny by Ofgem before 'pass through' is approved.

WWU Chapter 13: Our net zero-ready vision for 2035

Introduction

The challenges associated with energy are complex and rapidly changing. Until recently, the challenges to the energy sector have been presented as a 'trilemma', that is a tensioned problem between protecting our environment, ensuring a secure supply of energy in its various forms, and ensuring energy is affordable, hence avoiding societal issues such as fuel poverty.

Moreover, there are various forms in which energy is transported and utilised, and this has created a complex interdependent system known as a 'multi-vector energy system' (vectors include gas, electricity, heat). This results in a closer dependence between current energy networks and the potential for further energy networks in the future (e.g. Hydrogen). Looking ahead, utilisation of Big Data, use of AI and deep learning, are likely to be applied to future energy systems, opening the spectre of Cyber Security.

The pace at which the energy scene is changing requires flexibility, agility and adaptability of energy actors. For example, at the start of this Business Plan development period (mid-2018) the era of the 'energy trilemma' and an 80% reduction (from 1990) in greenhouse gas emissions by 2050 were both well established. Since then the UK policy thinking and targets have changed such that it is now believed that we are entering the 4th phase in the evolution of the UK power system due primarily to the rapidly falling price of renewables³, and that our emissions target has changed to net-zero greenhouse gas emissions by 2050⁴.

Enhanced public engagement through youth movements (e.g. Greta Thunberg) and climate protest groups such as 'Extinction Rebellion' are raising energy and climate change up the political agenda. The challenges posed by customers and society will increase as public knowledge and understanding increases. However, utilities such as WWU have to balance short-term risks such as security of energy supply and energy costs, against the relatively longer-term risk of climate change, ensuring that the response to the energy trilemma is balanced and proportionate. The effectiveness of this risk management problem will depend upon the insightfulness of the scenarios envisaged, and following a pathway which is robust against a range of scenarios.

CEG Scrutiny

WWU BP areas	No of challenges raised	No of challenges closed	No of outstanding challenges	No of formal meetings	No of additional calls/sub meetings on topic	Shadowed engagement events
Our net zero ready vision for 2035	28	28	0	8	4	N/A

- There have been eight formal full-CEG meetings on the topic of Future of Energy/Net-Zero-Ready-Vision. There were a further four sub-group meetings, involving face-to-face challenges and detailed responses between two or three CEG members and the responsible WWU team including the responsible Director. The CEG considered these meetings to be very productive. The WWU team were very engaged, committed with a willingness to respond promptly and fully to challenges, pushing back where reasonable to do so. In total, 28 challenges resulted from these two modes of CEG/WWU engagement, all of which have now been closed
- A CEG representative attended one of the regional deep-dive sessions and several previous Critical Friends Panels related to this theme, the main conclusions of which are now considered to be reflected in the Business Plan

³ <https://www.gov.uk/government/speeches/after-the-trilemma-4-principles-for-the-power-sector>

⁴ <https://www.theccc.org.uk/publication/net-zero-the-uks-contribution-to-stopping-global-warming/>

- WWU senior staff presented at shadow engagement events on this topic to invite further critical appraisal from industry and academic experts of the WWU multi-vector methodology ('FLEXIS' project board, October and November 2019).

Engagement and Golden Thread

The golden thread of 'sustainability' is embedded throughout Net Zero Ready-2035 Chapter. Engagement of the WWU future energy management team with the CEG was prompt and highly professional. The CEG raised concerns that industrial/commercial customers were consulted less than domestic. WWU now have plans for greater industrial/commercial engagement in GD2. A project with 'REGEN'⁵ is developing customer forecasts through workshops across regions, including one focused on industrial energy. [Appendix 13O](#).

WWU presented the pathfinder model to leading Welsh energy-systems academic experts for scrutiny. At the 'Deep Dive' sessions, energy cost/sustainability/security issues were professionally introduced and tensioned.

WWU outputs reflect the feedback received from these well-constructed, informative engagement sessions. The costs of the proposed outputs for net-zero-ready are well within those indicated as acceptable by the attendees at the 'Deep Dive' sessions.

The mains replacement programme (albeit an HSE requirement, so not optional) is excellent value for money for the customer on several counts: (i) safety (ii) gas leakage (iii) environmental impact of gas leakage (iv) rendering the network 'hydrogen ready' in preparation for 'net zero'.

