



Customer Engagement Group At Western Power Distribution **Terms of Reference**

v0.6

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The following document is the Terms of Reference for the Customer Engagement Group (CEG) for the RIIO-ED2 process at Western Power Distribution (WPD).

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Ofgem sets the RIIO price controls for the various monopoly businesses in the energy sector. For electricity distribution (RIIO-ED2) the next price control period will run from 1 April 2023 to 31 March 2028. This is the culmination of a process whereby the businesses will develop a strategic business plan to meet regulatory, environmental and customer needs.

Ofgem has stated its objective for RIIO-2 in its framework decision document, highlighting their intention to see network companies deliver value for money services that both current and future consumers want and need. Specifically, the strategic business plans submitted for the final price control will have to demonstrate:

- actions to mitigate the impact of network assets and their operations on the environment, and
- how their development has sought to contribute to addressing the needs of vulnerable consumers.

As an electricity distribution network, each company will be required by Ofgem to establish a Customer Engagement Group (CEG). These Groups will provide challenge on whether the company's business plan addresses these needs and preferences.

The RIIO-ED2 CEG is a vital part of the price control process. On the service provided and a range of other issues, consumers are best placed to say what they value and are willing to pay for and the CEG will ensure WPD is truly listening to and reflecting on those views in their business plan. With the evolution underway in the energy sector, particularly the move from DNO to DSO, this price review will present an opportunity to draw on extensive stakeholder engagement to guide WPD's approach and aspirations. Political involvement should be a last resort in the delivery of utility services; however, for this to be the case consumers must have extensive opportunity to contribute to shaping the services they need for current and future generations, be able to hold their providers to account through a social contract, underpinned by effective and strong regulatory checks and balances. Stakeholders' engagement and influence will shape and develop an appropriate business plan and the services WPD will deliver for the years ahead.

There will be one CEG covering Western Power Distribution's four licence areas (East Midlands, West Midlands, South Wales and South West England). However, it will be vital that the CEG considers local and regional issues alongside priorities affecting the business as a whole, through a range of appropriate engagement activities to allow for a balance between appropriate regional representation and national consistency.

Independent and operating at arm's length from Western Power Distribution (WPD), and from Ofgem, the CEG will provide rigorous challenge to WPD in the development of their business plan and submit their views on the plan to Ofgem in the form of a report that will be received alongside the final business plan submitted by WPD to Ofgem.

This CEG will challenge WPD on the following areas (including but not limited to):

- Overall company priorities and approach
- Approach to sustainability, resilience and energy system transition (to Distribution Service Operator - DSO)
- Proposed outcomes and impacts with associated expenditure, compared to historical performance and industry comparators
- Stakeholder and consumer engagement process and research

- Support for vulnerable customers
- Company approach to innovation across assets, services and the roll-out of learning
- Future energy scenarios
- Alternative/flexible investment options
- Regionally and locally unique issues

To meet these commitments, WPD will need to develop and maintain a reliable, safe and robust network of assets supported by a service which is flexible enough to meet the varying needs of consumers as the business evolves to meet the requirements of a low-carbon future.

A key element of the CEG will be to ensure customers' views, needs and expectations influence the heart of the decision-making process at WPD, and ultimately, that the RII0-ED2 price control delivers positive outcomes for consumers.

The involvement of the formal CEG role will seek to raise the bar for engagement and quality of business plans. One of the benefits of this approach is it allows stakeholders to bring expertise, new insights, and engagement skills that will be complementary to that of the company. Members of the CEG will challenge WPD's internal assumptions (including raising expectations of what "good" looks like), and ensure they keep pace with the latest thinking both nationally and internationally to ultimately improve the quality of the business plan prepared. These challenges will also highlight where there has been consideration of consumer and stakeholder needs and preferences at local, regional and national levels, resulting in a business plan that better reflects local context, priorities, expectations, and needs.

