

# **RIO-2 price control Enhanced Engagement process**

Recommendations to Ofgem  
and energy network  
Customer Engagement  
Groups and User Groups



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# Introduction

The Ofgem RIIO-2 price control process is the means by which the regulator, Ofgem, sets the work expected of the gas and electricity transmission sectors, the gas distribution sectors, and the Electricity System Operator for the next 5 year period (2021-26). The price control also lays down the revenues that these companies can receive for delivering this work.

In RIIO-2, Ofgem introduced a new Enhanced Engagement process<sup>1</sup>. This called on the network companies to undertake deeper and broader stakeholder engagement in designing their Business Plan submissions for RIIO-2.

In the RIIO-2 Final Determinations<sup>2</sup> published in December 2020, Ofgem announced that they would be conducting a formal evaluation during 2021 of the Enhanced Engagement process. This report is a contribution to this review and gives our views and recommendations which we hope will be valuable to both Ofgem and the CEG and User Group Chairs.

## Reflections and recommendations to Ofgem for RIIO-ED2 and future price controls

Citizens Advice has been witnessing and supporting the Enhanced Engagement process for RIIO-2 in multiple ways:

- Citizens Advice staff sat as independent members on the following Customer Engagement Groups (CEGs): Wales and West Utilities, Cadent Gas, SGN CEG. As independent members, we were not representing Citizens Advice views.
- We met with Northern Gas Network CEG multiple times.
- We met all transmission User Groups (UGs) at least once.
- We attended the Open Meetings for the network companies subject to the RIIO-2 draft determinations.
- For RIIO-ED2 (the electricity distribution price control process for 2023-28), we now sit as independent members on the CEGs for Western Power Distribution, Electricity North West Limited, and Southern and Scottish Energy Networks. We liaise with the 3 other electricity distribution CEGs.

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<sup>1</sup> [Ofgem, 2019, RIIO-2 Enhanced Stakeholder Engagement Guidance.](#)

<sup>2</sup> [Ofgem, 2020, RIIO-2 Final Determinations.](#)

## Our overarching recommendations on the future of Enhanced Engagement

### We recommend that Ofgem:

- **Continues to use CEGs and User Groups** to scrutinise company Business Plans for ED2 and future price controls. We have seen and heard first hand that these Groups can make a significant difference to company Business As Usual (BAU) practice, and the ambition and cost of Business Plan proposals. This ultimately benefits consumers. They also improved the quality of company Business Plans, supporting Ofgem's scrutiny process.
- **Continues to use the RIIO-2 Challenge Group** to scrutinise company Business Plans across the board. Its comparative view of multiple companies and their wider scope (i.e. including financeability) supports Ofgem's scrutiny efforts, and its challenge to companies has resulted in beneficial changes to Business Plan proposals.
- **Approves any future CEG and User Group Chairs**, as with prior Chairs, given the key role that the Chairs play in the effective work of the challenge group
- **Uses their upcoming review of Enhanced Engagement to consider whether members that have commercial interests with the company should be allowed to sit on that company's CEG or User Group.** We believe that the independence of the challenge group is weakened by members who also receive remuneration from the company other than that related to their CEG or User Group activity.
- **Continues the use of the Open Hearings and Meetings** format which we believe has improved transparency of the price control process and offers further opportunity for stakeholder involvement

### Ofgem's involvement in the challenge journey

The Enhanced Engagement process was relatively new to Ofgem and this was felt in interactions with the regulator at the outset of the RIIO-2 process. Embedding of the engagement process is ongoing at Ofgem as lessons are learned from the RIIO-2 and ED2 price controls. We believe that maintenance of high levels of contact between the CEGs/User Groups and Ofgem will be beneficial to further embed Enhanced Engagement.

### Further recommendations to Ofgem:

- **Continue to have a dedicated contact at Ofgem that CEGs and User Groups can contact, and who fully understands the engagement process.**
- **Continue attending the CEGs every few months, providing updates and guidance where relevant.**
- **Maintain the meetings between the RIIO-2 Challenge Group and the CEG and User Group Chairs** to be able to exchange issues of importance.
- **Ofgem needs to inform the CEGs and User Groups much earlier of what it is they expect to see in their final report.** Otherwise CEGs cannot collect the necessary information over a period of time to form their opinion.
- **Use the CEG and User Group Chairs, and their members as a resource.** For example, we make several recommendations for Ofgem to review the

engagement process. This could be done through a survey of (former) members or a workshop with Chairs.

