

The background features a large, semi-transparent white arrow pointing to the right, overlaid on a blurred image of interlocking gears. The gears are in shades of blue and white, with a soft, glowing light effect. The overall aesthetic is clean and professional, suggesting a focus on industry and progress.

RIIO-ED1 Business Plan Guidance Workshop

13 July 2012

Agenda

- Part A – Assessment criteria
 - Ofgem presentation
 - Q&A

- Part B – Discussion on presentational guidance
 - Ofgem presentation
 - ‘A reader’s perspective’ – Simon Roberts
 - ‘A writer’s perspective’ – Keith Hutton
 - Discussion

Introduction

Background

- ED1 will be the first time DNOs have submitted Business Plans under RIIO.
- ED1 February launch letter set out that we would look build on guidance we produced in RIIO GD1 and T1.
- We are seeking to produce guidance to:
 - make plans more consistent and comparable;
 - ensure that it is as easy as possible for all stakeholders to find the relevant information; and
 - help companies in focusing their efforts.

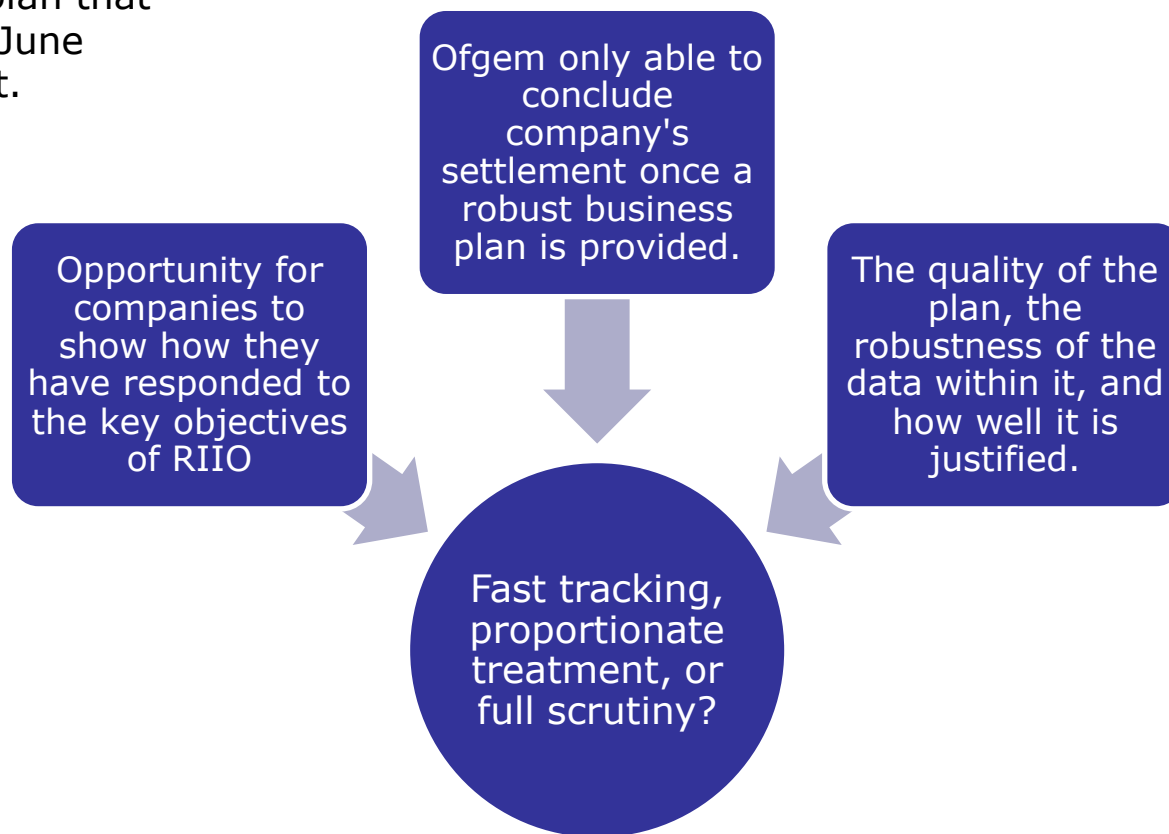
Aims for today

- Part A – Ofgem to set out the criteria that will be used in assessing the plans.
- Part B - To get your views on what guidance Ofgem should give around how the Business Plans should be presented and structured.