The key output of the CEG will be an independent report submitted to Ofgem alongside WPD's Business Plan, outlining areas of agreement and disagreement. In the final report, the CEG will provide Ofgem with additional evidence and inform their assessment of WPD's business plan. Being close to the company, but remaining at arm's length, the CEG will be well placed to identify any disconnect between a good 'sales pitch' and the extent to which proposals genuinely reflect consumers' current and future wants and needs. The CEG will report their view on the degree to which WPD has explored different options, considered different viewpoints and properly reflected these in its final plan, while ensuring the promises WPD have made to put consumer and public interest at the heart of the decision making process, transparently and robustly happen.

2. Objective and scope

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2.1. Objective

The objective of the CEG is to ensure WPD deliver a thoroughly scrutinised business plan that ultimately meets the wants and needs of customers, at the lowest possible cost.

To achieve this objective, the CEG will:

- Provide wholly independent scrutiny of, and challenge to, the company's business plan for RIIO-ED2 from the perspective of existing and future consumers and stakeholders, with a focus on affordability and the protection of consumers in vulnerable circumstances, and on sustainability across all activity and the transition to a low carbon energy system.
- Participate in the public hearings and meetings arranged and run by the regulator, Ofgem.
- In the delivery of its objectives, the CEG will scrutinise WPD's business plan, and clearly set out areas of agreement and disagreement, stating the reasons in the report prepared for Ofgem.

To truly demonstrate that this CEG is adding value, additional effort has and will be taken to measure not just the cost of running the group, but the benefit delivered to consumers as a result. Detail on the methodology used to value these benefits will be provided in the 'Outputs' section of these Terms of Reference.

2.2. Scope

The CEG does not have any decision-making powers, nor will it advise WPD on the development of, or endorse the business plan submitted. In the final CEG report on WPD's business plan, the CEG will set out the areas of agreement and disagreement to Ofgem for use when assessing the business plan, and through the open hearings which are planned as part of the process. The role of the CEG, and in particular the Chair, as part of these processes will be informed by Ofgem's final RIIO-ED2 strategy and sector methodologies due in 2019.

In fulfilling its primary purpose, the CEG may seek to challenge all aspects of WPD's business plan from the perspective of consistency with the RIIO-2 sector methodology. This challenge would be with a focus on:

- the range, inclusivity, and quality of services offered (particularly for consumers in vulnerable circumstances and those that are currently worst-served)
- sustainability and environmental impacts; and
- on total expenditure (Totex).

Lessons learned from the gas distribution and transmission price control processes (GD2 and T2) will be sought from Ofgem and other parties to influence the challenge and approach of the CEG in these matters, implementing any learning and good practice. At the end of its work, the CEG will participate in an independent review of its activities and outputs to assist Ofgem in preparing for subsequent price controls.

The CEG is in addition to extensive and robust stakeholder engagement and consumer research WPD will undertake to inform their approach for their business plan. The output of this work will be presented to the CEG where it can influence decisions made by WPD in respect to the business plan. The CEG will remain discrete and separate of any other engagement panels or working groups WPD already has or is planning to establish, to solicit views from stakeholders and consumers. However, challenges by the CEG may be taken by WPD to these groups to define a response to the challenge raised.

When required, the CEG, through the Chair, will provide information and attend meetings with Ofgem or the RIIO-2 Challenge Group at any point throughout the process.

3.1. Membership of the CEG

The membership of the CEG will comprise of:

- An independent Chair
- Representatives from consumer interest parties and local government
- Independent members covering a range of disciplines including: research, customer service, sustainability/low carbon, innovation, DSO, CSR, vulnerable consumers, environment, community energy, non-traditional business models, social contract models, and outputs and expenditure

The initial membership of the CEG (as of Q1 2019) is set out in table 1 below:

Name	Organisation	Role
Duncan McCombie	YES Energy Solutions	Chair
Member 1	Company x	Deputy Chair* - topic area(s)
Member 2	Company x	Member - topic area(s)
Member 3	Company x	Member - topic area(s)
Member 4	Company x	Member - topic area(s)
Member 5	Company x	Member - topic area(s)
Etc		

Table 1: Initial membership for CEG

*[Note: Table above to be populated when final membership is agreed and individuals appointed. *One member to be identified as Deputy Chair]*

When appropriate the CEG will also invite internal or external experts to specific meetings to seek their views.

