

Electricity System Operator RIIO-2 Stakeholder Group (ERSG)

Terms of Reference Version 0.8 updated 10.10.2018

Introduction and background

RIIO (Revenue = Incentives + Innovation + Outputs) is the framework used by Ofgem to regulate gas and electricity network companies in Great Britain. The current set of transmission price controls, RIIO-1, commenced on 1 April 2013 and lasts until 31 March 2021. Electricity distribution companies operate to different timescales.

The Electricity System Operator (ESO) is presently funded through the RIIO-1 price control as a joint entity with the England & Wales electricity transmission owner called National Grid Electricity Transmission (NGET).

From 1 April 2019, the ESO will become a legally separate entity within National Grid plc. The current RIIO-1 funding arrangements will continue to apply throughout RIIO-1.

The RIIO-2 price control will begin on 1 April 2021. Ofgem's current minded to decision, as indicated in their framework consultation, is for the ESO to have its own RIIO-2 price control.

The ESO is required to submit a well justified business plan (WJBP) to Ofgem in Q4 2019 detailing the activities it proposes to undertake during RIIO-2 and an estimate of costs. Stakeholder engagement is an integral part of the creation of the WJBP. It should be co-created with customers, service providers and stakeholders. The ESO will listen to stakeholders, present clearly defined options and consult on its proposals.

Ofgem's RIIO-2 Framework Decision document (July 2018) confirms that an enhanced engagement approach will be introduced for RIIO-2. For the ESO this includes a requirement to set up a user group (this ERSG "the group"). Ofgem will also establish a central RIIO-2 Challenge Group and a process for Open Hearings that all network companies will be subject to. Ofgem notes that "given the potential shifts in the regulation/ remuneration framework [for the ESO], we will need to retain some flexibility in applying these [enhanced engagement arrangements] only where they are appropriate and in consumers' interests".

Purpose

The ESO RIIO-2 stakeholder group will challenge and review ESO proposals and the process to recommend them. It will scrutinise, input to and provide challenge to the ESO's business plan, focusing on:

- The ESO's overall priorities and approach, reflecting the changing energy system.
- Identifying outputs and investment requirements, and any alternatives the ESO presents to these
- The stakeholder engagement the ESO has undertaken and how it has been used
- Associated totex budgets including level of cost efficiency improvements
- The ESO's approach to innovation, including building innovation into business as usual
- The range of scenarios the ESO has considered and its approach to managing uncertainty and associated risks
- The opportunities and challenges that a more independent ESO creates for the ESO and the wider energy industry.

Roles and Responsibilities

- Monitor, challenge and input into the ESO's engagement programme with stakeholders.
- Scrutinise and provide expert input, challenge and recommendations to the ESO's business plan.
- Submit a report to Ofgem in line with Ofgem guidance, providing the group's assessment of the ESO's engagement activity and business plan. Subject to agreement with the group, interim reports may be published to show visibility of thinking.

Constitution

The ESO RIIO-2 stakeholder group is an independent body, comprising members with a wide range of expertise who collectively represent the views and interests of customers, service providers, consumers and other stakeholders.

Membership

The group is representative of the ESO's role and the wider industry. The membership shall comprise:

Sector	Representative	Organisation
Chair	Charlotte Morgan	Linklaters
Generator	Matthew Wright	Orsted
Generator	Stuart Cotten	Drax
Large supplier	Andy Manning	Centrica
Medium supplier	Toby Ferenczi	Ovo Energy
Small supplier	Greg Jackson	Octopus Energy
Transmission owner	Alan Kelly	Scottish Power Transmission
Distribution network owner	Nigel Turvey Peter Emery	Western Power Distribution Electricity North West
OFTO/ Interconnector	Chris Veal	Transmission Investment
Existing service provider	Steve Meersman	Zenobe Energy
Technology provider	Joanna Hubbard	Electron
Consumer	Stew Horne Jamie Stewart Eddie Proffitt	Citizens Advice Citizens Advice Scotland Major Energy Users' Council
Wider interest	Nina Skorupska Simon Roberts Nick Molho	Renewable Sector Centre for Sustainable Energy Aldersgate Group
Academic	Catherine Mitchell	University of Exeter
Cross-industry	Barbara Vest	Energy UK

The ESO will be represented by Fintan Slye (Director, NGSO), Kayte O'Neill (Head of SO Strategy and Regulation), and Angelita Bradney¹ (Head of ESO RIIO-2) with additional representation as required to support the meeting.

Ofgem will be invited to nominate individuals to attend as observers to all meetings. Ofgem will be encouraged to periodically provide feedback on how the group is performing against its purpose.

Membership can be reviewed by the Chair in consultation with the group, Ofgem and ESO from time to time and if necessary adjusted to ensure suitable representation from across the ESO's stakeholders or to add particular areas of expertise in accordance with the agreed purpose of the group.

¹ At the first meeting on 25 July 2018 Ro Quinn attended rather than Angelita Bradney.

Chair

The Chair will be appointed by the ESO, in consultation with Ofgem, in an open and transparent manner. The Chair shall act as an individual and not represent any particular organisation.

The ESO cannot unilaterally dismiss the Chair without first notifying first both the group and Ofgem. Ofgem will need to understand the exact reasons for dismissal and may seek further information, including through direct contact with the Chair and other members of the group, ahead of any dismissal.

