



A1 - NGN RIIO-2

Ofgem Guidance Checklist
and Signposting

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Track-record and Business Plan commitment		
Compliance Requirement Description	Compliance Requirement Reference (BP Guidance, SSD – Page Number, Paragraph etc) If shaded Green the reference appears in Appendix 1 as a minimum requirement	Reference Point in NGN BP where the requirement is being addressed/met or not.
delivery against RIIO-1 output targets and incentive mechanisms	2.3	Business plan section 2.1
the level of service provided to customers in RIIO-1, and what steps were taken within the period to improve service provision		Business plan section 2.1 & section 4.2.3
how well different groups of customers have been served over the RIIO-1 period – e.g. customers in particular regions/circumstances		Business plan section 2.1 Business plan section 3.1.2, 3.4 A7 - NGN RIIO-2 Vulnerability Strategy
how expenditure has differed from allowances set at the outset of RIIO-1		Business plan section 2.2.1
what factors contributed to differences between allowances and expenditure and how these factors have been considered in preparing the RIIO-2 Business Plans		Business plan section 2.2.1
the returns companies earned over the RIIO-1 period, and key drivers behind these returns. These should be expressed in terms of RORE		Business plan section 2.2
the level of profit payment distributed to investors over the RIIO-1 period		Business plan section 2.3
how the company intends to align the structure of pay and reward within the organisation to the delivery of commitments set out in their Business Plans		Business plan section 2.1.8
how the company identifies and avoids any impact on consumer bills, such as impacts related to additional or delayed costs caused by RIIO-1 performance, such as deferral of work		Business plan section 2.1.9
Additionally, the Business Plan should set out the level of assurance that has been provided by sufficiently independent directors that the plan and associated costs have been tested for accuracy, ambition and efficiency.		2.4

Giving Consumers a Stronger Voice		
Compliance Requirement Description	Compliance Requirement Reference (BP Guidance, SSD – Page Number, Paragraph etc)	Reference Point in NGN BP where the requirement is being addressed/met or not.
Business Plans must include evidence of appointment of company specific groups – including timely appointment of groups, governance arrangements at appointment and on an ongoing	2.6	Business plan section 3.2, summarises the role that the Customer Engagement Group has played in challenging and scrutinising the plan.
Business Plans must include evidence of effective engagement with UGs, CEGs and the RIIO-2 Challenge Group. In assessing this, Ofgem will take into account the extent to which effective engagement has been facilitated by companies providing drafts of their business plans in July and October 2019 that reflect the Guidance that was in place at that time.	2.6	Business plan section 3.2, summarises our engagement with the Customer Engagement Group and the CCG. Appendix 35 - NGN RIIO-2 'You said, we did'
Business Plans must include evidence of robust and high quality engagement with stakeholders by the company in designing the plan.	2.6	Business plan section 3.1, summarises how we have engaged with customers. A3 - NGN RIIO-2 Stakeholder Engagement Strategy
Additionally, in order to facilitate stakeholder engagement ahead of the open hearings, each company should publish its final December Business Plan on its website. In doing so, companies should ensure maximum transparency by publishing the plans in as full a form as possible.	2.6	This will requirement will be addressed in full, in December.
Consistent with expectations described in the RIIO-2 Sector Specific Methodology Decision (SSMD), the Business Plan must set out the company's approach to ongoing engagement in RIIO-2, including a strategy for engagement as well as a set of commitments to deliver the strategy.	2.7	Business plan section 3.4, outlines our Engagement Strategy for RIIO2.
The RIIO2 Strategy should be strategic and proportionate, including how the company's approach reflects the particular circumstances of the company's geographic regions and its various network users, both domestic and industrial	2.8	Business plan section 3.4, signposts to specific relevant content are included within the Business Plan
The RIIO2 Strategy should be inclusive of all stakeholders, including consideration of hard-to-reach groups as well as the needs of both existing and future consumers	2.8	Business plan section 3.4, signposts to specific relevant content are included within the Business Plan
The RIIO2 Strategy should be responsive to stakeholder needs, including how the company will maintain an up-to-date understanding of stakeholders' needs as well as how it will ensure views are captured and incorporated into the day-to-day operation of the business	2.8	Business plan section 3.4, signposts to specific relevant content are included within the Business Plan
The RIIO2 Strategy should be ambitious, including how the company has established performance commitments which are appropriate, well-evidenced and stretching	2.8	Business plan section 3.4, signposts to specific relevant content are included within the Business Plan
The RIIO2 Strategy should be transparent, including how the company will measure progress against its commitments as well as any consequences for non-delivery of commitments	2.8	Business plan section 3.4, signposts to specific relevant content are included within the Business Plan
The RIIO2 Strategy should deliver outcomes that network users and society value at a price they are willing to pay. The plan should provide evidence that costs associated with the delivery of commitments are efficient and provide value for money. This should include consideration of resource commitments to support engagement	2.8	Business plan section 3.4, signposts to specific relevant content are included within the Business Plan
The RIIO2 Strategy should demonstrate senior-level buy-in and that engagement runs through all levels of the organisation	2.8	Business plan section 3.4, signposts to specific relevant content are included within the Business Plan
The RIIO2 Strategy should incorporate and builds on the best practice methods learned in RIIO-1 and considers best practice methods employed in other industries	2.8	Business plan section 3.4, signposts to specific relevant content are included within the Business Plan
The RIIO2 Strategy should include RIIO-1 engagement initiatives as business as usual (BAU) activities	2.8	Business plan section 3.4, signposts to specific relevant content are included within the Business Plan
The approach could make reference to the use of LAEPs as an effective tool for engagement and investment planning that takes proper account of the need to substantially decarbonise energy systems.	2.9	Business plan section 3.4, signposts to specific relevant content are included within the Business Plan
Stakeholder Engagement Incentive	SSMD 2.96 – 2.97	Not addressed - We have not proposed an incentive for Stakeholder Engagement.

What consumers want and value from networks: meeting the needs of consumers and network users		
Compliance Requirement Description	Compliance Requirement Reference (BP Guidance, SSD – Page Number, Paragraph etc)	Reference Point in NGN BP where the requirement is being addressed/met or not.
The Business Plan must set out the outputs the company will deliver in the RIIO-2 price control period and how it will do this (i.e. deliver against LOs, ODIs and PCDs).	2.12	Business Plan section 4, Tables 4.1-4.22 Each output is presented in Part 4 of the NGN Business Plan across the following Ofgem Output areas • Part 4.2 - Meeting the needs of consumers and network users. • Part 4.3 - Maintaining a safe and resilient network • Part 4.4 - Delivering an environmentally sustainable network
Business Plans must identify planning and resourcing requirements, especially where the level of activity looks to increase significantly from historical levels.	2.13	Business Plan section 4.1, Delivering our outputs in RIIO 2 and Tables 4.1 -4.22 Appendix A6 -NGN RIIO 2 Outputs
Company proposals for bespoke outputs should: <ul style="list-style-type: none">reflect the network services that existing and future consumers/network users and/or wider stakeholders requirebe as complete as possible in capturing the activities and costs of the companybe measurable and reportableallow comparison of performance across companies, where there is sufficient commonality	2.16	Business Plan section 4 - Delivering our outputs in RIIO 2 and Tables 4.1 -4.22 Bespoke outputs Appendix A6 -NGN RIIO 2 Outputs