The CEG will be supported by a secretariat function, independent of WPD.

3.2. Role of the Chair

The Chair will:

- lead all the meetings of the CEG and the setting of agendas for meetings,
- act as a representative in meetings with other parties (including Ofgem and RIIO-2 Challenge Group), and
- be the principle contact between Ofgem and the CEG.

The Chair will also schedule appropriate engagement with the WPD Board to deliver the CEG objectives robustly and in a timely manner.

The Chair will lead on the agenda for the CEG meetings, organise and direct the CEG deliberations, and request access to relevant data (and personnel where appropriate) from WPD and Ofgem. Data includes, but is not restricted to, information on past performance, Totex forecasts and out-turn performance (and reasons for the variation) and comparative data from other network companies and other background data to inform the CEG decision making.

3.2.1. Chair recruitment process and role criteria

WPD followed a five-step process (gaining approval from Ofgem to advance after each step) for appointing the Chair. The steps were as follows:

1. **September 2018:** agreed our recruitment process with Ofgem (including selection criteria)
2. **September 2018:** externally sourced 46 candidates (using an external recruitment agency)
(Outcome shared with Ofgem and approval granted to proceed)
3. **October 2018:** 46 candidates were reduced to 18 (long list assessed using a red/amber/green rating against our selection criteria)
(Outcome shared with Ofgem and approval granted to proceed)
4. **November 2018:** 5 candidates shortlisted (detailed desktop assessment and telephone interviews)
(Outcome shared with Ofgem and approval granted to proceed)
5. **December 2018:** Chair appointed (after further interviews with WPD's Finance Director and Head of Stakeholder Engagement)
(Outcome shared with Ofgem and approval granted to proceed)

The role criteria and weightings by which candidates would be assessed, were defined in advance and agreed with Ofgem. They were:

- The ability to act in a wholly independent capacity (not representing an organisation and demonstrating no risk of capture)
- Strong track record of demonstrating leaderships at a senior level
- Proven record of challenging opinions, assumptions and vision; and representing the views of consumers
- Experience operating in the energy or other regulated utility sectors
- Declare any actual or potential conflicts of interest
- Ability to build governance arrangements (to ensure transparency and assurance that CEGs are operating at arm's length from the company)
- Expertise against the CEG's areas of influence (E.g. Sustainability; Resilience; DSO / future energy scenarios; Outputs & expenditure; Stakeholder engagement; Vulnerability; Innovation; Connections, etc)

3.2.2. Period of appointment and termination process

The Chair's period of appointment will last an initial four-year term, commencing 01 December 2018, followed by an optional one-year extension.

In the case of the Chair's resignation, WPD will inform Ofgem immediately. WPD will then set out to recruit a replacement, following the same process outlined above. Notice should be given at least three months in advance to allow sufficient time to search for, recruit and onboard a new Chair.

In the unlikely event that WPD wish to remove the Chair, WPD will provide two-months' notice, and detailed reasoning to Ofgem, for their consideration.

3.2.3. Remuneration

The Chair will be remunerated with a fixed amount per day up to a set limit per year, commensurate with the skills, experience, effort, and gravitas required to complete the role. Further details on the costs of running the CEG will be published online in due course.

In addition to this fixed amount per day, all reasonable travel and meeting costs (in line with WPD's existing expense policy) related to CEG participation will be met.

3.3. Role of the Deputy Chair

The Deputy Chair is a regular member who will deputise for the Chair in the unlikely event they are unavailable.