Key Areas of Strength

- Unique, industrial multi-vector energy systems analysis tool (Pathfinder) enabling future scenario plans to be systematically assessed, hence costed (e.g. the 'Cornwall Energy-Island' project in GD1 – [Appendix 13E](#)). Coupled with customer engagement, this enables a 'whole systems' approach through GD2
- Innovation strategy in relation to future of energy – e.g. hybrid heat pumps in GD1 - which enable nationally-leading initiatives, technologies and customer assessment to be delivered across networks, leading to whole-system thinking and planning
- Demonstration projects are a particular strength of WWU. These are very timely for the UK net-zero targets, as they de-risk options from both industrial and societal perspectives, utilising an appropriate mix of multi-vector modelling, live trials and collaborations with other networks (e.g. [Appendix 13C](#)).
- Methodology of converting 'net-zero 2050' challenge to 'net-zero-READY 2035', that is, WWU delivering what is under its control, whilst engaging in the debate and collaborating with other actors in the national energy system to ensure optimised planning and progress towards 2050
- Open, external engagement with the various actors through external communication (e.g. 'Westminster group', academics - FLEXIS project, IGEM presidency). Regional studies have been investigated well throughout GD1 (e.g. see [Appendix 13F](#), Bridgend, Cornwall, Swindon and WWU have very good routes to engagement with both national governments (e.g. member of WG expert panel on decarbonisation of existing homes, the FES project (2018-20) analysing different gas network requirements for Wales and South-West).

⁵ <https://www.regen.co.uk/regional-future-energy-scenarios-for-heat-and-gas/>

Key Areas of Concern, Disagreement or Challenge

- The primary areas of 'concern, disagreement or challenge' have now been addressed within the Business Plan (see 'CEG scrutiny' section above)
- Enhanced *industrial/commercial* engagement - alongside domestic customer engagement - throughout GD2 is now included within the Business Plan and should be monitored
- Without the implementation of some of the 'net zero mechanism' proposals, the future energy plans would appear unambitious. Some of these proposals need to be implemented to facilitate optimised pathways to 2050.



WWU Chapter 14: Environmental Action Plan

Introduction

Early drafts of the WWU plan included a chapter on the environment, in which sustainability was included as a section. The CEG challenged WWU to review their strategy in this area and consider a refocus of their agenda, so that the company's overall sustainability plan was better evidenced, rather than a small part of their approach to the environment.

We are pleased that WWU have now made sustainability and the UN's Sustainable Development Goals (SDGs) a key golden thread throughout the plan. This new focus on sustainability is impressive and extends towards the four pillars; economic, social, cultural and environmental. The environment now sits as an independent chapter which fits better; this chapter has also dramatically improved. For the CEG, this area has surpassed expectation as environment is used as an outcome not of itself, but one that can impact thinking, actions for staff, contractors, communities and customers, to enable long term and joined-up sustainability benefits.

WWU's engagement demonstrates stakeholders support the importance of integrated environmental action, and highlights recent public perception shifts around corporate responsibility and an interest in climate action. WWU's improved targets and ambitions in this area go some way to meet customer and stakeholder expectations.

CEG Scrutiny

WWU BP areas	No of challenges raised	No of challenges closed	No of outstanding challenges	No of formal meetings	No of additional calls/sub meetings on topic	Shadowed engagement events
Executive Summary / Sustainability	14	14	0	6	4	N/A
Environmental Action Plan	10	10	0	6	4	N/A

CEG reviewed the overall customer feedback in this area and conducted a deep dive into one area to assure ourselves that the feedback was being reflected appropriately. The CEG is happy with quantity and quality of the feedback and that it was, on the whole – with some justified pushback, reflected in the targets and ambitions in the Business Plan. We were pleased to have open access to the WWU team, who demonstrated a willingness to take on our challenges as well as the views of stakeholders.

Engagement and Golden Thread

Stakeholder feedback covered a wide selection of demographics (people and geographic areas), as well as informed and uninformed consumers and customers. The outputs reflect the feedback received. Overall WWU targets in this area have increased dramatically. The few areas where we would like to see improved targets are addressed later in this chapter. The targets in biodiversity especially go beyond the expectations we had.