<ul style="list-style-type: none"> where relevant, capture the long-term nature of outputs. set stretching targets which are well-evidenced and deliver clear outcomes/outputs deliver clear consumer value 		
<p>The Company should address the following to justify any proposals for bespoke outputs:</p> <ul style="list-style-type: none"> whether the activity in question is best dealt with through the price control, rather than through a government body responsible for the public interest in that area (e.g. Highways Authorities for matters relating to the occupation of the highway) whether proposals are backed by robust evidence and justification (such as cost-benefit analyses) and demonstrate value for money for existing and future consumers the value that consumers will receive from a proposed new service level and, by extension, the potential associated reward and/or penalty, and the extent to which these are symmetrical, in terms of value and likelihood of outcome the extent to which an independent measure of the existing level of service that consumers receive is available and the degree to which the target level being proposed represents an improvement on this <ul style="list-style-type: none"> the level of service provided by other companies/comparators (where available) the activities (and indicative cost) associated with achieving the targeted level of service proposals for licence conditions and/or penalties if performance falls below existing service levels 	2.17	Business Plan section 4 - Delivering our outputs in RIIO 2 and Tables 4.1 -4.22 Appendix A6 -NGN RIIO 2 Outputs section
What consumers want and value from networks: maintaining a safe and resilient network		
<p>Asset Resilience</p> <p>Business Plans must set out the company's views on asset health, criticality and replacement priorities at:</p> <ul style="list-style-type: none"> the start of the price control period, effectively reflecting their view on the asset health and risk of assets on the network the end of the price control period with no intervention, effectively reflecting their view on asset degradation over the period the end of the price control period with intervention. <p>We also expect companies to explain their long-term risk objectives and strategy, as well as the long-term benefits delivered by their proposed interventions.</p>	2.18	Business Plan section 4.3.1 -Network Asset Risk Metric, Table 4.11 2021 position stated on page 72 2026 position no intervention stated on page 72 2026 position with intervention stated on page 72 Business Plan section 6.4 A23 - NGN RIIO-2 Investment Decision Packs - Overview
<p>Monetised Risk objectives must be informed by stakeholder engagement and cost-benefit analysis (CBA), and demonstrate that selected investment options efficiently both meet their stakeholder-driven objectives and deliver sufficient net benefit for existing and future consumers.</p>	2.19	Appendix A4 -Stakeholder Engagement Insights - Insight 33 A23 - NGN RIIO-2 Investment Decision Packs - Overview
Workforce Planning		
<p>Ofgem continues to recognise the challenge faced by companies in attracting, developing and retaining the skilled workforce needed to run their businesses effectively. Business Plans must demonstrate how companies will develop a modern, diverse, high quality, well-trained workforce fit for the future. We consider that these plans should focus on improving inclusion, diversity and equality, improving workforce satisfaction, motivation and productivity, upskilling and multi-skilling, and ensuring the health, safety and wellbeing of the workforce.</p>	2.2	Business Plan section 4.3.1, Workforce Resilience Appendix A10 - Workforce Resilience Strategy .
<p>These plans should be informed by company engagement with the company CEGs/UGs, Trade Unions and other relevant stakeholders.</p>	2.21	October Deep Dive Session with CEG held 14th October 2019
<p>Cyber Resilience</p> <p>Business Plans must demonstrate how companies will take appropriate and proportionate technical and organisational cyber security measures to manage risks posed to the security of the network and information systems on which their essential services depend, and to prevent and minimise the impact of incidents on these essential services.</p>	2.22	Business Plan section 4.3.1, Cyber Resilience Appendix A11- Cyber and IT Security Strategy A11 - NGN RIIO-2 IT and Cyber Security Plan
<p>To address cyber resilience requirements during RIIO-2, Business Plans should include the following two sections:</p> <p>i) A Business IT Security Plan (which would be considered BAU expenditure) – focused primarily on cyber security for business systems, and</p> <p>ii) A Cyber Resilience Plan – which is incremental expenditure focused primarily on Production Systems Operational Technology (OT), in response to the Network and Information Systems Regulations 2018 ("NIS Regulations").</p>	2.23	Business Plan section 4.3.1, IT Business Security NGN RIIO 2 Business Plan - section 4.3.1 - Cyber Resilience
<p>In general, both plans should include efficient, appropriate and proportionate costs to deliver necessary enhancements to the cyber security and resilience of the systems used to operate essential services. Current risks, vulnerabilities, threats and mitigation options are expected to be documented, together with the relative benefits of the options considered.</p>	2.29	NGN RIIO 2 Business Plan - section 4.3.1 - Cyber Resilience Appendix A11- Cyber and IT Security Strategy A11 - NGN RIIO-2 IT and Cyber Security Plan
<p>Physical security</p> <p>Business Plans must demonstrate how companies will meet any ongoing requirements of the Physical Security Upgrade Programme (PSUP). As discussed in our SSMD, companies must submit any costs relating to PSUP as part of their Business Plans, as a (confidential) PCD.</p>	2.31	NGN RIIO 2 Business Plan - section 4.3.1 - Physical Security Upgrade Programme
What consumers want and value from networks: delivering an environmentally sustainable network		
<p>In the SSMD, we set out that companies should embed considerations for the three impact areas above into their RIIO-2 Business Plans in the form of an Environmental Action Plan (EAP). The EAP should explain how a company will take responsibility for the environmental impacts of their network in RIIO-2.</p> <ul style="list-style-type: none"> decarbonising the energy networks – with a focus on business carbon footprint and embedded carbon in networks reducing networks' other environmental impacts i.e. pollution to local environment; resource waste; biodiversity loss; and other adverse local effects that are specific to each sector supporting the transition to an environmentally sustainable low-carbon energy system 	2.32	NGN RIIO 2 Business Plan - section 4.4 Appendix 8 - NGN RIIO-2 Environmental Action Plan – Section 1, Figure 1 and referenced throughout NGN RIIO 2 Business Plan - section 4.4.1 NGN RIIO 2 Business Plan - section 4.4.3 NGN RIIO 2 Business Plan - section 4.4.2
<p>In the SSMD, we set out that companies should embed considerations for the three impact areas above into their RIIO-2 Business Plans in the form of an Environmental Action Plan (EAP). The EAP should explain how a company will take responsibility for the environmental impacts of their network in RIIO-2.</p>	2.33	Appendix 8 - NGN RIIO-2 Environmental Action Plan
<p>EAPs included in Business Plans should:</p> <ul style="list-style-type: none"> include a robust methodology that has been used to assess the environmental impacts of the company's network and Business Plan in RIIO-2 to inform its EAP. The assessment methodology should set out: <ul style="list-style-type: none"> a comprehensive review of the significant environmental impacts arising from its network the opportunities and challenges for addressing material impact areas an options analysis to identify value for money impact reduction initiatives evidence that consideration of impacts was coordinated with the company's wider business planning processes and decisions evidence that wider stakeholders have been involved in the assessment clarify their long-term overall targets/objectives for the network's environmental impacts, which might be longer- term than the RIIO-2 period include an assessment of the network's potential environmental impacts in RIIO-2, in comparison to its current impacts set out clear links between the impact areas it has prioritised for in the EAP, action in RIIO-2 and how these are linked to the company's long-term environmental targets/objectives set out the role the company envisages playing in supporting the low carbon energy transition set out the deliverables, outputs or environmental benefits the company proposes to deliver from implementing the EAP 	2.34	Appendix 8 - NGN RIIO-2 Environmental Action Plan Appendix A8 -Environment Action plan - section 3.1 Appendix A8 -Environment Action plan - section 6.2 Appendix A8 -Environment Action plan - section 6.2 Appendix A8 -Environment Action plan - section 6.2 Appendix A8 -Environment Action plan - section 6.2 Appendix A8 -Environment Action plan - section 5, Figure 3 and Table 5 Appendix A8 -Environment Action plan - section 6.1, Table 6 Appendix A8 -Environment Action plan - section 5.6.2 and 6.3 - all EAP Initiatives are linked to show how they support the overall NGN Environmental Strategy. Section 4.4.2, 5.1 and 5.3 of main business plan. Appendix A8 -Environment Action plan - section 6.3.2 NGN RIIO 2 Business Plan - section 4.4.1, 4.4.1,4.4.3 and Tables 4.18, 4.19, 4.20 and 4.21 Appendix A8 -Environment Action plan - section 6.2and 6.3 summarise in Table 9 and 13.
<p>In Appendix 2, we set out our initial views of the minimum level of ambition we would expect from the companies in their business plans. Where these initiatives, or equivalent, are not thought to be appropriate for their networks, companies should provide clear justification for why they believe this to be the case.</p>	2.35	NGN RIIO 2 Business Plan - section 4.4 Appendix A8 -NGN RIIO-2 Environment Action plan
EAP - Minimum Requirements		