PART A – Assessment Criteria

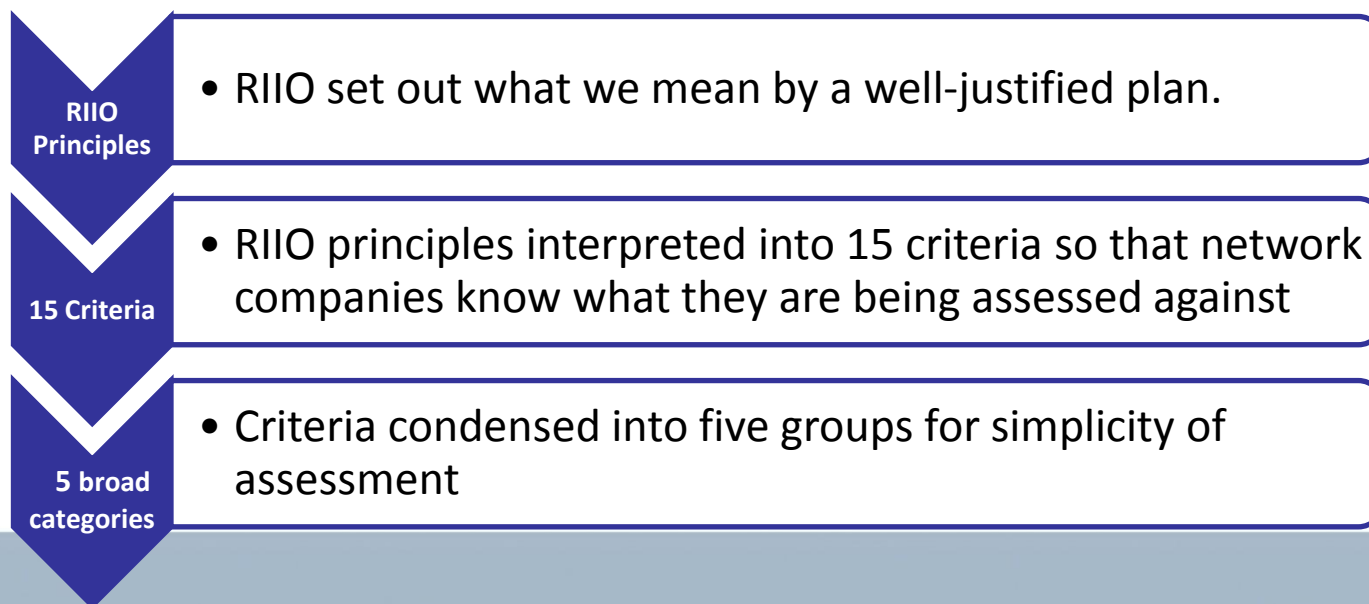
Part A - Assessment criteria

Context - Under the RIIO approach, the business plan that each DNO will submit in June 2013 is hugely important.



Part A - Assessment criteria development

- As with RIIO-T1 and GD1 we will provide guidance on what a well-justified business plan should look like. The key element to this guidance will remain the assessment criteria.
- These will be the same ones which were used in assessing the RIIO-T1 and GD1 business plans.
- This session provides background and summary of our assessment criteria.
- Overview of development process:



Building blocks - RIIO Principles

The RIIO handbook sets out what we mean by a 'well-justified' plan.

1. Focus on output delivery
2. Consideration of secondary deliverables
3. An open minded consideration of available options
4. Clear and well evidenced case for their proposals
5. Link between costs and primary outputs
6. Consideration of the longer term
7. Value for money
8. Effective engagement with a range of stakeholders
9. Working with others

The long list

	Criteria
Criteria 1	Key content
Criteria 2	Reflect our policies (with any departures fully justified)
Criteria 3	Structure and proportionality
Criteria 4	Efficiency of costs
Criteria 5	Long-term context
Criteria 6	Reflect uncertainty
Criteria 7	Output delivery
Criteria 8	Effective engagement and understanding of stakeholder views
Criteria 9	Risk
Criteria 10	Reflecting best practice
Criteria 11	Accurate, timely and full completion of business plan templates
Criteria 12	Quality of information on primary outputs
Criteria 13	Quality of information on secondary outputs
Criteria 14	Evidence
Criteria 15	Linking forecasts to historical performance

Our assessment categories

In order to help structure our assessment and for ease of presenting our findings, we categorised the fifteen criteria under the following five broad headings:

Process: has the company followed a robust process?

Outputs: does the plan deliver the required outputs?

Resources (efficient expenditure): are the costs of delivering the outputs efficient?

Resources (efficient financing): are the proposed financing arrangements efficient?

Uncertainty and risk: how well does the plan deal with uncertainty and risk?