Key Areas of Strength

- The development of Local Area Energy plans
- GD2 plan to test all investments against the three recognised climate change scenarios, hold climate change risk assessments for all operational sites and use up-to-date government issued climate change projections to assess the risk of climate change to the network
- An excellent focus on reducing consumption alongside the important parallel preventative action of reducing waste generation
- The commitment to extending the scope to the procurement and supply chain, which is key to making an organisation truly sustainable; challenging contractors to increase their environmental focus is a particular area where WWU can make wide-reaching positive changes

- A commitment to working with others, e.g., sustainable asset management and procurement (only by working with the sector at large can the wider supply chain be adequately pressured to improve)
- WWU say they will work to bring together a group of GDNs to improve supply, CEG encourage this
- Embedding circular economy principles within the business changes culture and long-term thinking that has positive environmental impact
- The commitment to work with stakeholders to increase use of recycled aggregate, and to push back to the Local Authorities in Wales that are liable to the Wellbeing and Future Generations Act (WFG Act is a 2016 Sustainability Act that all 44 Public Bodies in Wales are liable to evidence)
- Where the Company has already achieved targets they aim to focus on potential innovations to identify alternative processes, tools, or materials to go even further; for example to reduce their hazardous waste
- Impressive improved biodiversity understanding and aims, with increased ambition to achieve natural capital net gain across all activities by 2050, and deliver measurable biodiversity and ecosystem services net gain by 2035
- The strong ambition to eliminate single use plastic by 2022
- Overall customer engagement quality was satisfactory, with an accurate reflection of customer feedback in increased ambition and targets, with the exception of what CEG felt to be lower ambition in areas we thought easier to achieve. However, the areas with most environmental impact were perceived to be adequately ambitious.

Key Areas of Concern, Disagreement or Challenge

- The Land management engineering justification paper presented a clear assessment of the situation, options and cost benefit analysis. While the CEG agree with the decision to go with the preferred option of [Proactive Statutory](#), an increase in costs of the Proactive Statutory Max would have also brought an increase in outputs and could be seen as a higher, but more expensive, ambition
- Increased activity in Devon and Cornwall means there will be limited availability of viable waste treatment facilities to process waste locally. As the area has fewer local quarries there will be an increase in open cut techniques associated with the mains replacement work. The CEG would like to see WWU explore further how they can limit the impacts of these two geographical problems
- The ambition to move 75% of company cars to hybrid or ultra-low emission vehicles by 2026, and to explore green alternatives for commercial fleet, seems low. CEG would have expected ambitions to move to a full EV fleet. However, this low ambition impacts on a small percentage of carbon in the whole WWU plan, and we therefore accept it (whilst acknowledging it can impact behaviour change and have wider reaching benefits to society)
- The target to reduce office waste by 25% by 2026, and paper waste by 70% by 2026 are not ambitious. But again, the CEG acknowledges this is a small percentage of carbon savings compared to shrinkage etc.

WWU Chapter 15: Asset resilience

WWU Chapter 16: The distribution network

WWU Chapter 17: Connecting homes and businesses

WWU Chapter 18: Transmission and pressure management

Introduction

These chapters in the WWU plan consider the core delivery of gas to the millions of consumers that are connected to the Wales & West Utilities network, and the CEG has addressed them together in this section of our report.

As expected, these sections of the Business Plan have been consistently strong and draw on a rich legacy of gas network management expertise. It should be noted that these chapters cover the bulk of the costs, and cost increases, incurred by WWU over the Business Plan period.

It is very evident that the company takes great pride in its performance and the CEG understands that the business has consistently been one of the top performing networks during GD1.

In general, the chapters are coherent and well-structured with considerable supporting data in the various appendices. However, despite the magnitude of the costs and the resulting impact on customer bills, the ability of the CEG to evaluate cost effectiveness is extremely limited⁶. We note that Ofgem is expected to complete a formal assessment and measurement ([Page 143 of the WWU Business Plan](#)).

- Chapters cover the core operation of the organisation and are well structured
- Very strong performance in GD1 gives excellent platform for further efficiency
- Clear evidence of robust use of data in predicting future network requirements
- Risk based analysis appears to be robust and aimed at optimising the amount of replacement activity (p157)
- CEG is impressed by the Company's ability to assess the impact of asset failure on the vulnerable, by the mapping of PSR to meter points and meter points to assets (p138)

The Plan adheres to the CEG understanding of the Ofgem guidance.