- The Enhanced Engagement process was set up with the aims<sup>3</sup> of
  - raising the bar for engagement and quality of Business Plans,
  - supporting Ofgem's Business Plan assessment,
  - enabling more flexible regulation, reflecting regional differences.

We are satisfied that it achieved the first point. **We welcome the review that Ofgem plans for Enhanced Engagement in RIIO-2. We ask that its assessment explains how the Enhanced Engagement process and information has assisted the regulator in its review of Business Plans, and whether more flexible regulation has been made possible through it.**

### **Assessing engagement across companies**

We understand that Ofgem set up the CEGs and User Groups as independent expert groups which would form a subjective view on Business Plans based on their members' views. This inevitably meant that different groups judged their companies according to different criteria and standards. On most issues we believe this is the right approach to take. However, **on the topic of engagement, we believe Ofgem should provide the challenge groups with guidance on what constitutes "quality and robust engagement"**. This is because engagement of consumers and stakeholders is the key activity that companies have to get right to make their Business Plans genuinely reflective of the needs and wants of their area. Having a CEG judge a company more generously on engagement could mean that their Business Plan does not accurately reflect these. The high level principles provided in the Business Plan guidance<sup>4</sup> were not sufficient. As a guide, we recommend reviewing Cadent CEG's framework for quality engagement<sup>5</sup>.

On the whole, it appeared that the transmission companies had less well developed stakeholder engagement programmes than the gas distribution network companies. Techniques such as willingness to pay, triangulation, and trade-off processes appeared less familiar to the transmission companies, especially with respect to engagement with end-consumers. In addition, the proposals for ongoing engagement during RIIO-2 were also variable between companies. **More prescriptive guidance from Ofgem on what would constitute 'robust and quality engagement' would also serve to lift transmission companies to a higher engagement level particularly when incorporating end-consumer engagement.**

### **Improving how CEGs run**

The 4 gas company CEGs varied in size, structure, frequency of meetings, and Business Plan areas they chose to focus on. These differences were driven primarily by the ambition levels of the Chairs. We are unsure whether the kind of contracts the companies had established with their CEG members and the budgets they were given was a significant factor. We understand many companies underestimated the amount

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<sup>3</sup> [Ofgem. April 2018 RIIO-2 Enhanced Stakeholder Engagement Guidance. page 8](#)

<sup>4</sup> [Ofgem. June 2019. RIIO-2 Business Plan Guidance. page 6](#)

<sup>5</sup> [Cadent Gas CEG. August 2019. Quality of Engagement Assessment Framework](#)

of days a member would have to put into the CEG work on a monthly basis, thinking 2 days per month would suffice. By not allowing their CEG members to spend and bill more time than this, a company could have limited the scrutiny their CEG could apply to them. **We suggest Ofgem reviews practices in this area to get an understanding of whether this was or is an issue.**

Running CEGs and User Groups costs a lot of time and money. In the ideal case, they improve company BAU practice and Business Plan commitments in the interests of consumers and deliver savings or and service improvements for consumers. This is not entirely in their control but depends on the receptiveness of the company. Nevertheless, **we recommend that Ofgem requires CEGs to publish their costs and impacts as far as possible. The costs should include rough costs incurred to the company for staff serving the CEG.** For GD-2 and T2, not all CEGs and User Groups did so (see Cadent CEG Impact and Cost [Annex](#) and Northern Gas Network CEG [impact](#) document).

Chairs are key to setting a high bar for scrutiny and challenge of their CEG. To lower the risk of capture and bias over time, **we recommend that Ofgem does not allow a Chair to lead a CEG for more than 2 Business Plan writing processes and should consider seeking stakeholder input on whether 1 term is better. Ofgem should also continue to approve CEG Chairs before they are appointed.**

The CEGs operate in the public interest and therefore should be committed to be transparent and accountable. The gas CEGs were very inconsistent in what they published:

- all CEGs had a website
- agendas (Cadent)
- Terms of Reference (Cadent, NGN)
- minutes (Cadent)
- blogs (WWU, NGN)
- progress reports in irregular intervals (SGN)
- enquiries form/ email address (SGN, Cadent, NGN)
- conflict of interest register (NGN)
- challenge log (Cadent, NGN)

**We recommend that Ofgem requires all CEGs to have conflict of interest registers, have a point of contact for interested members of the public, and publish their membership, Terms of Reference, rough agendas of meetings, minutes or progress reports in some form, and their challenge logs (redacted if necessary).**