Key Considerations

- Assessment criteria should not drive the structure of your plan.
- Be mindful of the fact that we will be looking to see certain elements demonstrated throughout various sections of your plan. Not just a question of writing a stand alone document each criteria. For instance:

Area	Description
Evidence	Is the company's proposal been supported by robust evidence?
Long term consideration	Has the company's proposal been informed by a consideration of the longer term?
Innovation	Does the company's proposal demonstrate that there has been a consideration of alternative innovative approaches?
Stakeholder engagement	Has the company's proposal been influenced by stakeholder engagement and working with others.

- We may consider making minor amendments to our assessment categories to make this clear.

PART B – Presentation Guidance

Why need for Guidance?

Experience and initial stakeholder feedback from GD1 and T1 suggest that there were some difficulties in reading the plans because:

- There were a broad range of structures submitted
- Plans comprised of several different documents, rather than one cohesive plan, and it was difficult to see how these documents fitted together
- It was difficult to find related information and find relevant data tables.
- Too complex for the occasional reader

Aim of the Guidance

- Plans are coherent and consistent so as to allow for effective comparison and assessment.
- It is easy for Ofgem and other stakeholders to find the information they require.
- That DNOs have sufficient guidance on what they need to produce and can focus their efforts appropriately

There are a range of ways this could be achieved

Guidance – the extremes

	Minimum guidance	Full Prescription
Option	Set out questions, limited face to face meetings with companies, companies free to present plans as they see fit.	<ul style="list-style-type: none"> • We give DNOs a full structure ‘template’ that they must follow for their business plans.
Pros	<ul style="list-style-type: none"> • Emphasis is on companies to structure their plans well (and achieve fast tracking) • Consistency with GD1 & T1 process 	<ul style="list-style-type: none"> • Easy to compare and contrast the different plans and to benchmark • Can still judge output/product/content • Less need to ask/answer questions for Ofgem/DNOs on information location – focus on justification.
Cons	<ul style="list-style-type: none"> • Still scope for large variation in plans and therefore difficulties in comparing and contrasting 	<ul style="list-style-type: none"> • Not a corporate document. • Risk of Ofgem getting it wrong.

Middle option

- There is a clear need for some level guidance from Ofgem
- But also need to allow DNOs freedom to write their own plans
- So there is a need to strike a balance

What would this middle option look like?

- Requirement to cross reference throughout (between sections of the plans and between plans and the data templates)
- Requirement to 'map' plan and present map to Ofgem /stakeholders
- Require principle document(s) backed up by subsidiary documents & data templates with clear linkages
- Specific requirements for key stakeholder facing documents.

Exec summary/overview

Must include: Impact of BP on customers' bills, key elements of FP – debt, equity, gearing and WACC) total revenue request (broken down into key components - Capex and Opex)

Process

Should include: overview of stakeholder engagement, engagement of business in developing plan, how plan has considered Govt policy and longer term context.

Outputs

Costs

Financing

**Managing
uncertainty and
risk**

Innovation Strategy

Annex Documents

Annex Documents

Annex Documents

Annex Documents

Data Tables



RIO-ED1 business plans

A reader's perspective

Simon Roberts OBE

Chief Executive, Centre for Sustainable Energy

Member of Ofgem RIO-ED1 Consumer Challenge Group

Presentation to Ofgem RIO-ED1 Business Plan Guidance Workshop
13 July 2012

CAN YOU GIVE ME
SOME COMMENTS
ON MY BUSINESS
PLAN?

SURE.

YOUR PLAN IS A HODGE-
PODGE OF UNWARRANTED
OPTIMISM ENCASED IN
AN IMPENETRABLE
FORTRESS OF BUZZ-
WORDS.

WOULD
YOU
LIKE TO
READ IT?

THERE'S
THAT UN-
WARRANTED
OPTIMISM
AGAIN.

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The basics

- Write a business plan that works for your business and which can be read and understood by employees and used to run the business

ELBONIAN SPIES
STOLE MY LAPTOP
AND ALL OF OUR
CONFIDENTIAL
DATA.



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BUT DON'T WORRY,
BECAUSE I PLACED A
VIRUS IN THERE THAT
WILL DESTROY THEIR
MORALE AND THEIR
HOPE.



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I BELIEVE YOU CALL
IT YOUR "BUSINESS
PLAN."





The basics

- Write a business plan that works for your business and which can be read and understood by employees and used by to run the business
- Reflect your perspective of the changing political, economic, social and technological environment in which your business will be operating
- Make sure you know about your network and who's connected to it and what this means for how it might need to change (as much about data analysis and predictive models and tools as about stakeholder views)
- Reveal what you've learned from stakeholders (and how), explain how it's changed your approach (or not) and how you are continually reflecting on their feedback and other contacts with customers

Do...