3.4. Role of the members

Individual members will provide expertise relating to their discipline to the CEG, contributing their views as individuals and not seeking to represent any group, organisation or constituency other than the interests of current and future consumers. Members must ensure their contributions enable the CEG to function in a collaborative and cohesive manner, and each member gets the opportunity to participate fully.

All membership appointments will be agreed by the Chair, ensuring a suitable balance of skills, experience (as outlined in Ofgem RIIO2 Enhanced Stakeholder Engagement Guidance v13 final) and knowledge that will deliver robust challenge and scrutiny across all topics.

Members may be asked by the Chair to represent the CEG in meetings, including public open hearings in support of the Chair. Members must inform the Chair and Secretariat in advance if they are unable to attend any meeting.

3.4.1. Members recruitment process

WPD, in cooperation with the Chair, followed a four-step recruitment process to appoint the various members of the group. The steps were as follows:

1. **December 2018:** designed our recruitment process and role description and shared these with Ofgem (including selection criteria)
2. **January 2019:** created a long list of candidates, utilising a variety of sources including:
 - a. Chair's network
 - b. WPD's network
 - c. Direct applications to WPD (via the website and recruitment agency used for the Chair recruitment)
 - d. Searches for specific skillsets
3. **January 2019:** completed a desktop CV review of a long list of candidates *[insert total number of candidates reviewed when known]*
4. **February 2019:** shortlisted candidates were then invited for a discussion with the Chair to determine their suitability and appetite for the role, as well as providing them with further details on their expected duties
5. **February 2019:** the final selection of candidates was made by matching appropriate candidates to the required knowledge areas required for the group

3.4.2. Members' period of appointment and termination process

It is intended for all members to serve for the entire duration of the RIIO-2 price control period to ensure consistency in the quality of challenge and input. This will also allow for a smooth and effective way of working, as the entire group will become more familiar with one another, and benefit from the same learnings and experience.

In the event of any member(s) wanting to resign or not seen as being as effective as desired, the Chair reserves the right to ask for a member's resignation from their position. Notice should be given at least *[two months]* in advance to allow sufficient time to search for, recruit and onboard a new member.

3.4.3. Remuneration

Members may be remunerated in various ways, based on the nature of the organisation they represent and their relationship with WPD, as agreed upon recruitment. Further details on the costs of running the CEG will be published online in due course.

In addition to these fixed amounts, all reasonable travel and meeting costs (in line with WPD's existing expense policy) related to CEG participation will be met.

3.5. Onboarding

In order to quickly bring the Chair and the membership up to speed on WPD's business and Ofgem's requirements and expectations of the CEG, WPD designed an onboarding programme to provide members with the information required to meaningfully contribute to discussions and effectively challenge. Further information on these onboarding efforts can be found on WPD's website in the area related to the CEG.

4.1. Short-term outputs

The CEG, supported by the independent Secretariat and WPD where necessary, will be responsible for producing the following regular outputs:

- Formal minutes and actions
 - The group will be expected to produce minutes for every meeting, outlining the areas discussed, points raised, comments from specific members, any internal actions agreed, as well as any requests for content for the following meeting.
- Challenge log
 - As part of the setup of the CEG, a formal challenge log will be designed. The CEG will be responsible for identifying and recording formal challenges to WPD in the challenge log. These challenges are the primary output of each group meeting, they form the foundation of how the CEG's views will be communicated to Ofgem, and are the input required to measure the impact of the CEG.
- Risk log
 - All risks, not including the management of specific conflicts of interest, will be tracked and managed through a risk log.

4.2. Long-term outputs

The key output of the CEG will be an independent report covering WPD's business plan. The CEG will agree on the presentation style of the report, after seeking the views of Ofgem as to the format of the report to allow for consistency with other CEGs. The report will present a summary of the CEG recommendations and challenges, identifying specific areas or issues where, in the opinion of the CEG, WPD's business plan is weak or not robustly justified, or where a challenge has not been addressed. The report will clearly identify the concerns and the reasons for them, which the CEG believes should be interrogated further in the open public hearings.