<p>We expect that EAPs will to draw together the direct carbon impacts claimed in Investment Decision Pack submissions (for example leakage, losses, EV fleet) and will include a list of all Investment Decision Pack submissions where:</p> <ul style="list-style-type: none"> Carbon reduction is the main driver of the proposal Carbon reduction contributes to a substantial part of the benefits claimed by the projects. For example, intervention on the gas network justified mainly on avoided leakage <p>Business carbon footprint (BCF)</p> <ul style="list-style-type: none"> Adopt science-based target for company to reduce its scope 1 and 2 BCF by 20XX, without relying on international GHG offsetting Commit to efficient and economic actions to address controllable BCF in RIIO-2 Identify metrics to track outcomes of implementing actions and overall progress towards science-based target Commit to reporting on scope 3 emissions <p>Transmission losses (ET only) and Shrinkage (gas only)</p> <ul style="list-style-type: none"> Develop and adopt strategy to contribute efficiently to fewer losses on network, including over the long term, than would otherwise be the case in the absence of strategy Report on key milestones of implementing losses reduction strategy <p>Embedded carbon</p> <ul style="list-style-type: none"> Monitor and report on embedded carbon in new projects Collaborate with supply chain on addressing challenges to reduce embedded carbon in network Commit to establishing baseline and a target to reduce embedded carbon on new projects during RIIO-2 <p>Supply chain</p> <ul style="list-style-type: none"> Adopt high standards of environmental management in supplier code, including requirements for public disclosure of metrics and cascading code to their suppliers that are material to company's inputs Adopt target of more than 80% of suppliers (by value) meeting code in RIIO-2 Report on actual percentage of suppliers (by value) meeting code <p>Resource use and waste</p> <ul style="list-style-type: none"> Update procurement processes to embed Circular Economy principles Adopt a target for: <ul style="list-style-type: none"> Zero waste to landfill by 20XX Recycled and reused materials as a percentage of total materials by 20XX Report on actual waste to landfill, recycling and reuse as a percentage of total <p>Biodiversity/natural capital</p> <ul style="list-style-type: none"> Adopt appropriate tool to assess net changes in natural capital from different options for new connections and network projects Adopt appropriate tool to monitor the provision of ecosystem services from network sites and report annually 	<p>Appendix 2</p> <p>Appendix 2</p> <p>Appendix 2</p> <p>Appendix 2</p> <p>Appendix 2</p> <p>Appendix 2</p> <p>Appendix 2</p>	<p>Appendix A8 -NGN RIIO-2 Environment Action plan s6.2 and 6.3.1</p> <p>Appendix A8 -NGN RIIO-2 Environment Action plan s6.3 and 6.3.1 -Reducing our Business Carbon Footprint</p> <p>Appendix A8 - NGN RIIO-2 Environment Action plan 6.3.1 -Reducing our gas shrinkage</p> <p>Appendix A8 -NGN RIIO-2 Environment Action plan 6.3.1 -Embodied Carbon Assessment</p> <p>Appendix A8 -NGN RIIO-2 Environment Action plan s6.2.2 - Sustainable procurement</p> <p>Appendix A8 -NGN RIIO-2 Environment Action plan s6.2.2</p> <p>Appendix A8 -NGN RIIO-2 Environment Action plan s6.2.3</p>
<p>Open letter to provide additional business planning guidance to gas and electricity network companies in response to the new UK emissions target, and sets out the information we expect to see in network companies' business plans for RIIO-2.</p>	<p>Ofgem open letter, 8/8/19</p>	<p>NGN RIIO 2 Business Plan - section 4.4.2, 5.1 and 5.3, Appendix A8 - NGN RIIO-2 Environment Action plan s2 and 6.3 Appendix A14 - NGN RIIO-2 Whole Systems Strategy Appendix A18 - NGN RIIO-2 Innovation Delivery Strategy</p>
<p>Modernising Energy Data (Digitalisation Strategies)</p>		
<p>We expect as part of ongoing network stewardship that network companies are already doing their part to modernise energy data and network operation through digitalising the energy system and have considered:</p> <ul style="list-style-type: none"> how digitalisation is already bringing about cost savings; its ongoing potential for efficiency improvements and; its potential to aid other markets and the wider economy/consumers, including those participants that might be currently unrelated to energy network investment and operation. 	<p>2.36</p>	<p>NGN RIIO 2 Business Plan - section 4.6 , Appendix A12 - NGN RIIO-2 Digitalisation Strategy</p> <p>Appendix A12 - NGN RIIO-2 Digitalisation Strategy section 1.2</p> <p>Appendix A12 - NGN RIIO-2 Digitalisation Strategy section 1.3</p> <p>Appendix A12 - NGN RIIO-2 Digitalisation Strategy section 1.4</p>
<p>We view the EDTF report as a fantastic focal point to drive cultural change in the energy sector. We encourage network companies to treat the publication of their business plans as an opportunity to showcase to energy consumers, the wider economy and international counterparts how they are leading change and delivering a progressive modernisation of Britain's national infrastructure. Through this, network companies can better enable the country to overcome important societal challenges such as, for example, the industrial strategy's grand challenge for clean growth and net zero carbon emissions by 2050 (2045 in Scotland).</p>	<p>2.38</p>	<p>Appendix A12 - NGN RIIO-2 Digitalisation Strategy</p>
<p>We particularly echo the principle from the EDTF report of continuous improvement. We urge network companies to deliver benefits to their customers early, and to frequently iterate small improvements to their services and plans, and would expect this to be captured and demonstrated in their business plans.</p>	<p>2.39</p>	<p>NGN RIIO 2 Business Plan - section 4.6</p> <p>Appendix A12 - NGN RIIO-2 Digitalisation Strategy</p>
<p>It is important that digitalisation strategies enable current and future users of energy system data to access, understand and challenge the digitalisation strategies. Strategies will need to be iterated in a timely fashion and to reflect ongoing learnings and user feedback, assuring that any digitalisation work delivered best meets users' needs.</p>	<p>2.4</p>	<p>NGN RIIO 2 Business Plan - section 4.6</p> <p>Appendix A12 - NGN RIIO-2 Digitalisation Strategy</p>
<p>In recognition of the relevance of a whole system approach to delivering digitalisation, we encourage network companies to collaborate on the development of their strategies and to include this collaborative work in their published strategies.</p>	<p>2.41</p>	<p>NGN RIIO 2 Business Plan - section 4.6</p> <p>Appendix A12 -NGN RIIO-2 Digitalisation Strategy</p>
<p>For this first iteration, we invite companies to take their own view on what content will best meet the needs of their current and future data users. However, below we list themes that Ofgem considers will be valuable content for network companies to include in their digitalisation strategies:</p> <ul style="list-style-type: none"> Actions being taken to align with the recommendations made by the EDTF Consideration of making available metadata (which is data that describes and gives information about other data) Workforce planning with respect to ensuring digital, data and technology capabilities, demonstrating that these have a credible path to being in place to meet the needs of the digitalisation strategy now and in the future Approaches to user engagement and feedback on the digitalisation strategy Approaches to continuously improving the digitalisation strategy Reporting their current understanding of user needs (e.g. new data needs; existing data improvement needs) Delivery plans to meet users' needs: cost, benefit, options, validation, prioritisation Preferred corporate ways of working when delivering digital and data services How network digitalisation is being coordinated between network companies How digitalisation strategies are contributing to and aligning with wider initiatives, such as, but not limited to: <ul style="list-style-type: none"> The Centre for Digital Built Britain¹² (including the Gemini Principles, the Digital Framework Task group Roadmap, digital twins and the Information Management Framework) The wider National Infrastructure Commission agenda¹³ The National Data Strategy¹⁴ and UK Digital Strategy¹⁵ 	<p>2.42</p>	<p>NGN RIIO 2 Business Plan - section 4.6</p> <p>Appendix A12 - Digitalisation Strategy</p>
<p>Although companies will not face a penalty under the BPI, we believe it is reasonable for them to be making meaningful progress now, and throughout the remainder of the RIIO-1 period. We therefore expect that alongside the December submission of their business plan:</p> <ul style="list-style-type: none"> Network companies will each make a "Digitalisation Strategy" publicly available, including on their websites. This iteration (and future iterations) of the Digitalisation Strategy should include a plan for how the company will continue to improve its Digitalisation Strategy, with particular focus on getting and acting on feedback from current and future users of Energy System Data.¹⁷ Network companies will provide Ofgem with a single hyperlink to the homepage where that published strategy is hosted. That hyperlink is to be emailed to ofgemdataservices@ofgem.gov.uk. Ofgem will then collate all of the hyperlinks and publish them together on its website. 	<p>2.44</p>	<p>NGN RIIO 2 Business Plan - section 4.6</p> <p>Appendix A12 - NGN RIIO-2 Digitalisation Strategy</p>