CEG scrutiny

From the outset, engagement with the company was positive, but challenging. The Company have invested significant time into explaining the day-to-day operation of the organisation and how costs were incurred.

WWU BP areas	No of challenges raised	No of challenges closed	No of outstanding challenges	No of formal meetings	No of additional calls/sub meetings on topic	Shadowed engagement events
Asset resilience	5	5	0	6	2	N/A
The distribution network	4	4	0	6	2	N/A
Connecting homes and businesses	2	2	0	6	2	N/A
Transmission and pressure management	0	0	0	6	2	N/A

The focus of the CEG in reviewing and challenging these chapters was to ensure the maximum clarity in being able to compare costs across GD1 - GD2 and that the impact on the consumer was explicitly understood. The goal being to enable Ofgem to conduct meaningful assessment and appropriate peer review ([Page 149 of the WWU Business Plan](#)).

⁶ For example, whether a cost per metre of around £180 for mains replacement represents fair value for the consumer.

Engagement and Golden Thread

Overall, engagement seemed appropriate to the nature of the task – i.e. it was focused on the appropriate stakeholder group, with more consumer emphasis on overall costs and connections, whilst industry, HSE and government were the focus for the overall asset replacement strategy.

A number of bespoke targets/outputs are covered in these chapters:

Chapter 15 Asset resilience

- NARM (bespoke target)
 - WWU intend to continue to use and develop their NARM model through GD2. This risk-based approach to asset management is allied to an effective monitoring regime that has been endorsed by the HSE
 - The acceptability of this approach has been tested with customers on both a qualitative and quantitative basis, with the former explored during customer workshops on Monetised Risk. Customers appear to endorse both the approach and scope of these works
 - It is impossible for the CEG to assess in isolation whether the overall cost of the programme delivers good value and we look forward to the benchmarked exercise that will be undertaken by Ofgem. The CEG are confident that the manner in which WWU have undertaken the modelling work is robust and has been supported by appropriate data ([Appendix 15A](#) Cost Benefit Analysis).

Chapter 16 Distribution

- Repex Tier 1 mains replacement (bespoke target)
- Tier 1 refers to work that is **mandated** by the HSE and involves replacing mains within 30m of an occupied building by 2032. Tier 1 mains are categorised as iron pipes with a diameter of less than 9”
 - WWU have engaged extensively with customers and stakeholders (i.e. local authorities etc.) on the mains replacement programme and following feedback from the CEG have taken particular account of the particular needs of customers that are on the PSR register
 - The CEG spent considerable time understanding and challenging the company on the repex costs; in response, WWU have significantly improved the robustness of the evidence (i.e. increase in labour costs, techniques for increase in small diameter mains). Whilst we look forward to the Ofgem benchmarking exercise, we are confident that the Plan is robust and well evidenced in this area
- Repex replacement of services (bespoke target)
- The replacement of metallic services to comply with HSE guidance, which does not allow a steel service to be, reconnected following a mains replacement or to just repair a service following a leak.
 - The CEG note the extensive consultation on the overall repex programme, as outlined above.

Chapter 17 Connections

- The company is proposing a new incentive scheme regarding the theft of gas. Under the SPAA, the company is responsible for any theft where a service has been connected to their network. To date, WWU have been one of the leading GDNs in the recovery of income from theft of gas activity.
 - After extensive discussion with the CEG, the company is proposing a mechanism that the majority of CEG believe to be appropriate and fair, however one member believed that some incentive design elements were not sufficiently justified by the Company⁷. The CEG believe that the approach encourages the business to continue with its proactive stance, but we note that in the acceptability testing of the Business Plan there was only a 57% acceptance rate amongst customers (a mid-rank result)
 - Finally, we note that the impact on the bill is estimated to be no more than 2p/year and this is more than likely to be mitigated by the increase in income recovery.