#### **Recommendations to improve how the RIIO-2 Challenge Group (CG) runs**

- As well as its core role to scrutinise company Business Plans, the CG was also supposed to “provide challenge to Ofgem’s policy thinking from the perspective of the RIIO-2 Objective in the run-up to Ofgem’s sector methodology consultation in December 2018 and sector methodology decision in May 2019.”<sup>6</sup> **We believe the CG should continue to have a role in scrutinising the regulators’**

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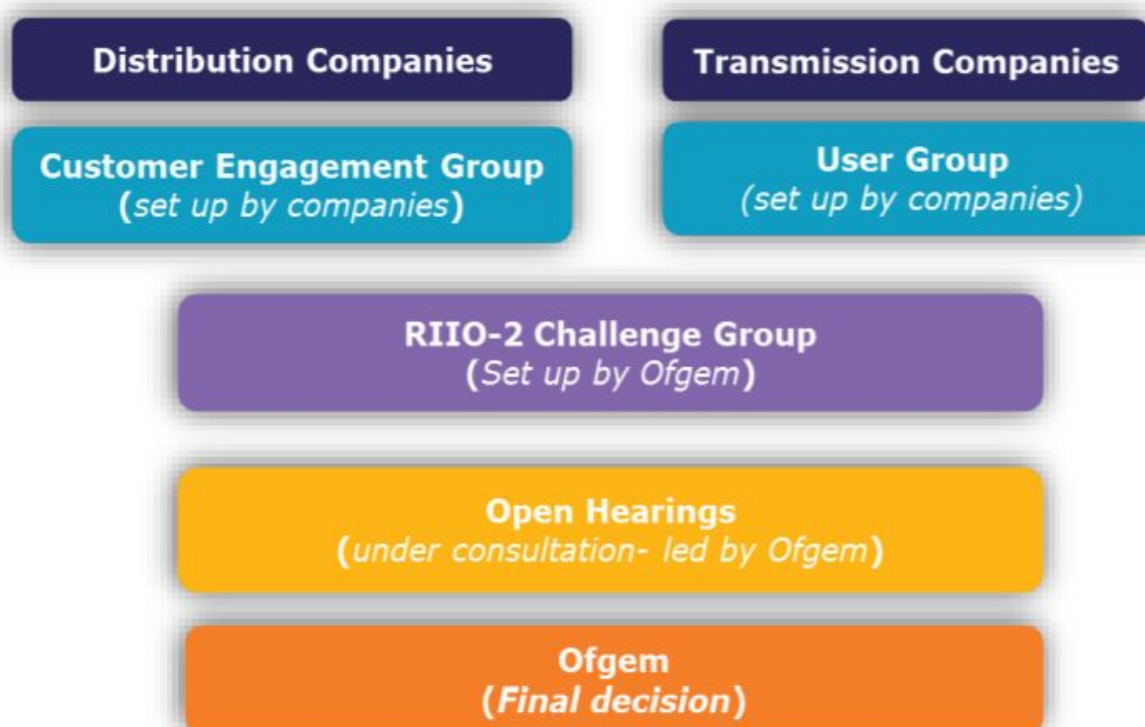
<sup>6</sup> [RIIO-2 Challenge Group Terms of Reference, November 2018](#)

**thinking and forthcoming decisions and Ofgem should plan for this.**

However, ideally this would happen before decisions are taken and less time spent on challenging decisions already made.

- **The size of the Group could be reduced.** Several of the 14 members doubled up on the expertise they brought to the group.
- **The Group should have a dedicated, full-time secretariat.** This was not sufficiently provided for the GD/T2 round.
- **The Group would have benefitted from expert writing support** to make better use of the specialist expertise on the group.
- Reading material for the CG often arrived later because of uploading times at Ofgem. **The Group needs timely access to materials going forward.**
- The time to review the final Business Plans, some of which had changed materially from the first drafts, was very tight and limited what the Group could do. **Ofgem should require better quality Business Plan drafts from the electricity Distribution Network Operator (DNO) companies, and give more time to the Challenge Group to write their final report.**

### Improving the challenge structure - CEGs and RIIO-2 CG



Enhanced Engagement structure, Enhanced Stakeholder Engagement guidance April 2018<sup>7</sup>

The scope of work of the CEGs and RIIO-2 CG did overlap. For example, both groups looked at stakeholder engagement, innovation and vulnerability.