<ul style="list-style-type: none"> an explanation of how any historic data has been used to derive efficiency forecasts, including a justification for the time period selected and how forecasts capture enduring effects from efficiencies generated in previous price controls a comparison of efficiency forecasts against efficiency gains realised in previous periods interactions with innovation funding (past and future) interactions between ongoing efficiency forecasts and output quality 	2.65	B PDT – 2.12 RPE and OE
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Highly anticipatory investment		
Compliance Requirement Description	Compliance Requirement Reference (BP Guidance, SSD – Page Number, Paragraph etc)	Reference Point in NGN BP where the requirement is being addressed/met or not.
Highly anticipatory expenditure Proposals	2.65	We don't believe there is a case for highly anticipatory expenditure.

Driving efficiency through innovation and competition		
Compliance Requirement Description	Compliance Requirement Reference (BP Guidance, SSD – Page Number, Paragraph etc)	Reference Point in NGN BP where the requirement is being addressed/met or not.
Innovation		
Our expectation is that companies fund more innovation in RIIO-2 using their totex allowance, as part of their BAU activities, rather than relying on additional innovation stimulus funds.	2.66.	Addressed business plan section 5.4.8
Companies' Business Plans must evidence a strong strategic focus on innovation. This will include how companies are developing and embedding a culture of innovation throughout their business.	2.68.	Addressed business plan section 5.4
We are not asking companies to set out all the specific innovation projects they plan to do with their totex allowance. Instead we want to understand the high-level innovation activities companies are planning for RIIO-2 using their totex allowance and the processes they have in place for identifying these ideas. This must evidence: <ul style="list-style-type: none"> a strategic approach to the company's innovation activities, which builds upon industry-wide challenges and industry-wide strategic direction how they will consider, and mitigate if necessary, the potential impacts of their innovation activities on consumers in vulnerable situations consideration of whole system approaches as potential solutions to the barriers being addressed how plans for RIIO-2 build on past projects completed by itself and others, considering lessons learned from these past projects plans for third-party involvement in the company's innovation activities, demonstrating how they will increase third party involvement in their innovation activities and ensure full consideration of third party innovation ideas. They may, for example, include plans for independent consideration of which third-party innovation ideas to take forward plans to collaborate and disseminate innovation learnings with other network companies and other interested bodies a framework for rolling out proven RIIO-2 innovation into the business during the course of the RIIO-2 price control how they propose to monitor the benefits of planned RIIO-2 innovation and reduce costs in other areas during the course of RIIO-2 using this innovation 	2.69 & 2.70.	Addressed business plan section 5.4
The Business Plan should also describe the steps that they are taking to ensure that previously proven innovation is rolled out into BAU and how the benefits of these are reflected in the company's proposed expenditure for RIIO-2. This will include innovation trials that they have participated in, as well as ones that have been led by other companies.	2.71	Addressed business plan section 5.4
Companies can also include a case for any additional totex allowance necessary for RIIO-2 to roll out previously proven innovation. We will consider any specific expenditure proposed that will enable roll-out of specific innovations through their baseline funding, providing they can demonstrate how this will reduce costs and/or improve efficiency within their submission.	2.72	No additional Totex requested
If companies believe NIA funding is necessary for RIIO-2, their Business Plan should set out the level of NIA funding they require. They should explain why the innovation in question cannot be funded from the totex allowance. We would like companies to include high-level areas of focus for NIA spending, rather than individual projects, and how much additional funding they believe is necessary for each of these areas of focus, together with the value/benefits they anticipate this may generate.	2.74	Addressed business plan section 5.4.8
Companies should set out the desired structure of their proposed RIIO-2 NIA and how much risk they are willing to take on themselves against their NIA.	2.75	Addressed business plan section 5.4.8
As set out in our SSMD, in determining the level of NIA funding, we are likely to take into account the following, along with other information that may be relevant: <ul style="list-style-type: none"> companies' proposals for these allowances in their Business Plans the extent to which companies are undertaking other innovation as BAU activities the extent to which companies' proposals incorporate the application of best practices the processes companies have in place to roll out proven innovation into BAU and the evidence that they are already doing so the processes companies have in place to monitor, report and track innovation spending and the evidence that they are already doing so 	2.76	Addressed business plan section 5.4
Competition		
Late Competition- Companies should set out their best view of which projects meet the late model criteria for competition. Where the company sets out its view that a project in its Business Plan submission valued at over £100m does not meet the criteria for competition, the company should provide detailed reasoning through additional commentary. In presenting projects in their Business Plans, companies should also consider and indicate whether our approach to applying 're-packaging' would be appropriate for those projects.	2.78	Addressed business plan section 5.5.2
Early Competition - To facilitate the identification of the system needs which may give rise to these projects, companies are required to flag in their Business Plans system needs (or projects) which are valued at £50m or over.	2.81	Addressed business plan section 5.5.2
Native Competition - In their Business Plans, companies need to provide a native competition plan which details how they will use competition to identify and reveal efficient costs and ideas. Each company's competition plan should align with the native competition best practices as outlined in the SSMD. These best practice principles should be followed by companies except where these conflict with any legal obligations, including the Utilities Contracts Regulations 2016 and Utilities Contracts (Scotland) Regulations 2016 (as amended or replaced; which implement the EU Directive 2014/25/EU).	2.84	Addressed business plan section 5.5.3
If relevant, networks should identify where their preferred approach to implementing the best practice principles is not possible, for example where implementation raises a conflict with existing rules.	2.85	N/A Best practice applied
Networks must outline the type of information they commit to share throughout the price control such that Ofgem and stakeholders have sight on upcoming competitive processes and can continually assess their performance against their commitments in their native competition plan. Where certain information is only intended for Ofgem and needs to be kept in-confidence (e.g. for commercial reasons), it should be clearly badged and justified as such.	2.86	Addressed business plan section 5.5.1
While companies must meet their legal obligations, this does not preclude them from exceeding minimum requirements, where appropriate and beneficial. For example, allowing a longer period of time for the receipt of tenders than the mandated minimum in cases of particularly large and complex projects.	2.87	Addressed business plan section 5.5.1
The principle of technology agnosticism requires an openness to different ideas. Where appropriate,10 companies can communicate with the bidding market prior to a formal process or can undertake a phased approach to tendering to identify solutions which best meet need. Companies should consider using their competition plan to publicly commit to an approach which best embeds this principle.	2.88	Addressed business plan section 5.5.1