In addition to the independent report on the business plan, the CEG will also deliver an annual report for WPD and the public. This report will summarise the group's activities and outputs, going into additional detail on the value that the group's challenges have delivered and how this was calculated.

To provide this insight, WPD will develop a structured evaluation methodology with the objective of providing a quantitative value for the CEG's challenge. This will demonstrate not just the extent to which the challenge has improved the services that WPD provides its customers, but also the value for money profile of the group (comparing its relevant benefits against the ongoing costs). WPD and the CEG are both committed to delivering value for customers, doing so in a demonstrable manner that builds confidence and trust in the wider energy system.

5. Meetings and secretariat support

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5.1 Ways of working

The CEG meetings will take place in person at least quarterly, potentially moving to six times a year as required, between the period of 1st Jan 2019 and 31 Dec 2023. The frequency and duration of the meetings may change depending on the key periods of the process as detailed in the agenda agreed by the Chair and discussed with the CEG. It may also be necessary to convene sub-groups to explore specific topics in greater detail, invite additional members to contribute to these discussions and for meetings to take place outside of the core meetings schedule. These requirements will become clearer after the CEG begins to meet in 2019.

To challenge the proposals of WPD effectively, the group will dedicate sufficient time to the following activities:

- Digesting and understanding information, preparatory material, and meeting minutes
- Meeting formally as a group at scheduled sessions
- Meeting informally as a group (without WPD representation present)
- Agree on actions, minutes and formal challenges at the end of each meeting

To facilitate open and constructive debate, meetings will be held under the Chatham House Rule. Outcomes of the meeting of the CEG will be recorded as necessary in summary and published; views will not be attributed to specific individuals or organisations.

5.2 Independent Secretariat

An independent, external Secretariat will be commissioned to support the work of the CEG throughout the process. The scope of the activity will include governing CEG meetings against the Terms of Reference administration relating to the organisation of meetings, preparing and circulating in advance of each meeting the agenda agreed by the Chair, taking minutes of each meeting of the CEG, maintaining the register of members' interests and potential conflicts, maintaining a challenge log for the CEG and WPD, and creating and maintaining a risk for the CEG. The Chair will liaise with the Secretariat to ensure the logs are updated and a regular progress report is prepared for the CEG.

The Secretariat will report to the Chair, not WPD, and will remain completely independent from the company throughout the period of appointment.

6. Conduct of the CEG – Ensuring independence

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The independence of the CEG Chair and members from WPD and Ofgem is essential. The CEG is a challenge body to scrutinise the process by which WPD's business plan is built, challenge WPD's thinking in order to achieve the very best outcomes for consumers and to provide regular scrutiny, oversight and assurance for Ofgem. It differs markedly to any existing stakeholder engagement mechanisms WPD may utilise to deliver customer insight into its business. By contrast, WPD's wider programme of stakeholder workshops and panels may be more collaborative and advisory in nature, forming part of WPD's wider stakeholder engagement practices. They are separate and distinct from the operations of the CEG. The only potential relationship with the CEG is that these wider engagement mechanisms may be used by WPD as appropriate (alongside research for example) to help them consider appropriate responses and actions to take to address the challenges that the CEG pose. The CEG is not part of this core engagement programme. The independence of the CEG and its members must be maintained at all times.

The Chair will not sit as a member on any other WPD engagement forum for the duration of their appointment. An independent, external Secretariat will be appointed to ensure that the Terms of Reference and associated policies (including managing conflicts of interest), are followed at all times. This will ensure that the independence of members is upheld at all times and provide assurance to Ofgem and WPD's customers that this is the case.

In carrying out the work of the CEG, the Chair, Deputy Chair and the members will observe the highest standards of integrity and independence and comply with the principles established by the Committee on Standards in Public Life.¹

A member will cease to be a member of the Group if their contract (or agreement) with WPD is terminated. A member may be removed from the Group by the Chair if they have committed a serious breach of the standards of conduct laid down in these Terms of Reference.