<sup>7</sup> [Ofgem. April 2018. Enhanced Stakeholder Engagement Guidance](#)

The RIIO-2 CG's role was very similar to the CEGs' in that they were aiming to give each company feedback on their proposals, judging it against Ofgem minimum requirements and their own best judgement. It understandably struggled to fulfil this role, often giving companies generic feedback that applied to all, simply because for each round of challenge they only had 14 days to judge 9 Business Plans. **We believe that the best way to use RIIO-2 CG time and their ability to compare across companies may be to focus their work on where they add value over and above the CCGs. For example, benchmarking differences, pointing out good practice and who is falling below standard.** In practical terms this would mean retaining and deepening the comparative analysis part of their report, and reduced focus on the company-specific reports<sup>8</sup>.

Interactions between CEGs, User Groups and RIIO-2 CG were limited. Ofgem convened Chair meetings every couple of months. Information mainly flowed to the latter. The "buddy system" whereby members of the RIIO-2 CG were put in touch with Chairs was inconsistent but demonstrated potential if developed further alongside more formal coordination.

Coordination between the RIIO-2 CG, User Groups and CEGs needs to improve. **We recommend that Ofgem - together with CEG/User Group Chairs and RIIO-2 CG members - carefully reflects on:**

- **what role the CEGs play versus the RIIO-2 CG**
- **what their respective scope should be**
- **what views Ofgem seeks from either**
- **what information should be usefully exchanged between them to help each one do their job**

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<sup>8</sup> [RIIO-2 Challenge Group report on RIIO-2 Business Plans, January 2020](#)



# Reflections and recommendations for CEGs

Citizens Advice has witnessed and supported the Enhanced Engagement process for RII0-2 in multiple ways.

- Citizens Advice staff sat on the CEGs of Wales and West Utilities, Cadent Gas, and SGN, although as independent members, not representing Citizens Advice views
- We met with Northern Gas Networks' CEG multiple times.
- We met all User Groups at least once.
- For ED2 we now sit on the CEGs for Electricity North West Ltd, Southern and Scottish Energy Networks, and Western Power Distribution.
- We liaise with the remaining 3 DNO CEGs.

In this section, we offer our reflections and recommendations for ED2 CEG Chairs.

## Have engagement at the heart

In the course of its work, a CEG may scrutinise material on a company's carbon footprint, customer service strategy, cable replacement plans, and everything in between. But the core role of a Customer Engagement Group is to scrutinise the consumer, customer and stakeholder engagement that a company does. We believe this is the key route to fulfil Ofgem's requirement to *"provide independent challenge on whether the company's business plan addresses the needs and preferences of consumers."*<sup>9</sup>

This challenge should involve:

- a. scrutinising how effectively the company has engaged with consumers, stakeholders, and their representatives, and evaluating the breadth, depth and quality of engagement.
- b. challenging the company about how they have interpreted the results of their stakeholder and consumer engagement - but it is important that CEG members should not substitute their views for those of consumers or stakeholders.
- c. assessing how effectively companies have used the outcomes of engagement and research to inform their business plan, and forming a view of whether proposals go far enough. Part of this is scrutinising how the company triangulated, i.e. balanced off, different sources of feedback and views.
- d. considering different types of consumers, including domestic, small and micro businesses, regional and local stakeholders, consumers in vulnerable situations and future consumers.

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<sup>9</sup> [Ofgem, November 2019, Enhanced Stakeholder Engagement Guidance](#)

In 2018, Citizens Advice published [recommendations](#) for network companies explaining what quality engagement for RIIO-2 should look like. In particular, the international typology of levels of engagement on page 8 of the report, and case studies of deep engagement from around the world which may be helpful to CEGs.

### **The CEG is as strong as its members**

The groups have to cover a large number of topics to effectively scrutinise a whole Business Plan. **Aim for a mix of expertise in the group to meet Ofgem requirements. We recommend having multiple people with expertise in engagement as it's a key topic for the CEG. Diversity and inclusion of members will also be valuable to ensure that views represent the demographic of the company's area.**

**Aim for a mix of paid and unpaid members.** This has repercussions for overall CEG cost, its perceived impartiality, but also how much time members can afford to spend on the group. Therefore a mix is desirable as it should widen the diversity of viewpoints of the CEG.