Chapter 18 Transmission and pressure management

- Gas holder demolition (bespoke target)
- The CEG note that the company has presented robust evidence for its preferred option – i.e. demolish the five redundant gas storage assets. WWU undertook extensive customer engagement and have been working with the relevant local authorities; both groups appear to support the chosen option, as do the HSE. The CEG understand that demolishing all sites at a cost of £2.5m is the lowest whole-life cost option and we note the quality of the data presented. However, the CEG cannot judge whether the cost of £2.5m intrinsically represents good value given the nature of the works.
- NTS exit capacity (bespoke target)
- There is a current incentive for GDNs to minimise flows on the National Transmission System (NTS) to reduce consumer costs. There is Flex Capacity, Flat Capacity and System Pressure available from the NTS. At present, there is no financial incentive on Flex Capacity booking or System Pressure guarantees. We note that WWU have engaged with all key industry participants over the issue.
 - The output metric has not been concluded as this is to be confirmed by Ofgem
 - The CEG strongly support the concept of financial incentives to reduce consumer costs and we note that Ofgem plans to consult on the incentive scheme during 2020.

Key Areas of Strength

- These chapters of the Business Plan have been consistently strong and draw on a rich legacy of gas network management expertise.

Key Areas of Concern, Disagreement or Challenge

- None outstanding
- The CEG log lists all of challenges and how these were mitigated.

⁷ It should be noted that CEG discussions in this area continued after the publication of the WWU Business Plan

WWU Chapter19: Workforce resilience

Introduction

The maintenance of a complete and properly skilled workforce is critical to the provision of essential services. WWU demonstrate a clear understanding of this importance with intensive analysis of their likely future strategy, their positive experience in GD1 and a well thought out proposal for its continuation into GD2.

From the outset proposals in this chapter have always appeared to the CEG to be a very good presentation of positive action, intentions and planning by WWU. We are pleased that since it was first presented to the CEG the chapter has been improved further. It retains good presentation and content with additional material partly generated through input and challenge from the CEG.

We see a very positive attitude within WWU towards creating an exemplary relationship with the workforce. Their investments in training and apprenticeships, alongside support for the community, all confirm WWU's energetic support for their people.

Future planning for recruitment includes development based on their experience in using new methods of communication with candidates, and we particularly felt WWU's response to a specific shortage of staff in Cornwall in 2018 give a clear indication of willingness to "think outside the box". Significant analysis has clearly been done to identify expected shortfall and address methods of filling resultant vacancies.

The CEG view this as a positive, clearly presented chapter with continuing development, achieved following challenge and requests for further clarification.

CEG scrutiny

Through meeting discussion and other input CEG have challenged and encourage WWU to:

- Explain their strategic approach to Inclusion and Diversity including recruitment of disabled people and BAME candidates
- Give further information regarding their efforts to resist staff turnover due to the availability of perceived higher salaries from other networks and large national infrastructure projects
- Give further detail of success with Military veteran candidates
- Continue with focus on IIP, as although customer and stakeholder feedback has indicated this is not a priority for them, it still provides a useful benchmark/hygiene factor in the view of the CEG
- Provide clarification of expected costs of recruitment through GD2.

WWU BP areas	No of challenges raised	No of challenges closed	No of outstanding challenges	No of formal meetings	No of additional calls/sub meetings on topic	Shadowed engagement events
Workforce resilience	11	11	0	6	2	N/A

Engagement and Golden Thread

In this Chapter we noted clear explanation of WWU's understanding of their recruitment challenge and planned future response.

The Business Plan noted challenges with churn and retention of staff, in some instances driven by shifts in market shortages and higher competitive salaries. We are pleased that the Company has addressed the steps it needs to take to remain an employer of choice.

We were pleased to see a good focus on the CEG challenges and clear response re: disabled, Veterans, BAME and LGBT employees.