Companies should commit to a tender design and assessment approach which ensures the best outcomes for existing and future consumers, e.g. by using explicit considerations of option value, particularly for flexibility solutions.	2.89	Addressed business plan section 5.5.1
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A consistent view of the future		
Compliance Requirement Description	Compliance Requirement Reference (BP Guidance, SSD – Page Number, Paragraph etc)	Reference Point in NGN BP where the requirement is being addressed/met or not.
In preparing their Business Plans, companies should consider a range of future outcomes and the different investments and activities required to support these. ²⁴ For example, we expect GDNs to set out in their Business Plan how they are preparing for Government decisions on the future of heat. This should include consideration of decarbonisation scenarios in which gas distribution plays a significant role, and scenarios in which their role is considerably diminished. Consideration of these scenarios should include a description of the potential impact of Government decisions during RIIO-GD2 on their investment plans, which we would consider when developing a heat policy re-opener.	3.1	NGN RIIO 2 Business Plan - section 5.3, 5.3.3, 5.3.4 Appendix A14 - NGN RIIO-2 Whole Systems Strategy - section 3, Annex b
More important than agreeing a particular static view of the future requirements for networks is that the price control remains sufficiently flexible to meet changing circumstances.	3.2	NGN RIIO 2 Business Plan - section 5.3, 5.3.3, 5.3.4 Appendix A14 - NGN RIIO-2 Whole Systems Strategy - section 3, Annex b
Importantly, we have consistently stated that where networks believe their plans need to deviate from the common view, then they should provide evidence for this and the most appropriate mechanism to allow expenditure allowances to adjust.	3.4	No deviation from common view proposed.
The Business Plans must: <ul style="list-style-type: none"> provide substantial evidence for where overall forecasts of investment drivers, or the forecasts for individual line items, are higher than historical averages or trends explicitly identify and incorporate investment drivers and their impacts which may reduce required network expenditure, such as those arising from consumer behaviour change and from smarter network technology and policies design their baseline revenues around parameters which are no greater than the lowest point of the ranges provided in the ENA Scenario Working Group report, and ensure that their plans can flex, where they consider this to be necessary, to meet high outturns (e.g. by proposing relevant uncertainty mechanisms). Where a network's planning exceeds these points, an explicit and proportionate justification for this deviation must be provided (and that their combined assumptions are consistent) 	3.5	Appendix A23 - NGN RIIO-2 Investment Decision Packs - Overview NGN RIIO 2 Business Plan - section 6 Appendix A23 - NGN RIIO-2 Investment Decision Packs - Overview NGN RIIO 2 Business Plan - section 5.3.3, Table 5.5
The Net Zero target		
3.6. In June, the UK and Scottish Governments introduced legislation to implement the net zero greenhouse gases target by 2050 and 2045 respectively (the Net Zero target). On 8 August 2019, ²⁵ we informed networks that they are expected to clearly propose and evidence how their Business Plans are able to flex to support achieving the Net Zero target in line with a range of pathways. In that letter, we set out that it would be a minimum requirement for companies to: <ul style="list-style-type: none"> identify where their baseline investment plan may impede the efficient achievement of any of a plausible range of pathways through which this target could be achieved, and propose how their Business Plans can flex to address these impediments and facilitate timely investments which support potential pathways.²⁶ 	3.6	NGN RIIO 2 Business Plan - section 4.4, "Our pathway to net Zero", s5.3.3 1. Pathways to net zero Appendix A14 -NGN RIIO-2 Whole System Strategy Baseline investment does not impede efficient achievement of plausible range of pathways. Baseline investment does not impede efficient achievement of plausible range of pathways.
In providing this information, companies should: <ul style="list-style-type: none"> carefully consider the need for investment in anticipation of need where such investment supports Net Zero pathways. Given the important role played by the energy sectors in achieving the Net Zero target, Ofgem will thoroughly consider proposals of this nature, and outline their plans to coordinate with the UK government, devolved administrations, local government and relevant customers to more efficiently support the achievement of the Net Zero pathways. 	3.7	NGN RIIO 2 Business Plan section 5.3.3 1. Pathways to net zero Appendix A14 -Whole System Strategy Appendix A14 -NGN RIIO-2 Whole System Strategy
When considering the implications of different plausible pathways meeting the needs of consumers and network users, companies should show how they have considered, or will consider, the implications of macro scenarios at a local level. For example, when considering implications of plausible pathways in which the number of users of the gas network is considerably smaller than at present, gas network companies should consider which parts of their network would be most/least likely to be used in future. Companies should take into account local implications of different pathways in planning their activities. This could include prioritising investments over the RIIO-2 period, such as tailoring replex schedules to take into account the possibilities of use/decommissioning of the gas network.	3.9	Appendix A14 -NGN RIIO-2 Whole System Strategy