As in every group or panel, some members will be more active than others. Given that the CEGs are paid for by consumer money, they owe it to consumers to function effectively and efficiently. **Chairs should review membership regularly, e.g every 6 months or so, and not be afraid to ask members to leave if they are felt to be not contributing to the Group's work. If members don't have time to be full-time members, consider having them on sub-groups only, or consulting them as experts when needed.**

### **Choose your structure wisely**

There is no hard and fast rule about how large or small a CEG should be. Smaller groups get through topics in a more efficient way but may have gaps in expertise and lack of resources to cover all topics. Larger groups can break out into sub-groups and interrogate issues in more depth, but also may take more time in meetings to come to a view, and be more costly to run.

Many CEGs chose to form sub-groups to drill into topics such as vulnerability, environmental performance, or costs. This can be a good way to efficiently use people's time and expertise, and challenge a company in depth. But, we found there is a risk that these groups spend a large amount of time for little gain, and tie up a lot of CEG and company time in the process. **We recommend that sub-groups are formed with a clear purpose and limited list of questions they want to explore, and have to report to the Chair and the wider CEG regularly with relevant findings which feed into the overall Business Plan judgement.**

### **The Chair is key**

The CEG Chair has a key role in setting the tone the CEG takes with the company, the level of challenge applied to the Business Plan, and quality assuring the work of every member of the CEG. They need to understand Ofgem's requirements well.

**To prevent capture and bias over time, we recommend that a Chair stays in place for a maximum of 2 price controls. It may be better to have Chairs serving for only 1 price control, and we recommend that the Ofgem review of Enhanced Engagement seeks stakeholder input as to whether 1 term as a Chair is the best option.**

### **Record your impact and costs**

Running CEGs costs a lot of time and money. In the ideal case, they improve company BAU practice and Business Plan commitments in the interests of consumers and deliver savings and service improvements for consumers. This is not entirely in their control but depends on the receptiveness of the company. Nevertheless, **we recommend that CEGs should publish their costs and impacts as far as possible, including Chair's remuneration and aggregated member fees, and travel and accommodation costs. The costs should include rough costs incurred to the company for staff serving the CEG.** For GD-2 and T2, not all CEGs and User Groups did that (see Cadent CEG Impact and Cost [Annex](#) and NGN CEG [impact](#) document).

### **Be transparent and accountable**

The CEGs operate in the public interest and therefore should be committed to be transparent and accountable. The User Groups and gas CEGs were inconsistent in what they published:

- all groups had a website
- agendas (Cadent, National Grid Transmission)
- Terms of Reference (Cadent, NGN, National Grid ESO)
- minutes (Cadent, National Grid Transmission)
- blogs (WWU, NGN, National Grid Transmission, National Grid ESO)
- progress reports in irregular intervals (SGN)
- enquiries form/ email address (SGN, Cadent, NGN, National Grid Transmission)
- conflict of interest register (NGN)
- challenge log (Cadent, NGN)

### **Recommendations:**

- **All CEGs have conflict of interest registers and declare new interests as they arise, which may be as often as every meeting.**
- **CEGs have a point of contact for interested members of the public.**
- **CEGs to publish their application processes, membership, Terms of Reference, rough agendas of meetings, minutes or progress reports in some form, and their challenge logs (redacted if necessary).**

### **Report writing starts now**

Writing the final report for Ofgem with a page limit of 50 pages, distilling months' worth of information and conversations, is a tough task. We found it is made easier **if the CEG, quite early on, agrees on a) the questions it seeks to answer and b) the quality criteria it applies.** As the CEG goes through company material and drafts, members can formulate their opinion against these questions. This, however, requires Ofgem to give the CEG ample warning of what they expect the group to produce. For the GD2 and

T2 reports, this only came 2 months before the CEG report deadline.

Related to the above point, we often found it difficult to understand how a CEG had come to its view or judgement. CEG reports and views are not perfectly comparable because they don't follow any agreed marking criteria but each one judges their companies based on their expertise and experience. We think this is right and the comparative analysis better sits with the RIIO-2 CG as they have access to all Business Plans. But what it does mean is that CEGs need to be clearer about how they formed their view so that their company as well as readers of their report can understand it.

Therefore **we recommend CEGs in their reports should:**

- **Describe what evidence they reviewed on a certain topic**, e.g. analysis provided by the company, external reports, site visits or shadowing engagement events
- **Describe how they challenged the company on this topic**, e.g. how many times did this topic come to the CEG, was there a sub-group on the topic?
- **Outline what quality criteria or principles they applied when judging a topic area**. For example, Cadent CEG wrote an [assessment framework](#) for how they marked Cadent on the quality of their engagement.