- ... have a summary that's meaningful
- ... explain what you're going to do - and why - in relation to changes you're anticipating
- ... describe where you think you can squeeze costs, improve efficiency and innovate, in business operations and commercial strategy as well as in technology supply chains

Don't...

- ... leave out things you do in your business or treat the business plan as a regulatory submission
- ... give us a chance to play 'buzzword bingo'
- ... say innovation is at the heart of your business (ignoring 20 years of it not being so) and then write one chapter which is barely referenced in the rest of the plan

WHAT WE NEED IS AN
OVERARCHING STRATEGY
TO STIMULATE OUR
INNOVATION.



DilbertCartoonist@gmail.com

OR YOU COULD
STOP SMOTHERING
THE INNOVATION
WE ALREADY HAVE.



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THAT'S THE
DUMBEST
IDEA I'VE
HEARD IN
MY ENTIRE
LIFE.

AND
THERE
IT IS.



Do...

- ... have a summary that's meaningful
- ... explain what you're going to do and why in relation to changes you're anticipating
- ... describe where you think you can squeeze costs, improve efficiency and innovate, in business operations and commercial strategy as well as in technology supply chains
- ... build on the best of DRS initiatives as baseline for social objectives

Don't...

- ... leave out things you do in your business or treat the business plan as a regulatory submission
- ... give us a chance to play 'buzzword bingo'
- ... say innovation is at the heart of your business (ignoring 20 years of it not being so) and then write one chapter which is barely referenced in the rest of the plan
- ... ignore the unique monopoly role you play and what that means for your responsibility to act to address social and environmental goals



A final plea on how it works ‘on screen’

- Think about the reader!
- Don’t use two column layout – it’s hell to read on screen

Southern Gas Networks

Acting Safely

Our Capacity Investment Programme

We have an obligation under the Gas Act to develop and maintain an efficient and economical pipeline system and our licences require us to plan and develop our network to meet the Pipeline System Security Standard. We have to be able to meet an expected peak day demand that is likely to be exceeded only once in every 20 years. This is known as our "1 in 20" obligation.

We have been very successful in meeting this standard and our stakeholders are clear that they expect us to continue to invest in our network to maintain security of supply. Even in extreme conditions, as experienced over last winter, they do not expect any deterioration in this standard.

It is essential that we have confidence in our demand forecasts as they are central to our capacity plans. Our forecast for RIIO-GD1 shows that annual demand will peak in 2016/2017 then start to decline. However, we forecast a slight increase in peak day demand through the rest of RIIO-GD1.

We plan to invest £113m over RIIO-GD1 to deliver the safe and reliable network that our customers have told us they expect.

Our Asset Integrity Programme

Safety remains our top priority. Maintaining the integrity of our assets to ensure gas leaks and incidents do not happen is at the core of our safety strategy. We have rigorous process-driven procedures to monitor our assets on a regular basis and assess and prioritise maintenance and investment options where deterioration in the condition or performance of an asset indicates intervention is required. We need to increase our investment in this area during RIIO-GD1 due to the age and condition of critical assets such as governors and pressure reduction stations which are now reaching the end of their operational lives. In addition, many of the governors on our network are now obsolete or do not comply with current industry standards. We are also investing in

Our Mains Replacement Programme

We have a requirement under the Pipeline Safety Regulations to ensure that a pipeline is maintained in an efficient state, in efficient working order and in good repair. We agree our approach to iron mains with the HSE.

The HSE has recently undertaken a comprehensive review of the programme to identify the most cost-effective way to reduce the risk posed by the gas networks. We have fully supported and participated in this review.

The HSE has concluded that we should move to a "3 tier approach" to iron mains risk management, reporting on length managed. We will also agree a 'risk removed' primary output measure with Ofgem.

We have therefore developed a programme of work for RIIO-GD1 which will meet the HSE requirements whilst allowing us to develop larger and more flexible projects (including risers) that will continue to improve the safety and reliability of our network; reduce disruption for our customers and communities; and provide better value for money.

We plan to invest just over £1.5bn on mains replacement over RIIO-GD1. This investment will reduce the risk of an incident from iron pipes by 38%.

Emergency Response and Repair

Notwithstanding the investment in our network, gas can still escape and pose a danger to the public. We operate a 24/7, 365 days a year emergency service and have a licence standard for responding to emergency calls that requires us to attend at site in 97% of cases within one hour for an uncontrolled gas emergency (two hours for controlled). In 2010/11 we received 187,323 calls which required expert attendance at site. Some of these incidents result in gas escapes which we repair to make safe.