Cost Information		
Compliance Requirement Description	Compliance Requirement Reference (BP Guidance, SSD – Page Number, Paragraph etc)	Reference Point in NGN BP where the requirement is being addressed/met or not.
In proposing costs for operating and developing their networks, we expect companies to explain their costs/workload forecasts, particularly where these diverge from historical trends. In particular, we expect companies to provide information in their Business Plans on: <ul style="list-style-type: none"> cost drivers consideration of options justification of costs, including the proposed profiling of costs how efficiency and innovation will be used to reduce costs 	3.10.	See below
Business Plans must clearly set out the key drivers of expenditure for the RIIO-2 period - for example, growth in demand, conditions of assets/utilisation, legislative requirements, and any other relevant drivers.	3.12	6.3, 6.5, 6.6 Engineering Justification Papers / CBAs as appropriate
Business Plans must clearly justify the need for new investment, including: <ul style="list-style-type: none"> the different options considered for meeting future network requirements, including the cost of "doing nothing" and of "deferral" options and the associated cost benefit analysis (CBA). These options should include, where appropriate, the availability of potential market solutions to the system need, and whether any 'whole system' solutions are available. Options which are supported by LAEPs (where available) might provide a higher level of evidence for options discounted at this stage, full reasoning, detailing key assumptions and selection criteria given for exclusion the reasons for the timing of investment under the different options considered, including expected outputs (e.g. the delivery of an increment in boundary capacity transfer, the delivery of an electricity link, a gas pipeline) related to the investment and year of delivery the risk of underutilisation/stranding that new investments/existing might face in the future. In considering these risks, and in justifying additional investment, networks may consider any outputs from LAEPs that can inform understanding of the ongoing utilisation of the asset. 	3.13	6.3, 6.5, 6.6 Engineering Justification Papers / CBAs as appropriate
Business Plans must include: <ul style="list-style-type: none"> evidence of the efficiency of their costs, for example as compared to historical benchmarks and/or benchmarking with national and international comparators details of assumptions and justification for projected changes in the efficient levels of unit costs over time (i.e. ongoing efficiencies) caused by improvements in project delivery, technological innovation, procurement efficiencies, etc. a clear rationale for any associated assumptions they consider we should use when assessing costs. For example, robust and transparent justification for the extent to which regional and company-specific factors determine material (higher and lower) cost variations details of the activities and indicative costs that are directly funded through totex allowances and are associated with achieving service levels details of which categories of expenditure are more uncertain and more difficult to forecast using historical/independent benchmarks. Where this is the case, we expect companies to consider mechanisms that mitigate risk associated with uncertainty, and/or other evidence to justify their submitted costs 	3.14	2.1 Track Record Appendix A22 - NGN RIIO-2 Business Support Benchmarking 6.2.1 Productivity and Efficiency Appendix A20 – NGN RIIO-2 Ongoing Efficiency for Gas Networks BPDT – 2.12 RPE and OE 6.2.1 Regional Factors Appendix A21 - NGN RIIO-2 Regional factors

		Snapshot tables – Outputs See Uncertainty Mechanisms Appendix A24 - NGN RIIO-2 Cost Confidence review
For new or existing assets that face a risk of underutilisation, Business Plans should set out the monitoring and mitigation they will put in place to reduce this risk. For new assets (i.e. those assets that companies are planning to invest in and have included in business plans) that face a risk of underutilisation, network companies should ensure before undertaking the investment they have clear evidence of need, such evidence might include LAEPs.	3.15	Engineering Justification Papers / CBAs as appropriate
Business Plans should demonstrate how their expenditure forecasts map onto relevant ODIs and PCDs.	3.16	PCDs – 5.2 Managing Uncertainty ODI – Snapshot Tables
Both the CBA and engineering justifications are important decision support tools as part of the justification for investment needs in RIIO-2. In demonstrating due diligence has been followed in the appraisal of potential investment decisions by companies, CBAs and engineering justifications should: <ul style="list-style-type: none"> be consistent with published guidance and recognised best practice, for example the Green book and the Spackman discounting approach demonstrate evidence of structured options development, including consideration of whole system options and non-network options, where applicable, against a baseline scenario which involves the minimum level of intervention that would be required to remain compliant with all applicable regulation demonstrate the value of projects across different scenarios, and include an explicit consideration of (quasi) option values²⁷ of deferring the investment; this might include the consideration of the outputs of jointly developed GDN/DNO LAEPs be clearly linked to the Business Plan, where applicable, with sensitivity to changes in input parameters assessed, for example future energy scenarios act as a robust decision support tool, open to scrutiny and challenge in conjunction with other appropriate means of justification for investment decisions be transparent about which risks, costs and benefits have neither been considered nor monetised as part of the analysis be transparent about assumptions, inputs and rationale for decisions, calculations and results 	3.21	Engineering Justification Papers / CBAs as appropriate

Financial Information		
Compliance Requirement Description	Compliance Requirement Reference (BP Guidance, SSD – Page Number, Paragraph etc)	Reference Point in NGN BP where the requirement is being addressed/met or not.
To submit business plan information, and for corresponding analysis as presented in the plan such as scenarios or tables of values, companies should use the BPDts and BPFM. Any other models or tools used to produce alternate or supplementary analysis, such as bill impacts, should be submitted with, and clearly cross-referenced to, the Business Plan. Where applicable, inputs to the BPFM should be linked to the corresponding BPDT.	3.23	Business plan section 7, Tables 7.2, 7.3, 7.4, 7.5, 7.6, 7.7,7.9,7.10 Appendix A33. NGN's Proposed Financial Package for RIIO-2 BPDT Tabs 1.01 – 1.04 Ofgem's BPFM (LiMo GD2 20191107 d 4.1.) has been used to derive quantitative financial information and for corresponding analysis (Tables 7.2, 7.3, 7.4, 7.5, 7.6, 7.7,7.9,7.10 in the main business plan). We have also used BPFM to estimate the values in the tables contained in Appendix A33, which represents NGN's Proposed Financial Package for RIIO-2). BPFM has been linked to the NGN BPDT (Tabs 1.01-1.04)
Any other models or tools used to produce alternate or supplementary analysis, such as bill impacts, should be submitted with, and clearly cross-referenced to, the Business Plan.	3.23	Documents submitted:- NGN Business Plan Financial Parameters & Credit Rating Calculator NGN Domestic Customer Bill Calculation The BPFM does not contain functionality to calculate customer bills and credit ratings, implied by the relevant credit metrics. Therefore, these two elements of the Business plan have been calculated in NGN's models, which have been submitted alongside the Business plan.
The BPFM will be pre-populated with all the parameters set out in the finance section of the December RIIO-2 sector-specific methodology and forecast closing RIIO-1 price control financial model (PCFM) data, for example regulatory asset value (RAV). It will allow companies to populate with their plans to calculate expected allowed revenues. It will also be used for assessing the Financiability of the plan and will include a suite of commonly used financial metrics.	3.24	Documents submitted:- NGN LiMo GD2 20191107 d 4.1 (Ofgem) NGN LiMo GD2 20191107 d 4.1 (NGN) The BPFM pre-populated with all the parameters set out in the finance section of the May RIIO-2 SSMD has been populated with NGN's RIIO-2 opening RAV and expenditure requirements. An additional instance of the BPFM has also been submitted which incorporates (as well as NGN's RIIO-2 opening RAV and expenditure requirements) NGN's Proposed Financial Package for RIIO-2.
Consistent with RIIO-1, the BPFM is primarily set up to reflect the notional company. However, worksheets have been included to allow analysis of the actual company financing costs, structure and performance.	3.25	Documents submitted:- NGN LiMo GD2 20191107 d 4.1 (Ofgem) NGN LiMo GD2 20191107 d 4.1 (NGN)
For the purposes of modelling the notional company base case we provide the following guidance: <ol style="list-style-type: none"> Allowed return (WACC) as set out in Table 4 of the SSMD Finance Annex Incentive bias of 0.5% of equity portion of RAV representing an earned amount for the notional company in each year of RIIO-2 Totex allowances are assumed to equal Network totex cost forecast for RIIO-2 Net debt is reset to the working assumption notional gearing level (60% net debt to RAV) at the start of RIIO-2, with any opening de-gearing assumed to be achieved by an equity injection or re-gearing assumed to be achieved by debt issuance Debt costs are assumed to equal the working assumption for allowances set out in the SSMD 25% of the network's debt is assumed to be CPIH linked (with a scenario test showing an alternative of 25% RPI-linked debt) Tax allowances are equal to tax costs, as calculated using the BPFM Immediate transition to CPIH from 1st April 2021 for WACC allowance and RAV calculations Opening RAV values to be based on totex forecasts for RIIO-1 as provided in Business Plan Data Template submission, and inclusive of any known logged-up adjustments (for example, the effect of site disposals) Bagged revenue impacts arising from RIIO-1 are excluded (e.g. inflation true-up, cost pass-through adjustments, output incentive revenue and over / under collection of revenue) Depreciation rates to be proposed by the network based on useful economic lives and/or evidenced justification Capitalisation rates to be proposed by the network based on operational practice to date, consideration of expected levels of opex and capex, balance of affordability, finance ability and customer support Dividend yield working assumption for modelling purposes of 3% Equity issuance transaction costs working assumption of 5% of any amount forecast to be issued 	Appendix 3 of BP Guidance, pages 64-65	The details are provided below: <ol style="list-style-type: none"> Allowed return (WACC) as set out in Table 4 of the SSMD Finance Annex has been assumed (throughout the main Business plan). Incentive bias of 0.5% of equity portion of RAV representing an earned amount for the notional company in each year of RIIO-2 has been assumed (throughout the main Business plan) Totex allowances are assumed to equal Network totex cost forecast for RIIO-2 Net debt is reset to the working assumption notional gearing level (60% net debt to RAV) at the start of RIIO-2, with any opening de-gearing assumed to be achieved by an equity injection Debt costs are assumed to equal the working assumption for allowances set out in the SSMD (throughout the main Business plan) 25% of the network's debt is assumed to be CPIH linked (with a scenario test showing an alternative of 25% RPI-linked debt) Tax allowances are equal to tax costs, as calculated using the BPFM Immediate transition to CPIH from 1st April 2021 for WACC allowance and RAV calculations Opening RAV values have been based on Totex forecasts for RIIO-1 as provided in Business Plan Data Template submission, and inclusive of any known logged-up adjustments (including the effect of site disposals) Bagged revenue impacts arising from RIIO-1 are excluded (inflation true-up, cost pass-through adjustments, output incentive revenue and over / under collection of revenue) Depreciation rates have been assumed to be the same as set out by Ofgem. Capitalisation rates have been proposed based on operational practice to date, consideration of expected levels of opex and capex, balance of affordability, financeability and customer support. Dividend yield working assumption used for modelling purposes of 3% (throughout the main Business plan) Equity issuance transaction costs working assumption of 5% of any amount forecast to be issued.