We don't have a view whether CEG members or professional writers should write the CEG report. We have seen both work well.

### **Preserve your independence**

The secretariat provided by the company to the CEG needs to be as independent as possible. We have seen company staff provide the secretariat, having signed comprehensive agreements to ensure their independence. This can have the benefit that they can refer CEG questions and requests to the right people inside the company. Other CEGs chose to employ independent minute takers or secretarial support. We cannot recommend either practice over the other, as long as the Chair and CEG members feel sufficiently independent from the company.

CEG members are recruited to be independent persons, and according to Ofgem guidance<sup>10</sup>, "not provide direct advice or information" but challenge as much as possible based on consumer, customer and stakeholder feedback rather than personal opinion or affiliation to an organisation or employer. We found that CEG members needed reminding of that from time to time as this is quite a specific role, different from other groups they might otherwise sit on. For example, 1 CEG Chair chose to read out an independence statement at the start of each meeting.

### **Getting the right support from the company**

CEGs will structure their workplan and agendas in collaboration with the company and it will to some degree depend on when the company completes certain pieces of work they can then share with their CEG. As a guide, however, **we recommend that:**

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<sup>10</sup> [Ofgem, 2019. RIIO-2 Enhanced Stakeholder Guidance](#)

- **Engagement updates are brought to the CEG as soon as pieces of work or analysis are complete.** Ideally, the CEG is involved in the planning and development of engagement material.
- **The CEG reviews each topic area at least twice - probably more often given that the DNOs still have more time to develop their Business Plans.** We found that having a rota for repeating agenda items worked well. For example, every 4 months the company updates the CEG on their proposals, justifications or insights in the area of vulnerability. This way the CEG can monitor progress across different topic areas over time, and topics cannot drop off their radar or be 'hidden' by the company.
- **The CEG should set expectations with the company when they want to receive certain pieces of information to leave enough time for scrutiny.** For example, information on options considered, targets and costs will likely require two rounds of challenge from the CEG.

There is a fine balance between receiving information that the CEG needs to do its work, versus being flooded with material. **We encourage CEGs to be as specific as they can when requesting data or information from the company. Companies should be able to justify why they may not be able to provide certain data to the CEG.**

**We found it useful for CEGs to meet staff from a variety of levels,** from board members and the CEO, to heads of teams and down to on-the-ground engineers. This has proven useful to understand company views and test understanding of issues across staff levels, to either assure the CEG or raise further challenges.

Many CEG members may not have a regulatory background or will not be familiar with Ofgem's incentive and output requirements. An understanding of this is important to be able to challenge company proposals. **We recommend training members on the basics of the ED2 output structure and requirements, and incentives (once they are decided) as early as possible.**

### **Record the challenge journey throughout**

Challenge Logs and Action Logs seem to be the most common way of recording the work and progress of CEGs. They are imperfect tools for what is a very complex conversation between company and CEG over many months. We found:

- The challenge log does not equal CEG impact. It often does not capture all the comments a CEG makes to the company. A comment may not amount to a challenge but still have a big impact.
- They can become very long and unwieldy, with the company struggling to serve all challenges.
- They can become repetitive.
- Challenges may be worded in a loose manner, making sense if you were in the meeting but not to others or 1 month later.

We don't have a silver bullet for these challenges. Every CEG will have to develop tools that work for them. **If challenge logs are to serve as records of impact, CEGs may**

also want to record areas of debate or thought exchanges, not just challenges, similar to the record of discussions recorded in code modification processes such as CUSC and DCUSA. CEG members should word their challenges carefully, being specific about what their question is and what they would expect from the company to respond to the challenge. Clarification or Action logs are better kept separately to Challenge or Impact logs.

CEGs should also consider whether an issue is material enough to be a challenge that the company spends time answering. Will this really improve things for customers and consumers?

#### **CEG and RIIO-2 CG coordination needs improving**

Ofgem organised several CEG and User Group Chair meetings. **We believe these Chair meetings should continue (for DNO CEG Chairs) but review how they can be made more useful for the Chairs and Ofgem.**

**Coordination between the RIIO-2 CG and CEGs needs to improve.** There was some duplication of effort between those groups. Sharing of information was very one-sided from CEGs to RIIO-2 CG.

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