6.1 Conflicts of Interest – Policy and process

The Chair, Deputy Chair and all members will be required to disclose in the register of members' interest any financial or other interest or circumstance which could give rise to a conflict of interest (actual or potential). At the beginning of any meeting, members will disclose any new or previously undisclosed relevant interest. Members may recuse themselves from a meeting or part of a meeting on their own initiative or at the request of the Chair if any actual or potential conflict of interest arises.

A separate conflicts of interest policy will be written and published online. It will cover:

[insert as appropriate, when written]

1. Policy
 - a. Conflicts that should be recorded
 - b. Why they should be recorded
 - c. How this information will be recorded (on WPD's public website, listing the conflict, the member, the related topic, and the proposed mitigation)
2. Process
 - a. How conflicts will be collected initially
 - b. How conflicts will be reviewed on a meeting-by-meeting basis

¹ www.gov.uk/government/publications/the-7-principles-of-public-life/the-7-principles-of-public-life--2

- c. How the conflicts policy and process will be reviewed (inc. timescales, i.e. annually)
- 3. Examples
 - a. Provide a (non-inclusive) list of potential conflicts

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To demonstrate the challenge and scrutiny that the CEG is delivering, both to Ofgem and the wider industry, the CEG will be fully transparent in regard to its ways of working, its membership, and its outputs.

There will be a section on the WPD website dedicated to the CEG and its activities. On this website, the following information will be displayed:

- Group level information
 - These Terms of Reference
 - The onboarding information provided to each new member
 - Forward-looking agenda
- Membership information
 - Biographies of the Chair and various members
 - A high-level process for how the Chair and members were appointed
 - Remuneration details
 - Up-to-date conflicts of interest register
- Outputs
 - Copies of the agenda for each meeting
 - Any briefing material provided for each meeting (excluding any sensitive information)
 - All meeting minutes (excluding any sensitive information)
 - Up to date challenge log
 - The annual and business plan specific reports

The CEG will report and be governed in the following ways:

8.1 The CEG and WPD

Through the Chair, the CEG is ultimately responsible to the board of WPD, being given temporary access to the Board if required and appropriate. The Chair will facilitate discussions between the CEG and WPD where necessary, maintaining a healthy working relationship.

8.2 The CEG and the RIIO-2 Challenge Group

The Chair will lead all interaction with both Ofgem and the RIIO-2 Challenge Group on behalf of the CEG. Occasionally CEG members may be invited to join the Chair for these meetings. The CEG will submit their final report directly to the Challenge Group.

WPD will also contribute to the meetings with the Challenge Group, however, this contribution can be either alongside or separate from the Chair's meetings.

8.3 The CEG and Open Hearings

The Chair will lead the CEG's response to Open Hearings, calling on members to contribute as appropriate.

WPD will also contribute to Open Hearings, however, this contribution can be either alongside or separate from the Chair's meetings.

9.1 Approving the Terms of Reference

These Terms of Reference have been developed by the Chair and approved by the membership of the group. In developing the document, Ofgem's guidance and the requirements it sets out were closely followed, as well as what is best practice in other regulated industries.

9.2 Reviewing and updating the Terms of Reference

The CEG will review these Terms of Reference annually, ensuring they are up to date with the group's processes, ways of working and any changes to Ofgem's guidance. The review will involve the full membership of the group and will involve a set list of questions including:

- Are the described outputs of the group still accurate and proportional?
- What changes/updates have there been to the Enhanced Engagement Guidance and are they reflected in the Terms of Reference?
- Are the transparency and independence measures in place sufficient?

If a member or the Chair deems it necessary to amend the Terms of Reference, this should be communicated to the Secretariat. All members will have the opportunity to discuss and review the proposed amendment brought forward and vote on it. The Chair's agreement will be required for it to pass.