<p>For the purposes of modelling the actual company base case we provide the following guidance:</p> <ol style="list-style-type: none"> 1. Allowed return (WACC) as set out in Table 4 of the SSMD Finance Annex 2. Incentive bias of 0.5% of equity portion of RAV representing an earned amount for the actual company in each year of RIIO-2 3. Totex allowances are assumed to equal Network totex cost forecast for RIIO-2 4. Net debt to reflect actual company forecast net debt position for each year, as completed in the finance tables of the BPDTs 5. Debt costs to reflect actual company forecast for debt costs, as set out in finance tables of BPDTs 6. Proportion of inflation linked debt and proportion of interest expense that is principal inflation accretion in each year to reflect actual company forecast, as set out in finance tables of BPDTs 7. Tax allowances are equal to notional company tax allowances 8. Modelled forecast actual tax costs, incorporating forecasted financial information as per BPDTs 9. Immediate transition to CPIH from 1st April 2021 for WACC allowance and RAV calculations 10. Opening RAV values to be based on totex forecasts for RIIO-1 as provided in Business Plan Data Template submission, and inclusive of any known logged up adjustments (for instance the effect of site disposals) 11. Lagged revenue impacts arising from RIIO-1, where these are expected, should be included if relevant (e.g. such as MOD from related RIIO-1 revenues, legacy revenue adjustments, forecasts on other non base revenue items) 12. Depreciation rates to be proposed by the network based on useful economic lives and/or evidenced justification 13. Capitalisation rates to be proposed by the network based on operational practice to date, consideration of expected levels of opex and capex, balance of affordability, financeability and customer support 14. Dividend and equity issuance to reflect actual company dividend policy and forecast equity issuance, as set out in finance tables of BPDTs 15. Equity issuance transaction costs as forecast by network for forecast equity issuance 	<p>Appendix 3 of BP Guidance, pages 65-66</p>	<p>The details are provided below:</p> <ol style="list-style-type: none"> 1. Allowed return (WACC) as set out in Table 4 of the SSMD Finance Annex has been assumed (throughout the main Business plan) 2. Incentive bias of 0.5% of equity portion of RAV representing an earned amount for the notional company in each year of RIIO-2 has been assumed (throughout the main Business plan) 3. Totex allowances are assumed to equal Network totex cost forecast for RIIO-2 4. Net debt to reflect actual company forecast net debt position for each year, as completed in the finance tables of the BPDTs has been assumed in Tables 7.4, 7.7 5. Debt costs to reflect actual company forecast for debt costs, as set out in finance tables of BPDTs have been assumed in Tables 7.4, 7.7 6. Proportion of inflation linked debt and proportion of interest expense that is principal inflation accretion in each year has been assumed to be zero, as set out in finance tables of BPDTs 7. Tax allowances have been assumed to be equal to notional company tax allowances 8. Modelled forecast actual tax costs have incorporated forecast financial information as per BPDTs 9. Immediate transition to CPIH from 1st April 2021 for WACC allowance and RAV calculations has been assumed 10. Opening RAV values have been based on Totex forecasts for RIIO-1 as provided in Business Plan Data Template submission, and inclusive of any known logged-up adjustments (including the effect of site disposals) 11. Lagged revenue impacts arising from RIIO-1 have been included 12. Depreciation rates have been assumed to be the same as set out by Ofgem 13. Capitalisation rates have been proposed based on operational practice to date, consideration of expected levels of opex and capex, balance of affordability, financeability and customer support 14. Dividend and equity issuance reflect actual company dividend policy and forecast equity issuance, as set out in finance tables of BPDTs in Tables 7.4, 7.7.
<p>Companies must complete the BPFM in accordance with Ofgem guidance, including incorporating Ofgem's working assumptions for cost of capital. Companies must also include a Financiability assessment for both the notional and actual company, including target ratings.</p>	<p>3.26</p>	<p>Documents submitted:- NGN LiMo GD2 20191107 d 4.1 (Ofgem) NGN LiMo GD2 20191107 d 4.1 (NGN) Business Plan Section 7.1.3 Financeability Section 7.2. Assessment of Ofgem's 'Base case' Tables 7.1, 7.2,7.3,7.4,7.5,7.6,7.7.</p> <p>BPFM has been completed in accordance with Ofgem guidance, including incorporating Ofgem's working assumptions for cost of capital. An additional instance of BPFM has been submitted to represent NGN's Proposed Financial Package for RIIO-2. A financeability assessment for both the notional and actual company, including target ratings has been included in Sections 7.1.3 and 7.2.</p>
<p>Business Plans must clearly set out:</p> <ul style="list-style-type: none"> · financial projections for each year of the RIIO-2 period. · the company's target ratings and the key financial ratios and qualitative factors used to assess maintenance of those target ratings · the results of the Ofgem-suggested set of common stress test scenarios with results clearly explained · a clear explanation of any additional stress test scenarios, including rationale, results and commentary of results · a clear explanation of the company's proposed capitalisation and depreciation rates, including evidence for any adjustments to capitalisation or depreciation rates required for Financiability or bill smoothing purposes. This includes the level of customer support for such adjustments (and/or consideration of customer preferences) · clear explanation of the company's dividend and equity issuance policy and strategy · fully completed BPDTs in accordance with the relevant Ofgem guidance 	<p>3.27</p>	<ol style="list-style-type: none"> 1. Tables 7.2., 7.3, 7.4, 7.5, 7.6, 7.7, 7.9, 7.10 are based on Ofgem's SSMD working assumptions. Appendix A33 – based on NGN's Proposed Financial Package for RIIO-2. 2. Section 7.1.3. Financeability, Appendix A26 (Assessment of a Comfortable Investment Grade Credit Rating) 3. Section 7.2.2. Financeability assessment, Appendix A27 (Review of NGN's RIIO-2 Business Plan Financeability) 4. Appendix A27 (Review of NGN's RIIO-2 Business Plan Financeability) 5. Section 7.3. Options to address financeability. 6. Section 7.3. Part C. Equity injection, Dividend Deferral & Reducing Gearing 7. NGN BPDTs.
<p>Plans must clearly demonstrate:</p> <ul style="list-style-type: none"> · a clear understanding of financial risk and evidence of risk management measures. This must include a clear explanation of the assumptions underpinning company risk and scenario analysis and description of how risk analysis takes into account company actions for mitigating downside risks · an assessment of overall risk of the Business Plan and realistic and well-justified proposals for notional gearing · that the plan is financeable on both a notional and actual capital structure basis, or that all applicable measures to aid Financiability have been considered, including robust supporting evidence and justification · robust justification for any proposed company-specific alternative cost of capital estimates (for example for RAV-weighted debt index for networks with unusual RAV growth profiles), including customer support for any such alternatives 	<p>3.28</p>	<p>The requirements have been fully met.</p> <p>The details are provided below:</p> <ol style="list-style-type: none"> 1. Section 7.2.2. Financial Risk & Resilience 2. Section 7.3. Reduction in the level of gearing 3. Section 1.2. Board Assurance Statement 4. Appendix A33. NGN's Proposed Financial Package for RIIO-2.