If the designated Chair is not available for part or all of a meeting, then a formal nominee shall be agreed at that meeting with group members and will be responsible for convening and conducting the relevant meeting or section of the meeting. This will be facilitated by the Technical Secretary and be referred to as the Alternate Chair. The Alternate Chair is responsible for informing the Chair as to the salient points and decisions raised and agreed at the meeting.

The Chair will attend National Grid Electricity System Operator's Board meetings at least once a year to provide an update on the Stakeholder Group. The Chair and the Board will be free to discuss suitable topics. In addition, the Chair will attend occasional meetings with Ofgem and the Chairs of equivalent groups to discuss the progress of the group and to share any challenges or best practice examples.

The Chair, supported by the secretariat will be responsible for producing the final report setting out the views of the group.

Technical Secretary

The ESO will appoint a Technical Secretary who will report to the Chair. The Technical Secretary shall support the Chair in ensuring the smooth functioning of the group. The Technical Secretary will act as an independent support for the Chair and the group ensuring arm's length interactions with wider ESO employees.

The Technical Secretary will be responsible for producing and circulating relevant materials as described in the sections below called "Inputs" and "Outputs".

Role of Stakeholder Group members

Members of the Stakeholder Group are responsible for scrutinising and providing input and expert challenge to the business plan. Members should act as in their capacity as individuals rather than representing any particular organisation or industry sector on the group.

In practice, this means individual members will:

- Bring their expertise, new insights and engagement skills.
- Consider and review all documentation circulated.
- Identify areas of agreement and disagreement, and input into the group's report to Ofgem.
- Provide representation as an individual.
- Sign on to an agreed programme of work / forward agenda for the group. This will be discussed and adjusted with agreement from the group as requirements change or are further understood.
- Be required to formally approve the group's Terms of Reference (i.e. this document).

Commitment needed

Members of the group will serve from July 2018 until the completion of the Ofgem scrutiny phase of the ESO's business plan (expected mid-2020). Members must advise the Chair of any change in their circumstances as the earliest opportunity. The expectation is that all members will make every effort

to attend all meetings. Any proposal (by Ofgem, the ESO or otherwise) to extend the commitment of the group will be discussed and agreed by the group.

As members should act in their capacity as individual, they are not expected to field delegates/ substitutes should they be unable to attend a meeting.

Remuneration

The Chair will receive remuneration to recognise the level of commitment required.

Requests for expenses and/or remuneration from other members of the group will be considered by the Chair and the ESO. Any remuneration and expenses that are agreed will be paid by the ESO.

Non-disclosure and declaration of interests

Each member of the group is required to sign a non-disclosure agreement (NDA) that prohibits the use of information marked as “CONFIDENTIAL” that they obtain in their role on the group for any other purpose (including commercial purposes).

Meetings shall be conducted, unless otherwise stated by the Chair or Alternate Chair (for example, where the discussion relates to information marked as “CONFIDENTIAL”), under “Chatham House Rules” – that is, information disclosed during a meeting may be reported by those present, but the source of that information may not be explicitly or implicitly identified.

Each member of the group is required to complete a Declaration of Business Interests form that requires them to disclose any business interests (including, but not limited to, shares, consultancy arrangements, directorships) that they or their partner or spouse have in National Grid. The Chair, in consultation with the ESO, shall consider any interests disclosed before making a final decision on the individuals’ appointment to the panel and/or to share any information with them.

Where there are individuals where there is an increased risk of a perceived conflict (such as individuals who work for an organisation that supplies services to National Grid) the ESO will on a case by case basis assess whether it is appropriate for that individual to be excluded from forming part of the team that bids for or supplies services to National Grid SO.

At the beginning of each meeting the Chair and the group shall ascertain with the assistance of members the existence of any conflicts of interest. The agenda (including the participation of members with identified conflicts of interest in relevant agenda items) and circulation of materials will be managed to ensure that these issues are managed appropriately.

Frequency of meetings

The group shall typically meet for a full day on the last Wednesday of each three-month period, starting 25 July 2018. Meetings will ordinarily take place at a suitable location in central London and will be arranged by the Technical Secretary. Meetings may occasionally be moved to a different date, held at other locations or last longer, after appropriate consultation with the group. Members shall confirm notice of attendance or apologies of absence to the Technical Secretary no less than two weeks in advance.

Presence of a quorum

At least eight members of the group, including the Chair or Alternate Chair, shall be required to constitute quorum for each group meeting, or part of a group meeting.

Inputs

For each meeting the Technical Secretary will produce a bespoke pack consisting of:

- Agenda and apologies for absence
- Minutes from the previous meeting
- Papers and other items for discussion, decision and noting (clearly demarcated)
- Actions log

This pack will form pre-read material that will be circulated to the group at least one week in advance of each meeting.

A skeleton forward agenda will be agreed at the preceding meeting and finalised and approved by the Chair through iteration and approval of inputs. The agenda for the first meeting will be drafted by the ESO and approved by the Chair.

At the beginning of each meeting that Technical Secretary should confirm with the group whether the minutes from the previous meeting are an accurate and complete record of the discussion that took place.

Outputs

The Technical Secretary will circulate to the group the following materials no later than one week after each meeting, for comment:

- Meeting minutes (including decisions made, items discussed and noted, and recommendations).
- Actions log.
- Skeleton agenda for next meeting.

The minutes should anonymise or redact any commercially sensitive information.

Relevant sources of information

- ESO RIIO-2 website – youenergyfuture.nationalgrid.com/electricity-system-operator
- Ofgem RIIO-2 framework Consultation - ofgem.gov.uk/publications-and-updates/riio-2-framework-consultation