We have met these standards despite some very difficult conditions e.g. over the winter of 2010/11 we had to endure

Providing Exc

How we perform when we carry out or efficient we are was a theme discussed at all our stakeholder events.

Customers who responded to our pre-consultation told us our performance was a theme discussed with them. They expect us to listen to their needs; keep our promises; deliver on our promises; take their comments and complaints seriously and respond quickly to put things right. Our Business Review comments into account and reflects our outstanding performance in all aspects.

Dealing with Complaints

We are committed to increasing customer satisfaction across all our activities and are proud of our performance. However, we can still get things wrong and be disappointed when we receive a complaint. We take complaints very seriously and always strive to deal with concerns thoroughly and promptly. In 2010/11 we received 1,445 complaints, as reported under our Customer Service Standards return. This was down 28% on the previous year. We aim to provide a satisfactory resolution within 10 working days but carry out further enquiries or a site visit if necessary within 15 working days. We currently meet this standard. In 2010/11 only one complaint was not resolved to the standard.

We have listened to our customers' feedback and forward we want to improve on these areas. We will deliver a revised operating model to improve our overall customer satisfaction. We will continue to receive complaints and deliver a robust ongoing engagement programme.

Part A – Executive Overview

Sustainable - the plan reflects our view of the future of gas supply in the UK over the plan period and beyond, coupled with our environmental objectives to contribute to a low carbon economy. We will also encourage sustainability of the network through the facilitation of renewable forms of gas into the mains network, as these technologies develop. Sustainability is detailed in **Section 6**.

Risk Based - throughout our plan we have consistently reflected on risk in our decision making process - that is the trade off between risk and cost in delivering an acceptable level of performance. This is discussed in **Section 7**.

Financeable - our plan considers financeability in the context of overall investment required in the energy sector. As WWU is competing for investment against similar investment opportunities both in the UK and globally it is vital that investors are properly incentivised and rewarded. It is critical therefore that we are adequately funded in the next regulatory period to attract and retain sufficient investment. This is discussed in **Section 8**.

Value for money - throughout our plan we have sought to demonstrate how we will deliver value for money for consumers, particularly when determining the most cost effective solutions to deliver outputs. This is discussed in **Section 9**.

Our business plan is made up of the following parts;

Part A (this part) - provides an executive overview of our plan, and places the other parts of the plan into context.

Part B - these are documents detailing how we will deliver the RIIO principles;

Part B1 - covers the Outputs we will deliver and the expenditure required

Part B2 - our proposals on business Financing⁵



A final plea on how it works ‘on screen’

- Think about the reader!
- Don’t use two column layout – it’s hell to read on screen
- Create hyperlinks within documents, on contents pages, and between documents and the references in annexes
- Thank you

MING, EVERYONE
SAYS OUR BUSINESS
PLAN IS RUBBISH

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REALLY? EVERY
PERSON ON EARTH
SAID THAT?

EVEN TIBETAN
MONKS?

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MAYBE
IT WAS
JUST
ONE
PERSON.

AND YOU
CONFUSED
HIM WITH
THE ENTIRE
PLANET?

With apologies to Scott Adams

Questions for Discussion

1. What do you think of the proposed guidance structure?
2. Do you think we should have a set length – word/page number limits? If so what is reasonable?
3. How can we improve the readability of plans and ensure it is easy to find specific information? Should we have set methods of cross referencing and linking to data tables? Can we set what should be hyperlinked?
4. What should we prescribe for the stakeholder facing documents?

The background of the slide is a composite image. On the left, there are rows of solar panels under a bright sun. On the right, a hand is shown holding a white document. In the bottom left corner, a blue gas burner is visible. The overall theme is energy and customer service.

ofgem

Promoting choice and value
for all gas and electricity customers

Part A - Assessment criteria RIIO GD1 and T1

Context

- Under the RIIO approach, the business plan that each DNO will submit in June 2013 is hugely important:
 - Opportunity for companies to show how they have responded to the key objectives of RIIO.
 - Ofgem only able to conclude company's settlement once a robust business plan is provided.
 - The quality of the June plan, the robustness of the data within it, and how well it is justified, will influence the degree of regulatory scrutiny we apply during the review.
- As with RIIO-T1 and GD1 we will provide guidance on what a well-justified business plan should look like. Key element to this guidance will remain the assessment criteria which were used in assessing the RIIO-T1 and GD1 business plans.
- This session provides background and summary of our assessment criteria.