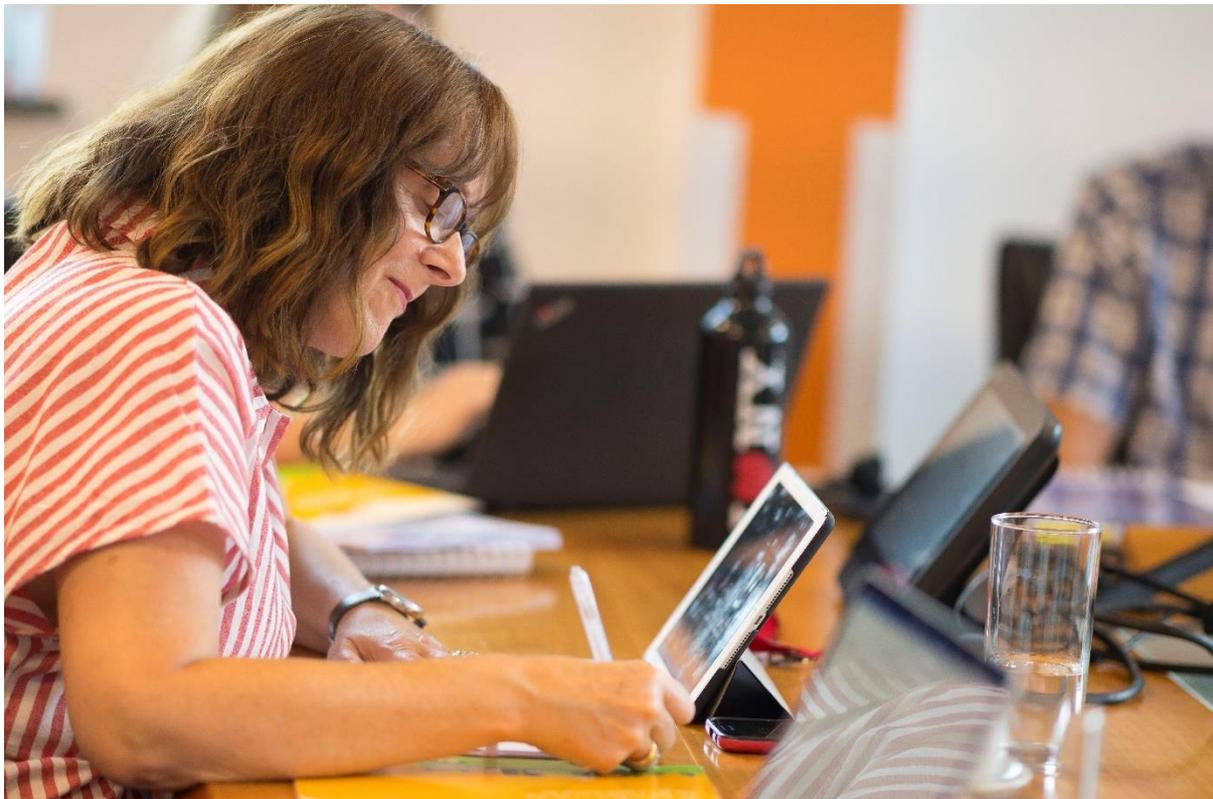
There is an excellent [Case History](#) from the 2018 Cornwall Recruitment drive which focused on satisfying an urgent shortage of 100 staff by utilising local campaigns, special exercises and engagement via social media – a successful experience giving indication of future flexibility.

Key areas of strength

- Contributions to communities are a very important issue and this is covered well in this Chapter. Support of staff in their efforts to participate in their communities with match-funding of projects is a positive step towards creation of a collaborative working environment
- There has already been proactive effort to engage with communities, businesses, staff and Trades Unions, and the intention to continue and grow this effort is shown. It is good to see that the positive Trade Union response is noted in the Business Plan
- Investment and focus on Apprenticeships has been high with recognition in the form of a CIPD Award in 2017 which indicates an ongoing commitment to staff training and development
- The final section of the Chapter, alongside reference to the appropriate Appendix, gives a clear picture of cost expectations for recruitment and for resourcing the services needed for this and indicates that an appropriate level of analysis has been done.

Key areas of concern, disagreement or challenge

- There has been a challenge regarding the sourcing expertise from the newer technology sectors – specifically Hydrogen – and there could be further information provided on how this will be addressed in future. There is however, clear recognition of the need for changing skills and roles in IT and Cyber as these roles involve further advancements in technology



WWU Chapter 21: Business IT security plan

Introduction

This section of the Business Plan was originally developed as part of WWU's Cyber Security plan. The first information provided to the CEG in this area was based around internet safety and prevention of penetration by hackers.

Our initial feelings were that although WWU were implementing the correct levels of prevention, disaster recovery, staff training and preparation we were not necessarily seeing this explained and presented effectively in the Business Plan. Particularly we challenged WWU regarding their presentation of the seriousness of the issues and their schedule of actions which would be taken in the event of any serious failures in the systems, and they responded by clarifying and further explaining their policies.

More recently, since the IT Security and Cyber Security were separated in the Business Plan, and Cyber Security eventually removed⁸, we challenged the ownership of Cyber and IT risks within the organisation, particularly with regard to Executive and Board involvement. As a result of this the Business Plan has been amended to include more detail in regard to reporting lines and empowerment in the event of an incident.

Generally this section of the Business Plan has developed in a very positive way and, although these elements of any business are challenging to fully set out in a public document due to their very focus on security, we have seen much more clarity on information than is available for public view. Particularly gratifying is the explanation of the "Zero-Trust" stance on IT design and build, the emphasis on new starters' staff training to develop a vigilant workforce, and recoveries from staff leaving the Company. The need to dovetail physical security and good business practice with the Business IT Security Plan is now emphasised. Additional information has been added to this Chapter in the final Business Plan which explains further the communication with stakeholders and response to CEG challenges on risks and solutions.

CEG scrutiny

WWU BP areas	No of challenges raised	No of challenges closed	No of outstanding challenges	No of formal meetings	No of additional calls/sub meetings on topic	Shadowed engagement events
Cyber resilience / Business IT security plan	4	4	0	4	2	N/A

Engagement and Golden Thread

The CEG has been able to engage with the IT team and the senior management responsible for their activities, and we have seen action taken as a result of our challenges. The content of the IT Security section has evolved since its introduction and we see that this has happened as a result of our feedback and requests for more information and clearer explanation. Relevant personnel have met with the CEG, presented and discussed their policies and attitudes, responding well to questions and implementing changes to the Business Plan. More than 2000 stakeholder were engaged on IT issues (page 191 WWUs Business Plan)

Consequences of IT failure of any type in a major utility provider such as WWU can have devastating effect on the population in their area and we feel that this section now explains their position on prevention and reaction in the case of such failures.

Further explanations as a result of discussion have clarified the WWU recognition of threats and we have been impressed by their scheduled procedures, Disaster Recovery planning and fall-back procedures to be implemented in the case of software or hardware failures.

⁸ WWU took advantage of the option from Ofgem not to include their Cyber Security plan in their Business Plan

Whilst these risk areas may not be obviously recognised by some end-users of the services the costs of supporting these diligent efforts are explained by WWU are more than justifiable.

Particularly convincing are the scheduled Disaster Recovery exercises which include “Going Dark” – this involved complete failure of the IT systems and backups with clear plans for manual systems to keep the gas flowing.

Collaboration with two other GDNs to allow benchmarking will give more information on the implementation of recently introduced NIS regulations.

Key areas of strength

- IT security is not in essence regional as the same criteria apply across the whole of the network – there are different levels of IT elements in Head Office, the regional offices and other active bases but the same precaution levels need to apply
- The Company’s involvement with the 2018 CX02 Project carried a significant investment cost
- The internal, group and external audit procedures which are regularly performed indicate a genuine focus on the seriousness of this issue. We note the intention to increase test frequency in GD2 as a very positive step
- Additional detail regarding £7M investment and resolve to fulfil obligations irrespective of customer feedback that two thirds would not wish to pay more for cyber security
- Development of stronger encryption with wider scope
- Incident response planning includes communication channels to Board, regulators and stakeholders.

Key areas of concern, disagreement or challenge

- None outstanding



Glossary

BAU	Business as usual	NZR	Net Zero Ready
BSI18477	External accreditation in Inclusive Service provision	ODI	Outcome Delivery Incentive
Capex	Capital Expenditure	Ofgem	The regulatory body
CEG	Customer Engagement Group	Opex	Operating Expenditure
CIPD	People Management Award	PCD	Price Control Deliverable
CO	Carbon Monoxide	PR19	Water Business Plan process
CSAT	Customer satisfaction survey	PSR	Priority Services Register
CVP	Consumer Value Proposition	RAG	Red Amber Green ratings
DNO	Distribution Network Operator	Repex	Replacement Expenditure
GD1	Gas Distribution Network 1 (2016-21)	SDGs	United Nations Sustainable Development Goals
GD2	Gas Distribution Network 1 (2021-26)	SIA	External partners
GDN	Gas Distribution Networks	SPAA	Supply Point Administration Agreement
GSoP	Guaranteed Standards of Performance	SROI	Social Return on Investment
HSE	Health and Safety Executive	Totex	Total Expenditure
ICS	Institute of Customer Service	WWU	Wales & West Utilities
NARM	Network Asset Resilience Measure		