Presentation & structure		
Compliance Requirement Description	Compliance Requirement Reference (BP Guidance, SSD – Page Number, Paragraph etc)	Reference Point in NGN BP where the requirement is being addressed/met or not.
Presentation		
Plans should be concise – no longer than 200 pages excluding BPDTs, Investment Packs and the BPFM - with the emphasis on keeping the core narrative as short as possible, while presenting proportionate evidence and justification for the proposed expenditure and outputs.	4.1	NGN's RIIO GD2 Business plan is 200 pages
Where the company needs to provide further information it should use annexes. Though annexes will not count towards the 200-page limit, companies should, to the fullest extent possible, ensure that the core narrative contains all information relevant to Ofgem's assessment of the plan. Annexes should be clearly signposted and referenced within the core Business Plan text.	4.2	Appendices are clearly addressed referenced and signposted throughout NGN's RIIO GD2 Business Plan
More technical information may be provided in the annex documents but the company should still ensure that the annexes are as clear and readable as the rest of the Business Plan. Business Plans should be clearly written, with considerable emphasis on making them as easy to read as possible (avoiding small font sizes).	4.3	Addressed
Structure		
Though Ofgem does not prescribe a particular structure that plans must follow, it is important to ensure that we can easily identify material contained in the plans that will be relevant to our assessment. Therefore, plans should cover each of the sections set out in this document. These should be clearly labelled so that we are able to access all of the information that we require in each of these areas.	4.4	NGN's RIIO GD2 Business plan has 7 clear sections, including:- <ol style="list-style-type: none"> 1. 2. 3. 4. 5. 6. 7.
Companies should try to ensure that the information relevant to each assessment area is presented in its relevant chapter or section (rather than spread throughout the plan, for example).	4.5	Addressed

Where it is not possible to include all information relevant to an assessment area within its own single chapter or section (for example where a supplementary annex is required), companies will need to clearly identify where in the plan the relevant material is located. Therefore, each plan should include a table that maps information on these key areas to relevant parts of the plan.	4.6	Addressed and hyperlinks included where necessary
Cross-referencing		
In order to successfully navigate the plans, companies should effectively cross-reference between different sections. Hyperlinks should be included when referencing any of the data tables, annexes or any further detail which is explored elsewhere in the plan.	4.7	Addressed and hyperlinks included where necessary
It is important to have clear links between the data tables and the core narrative sections. Data tables should be clearly numbered and any data in the narrative should be clearly linked to the relevant data table number (and hyperlink wherever possible). For each data table there should also be a link to where in the main narrative this data is discussed. For some data tables this may be more than one part of the plan that describes the data.	4.8	Each table in our plan is clearly referenced to the relevant BPDT and Investment Decision Pack. In Ofgem's Business Plan Data Table commentary we have then clearly referenced where the narrative can be found in the Business Plan and which Investment Decision Pack provides further details.
Business Plans in the Gas Distribution sector		
In the Gas Distribution sector, where a company is the operator of more than one network area, it may choose to submit separate Business Plans, or separate elements of its Business Plan, for each area. This should only be in exceptional circumstances and the company should clearly demonstrate why this is merited. We do not expect there to be any repetition of content between these submissions and the Company should consider whether separate annexes to a single document may be a more appropriate format for detailing any area-specific content that differs from the rest of their plan. The does not preclude a Company choosing to publish separate plans for each area for the benefit of its regional stakeholders.	4.9	N/A
Snapshot Tables		
Outputs	4.10.	Submitted
Uncertainty Mechanisms		
CVP		

The Business Plan Incentive		
Compliance Requirement Description	Compliance Requirement Reference (BP Guidance, SSD – Page Number, Paragraph etc)	Reference Point in NGN BP where the requirement is being addressed/met or not.
Consumer Value Proposition		
Under the CVP, Business Plans should set out the ways in which their plan goes beyond the minimum requirements and beyond the functions typically undertaken by an energy network company as business as usual and how this will lead to benefits for consumers. Ofgem will assess the proposals included within the CVP and determine whether a reward should be paid to the company and, if so, the size of the reward.	5.13	NGN RIIO 2 Business Plan section 4.5 NGN RIIO 2 Business Plan section 4 Appendix A13 - NGN RIIO-2 Consumer Value Proposition
The CVP must be summarised clearly within the Business Plan. However, it may draw upon material that is embedded within each of the relevant areas that contribute towards the CVP.	5.14	NGN RIIO 2 Business Plan section 4.5 NGN RIIO 2 Business Plan section 4 Appendix A13 - NGN RIIO-2 Consumer Value Proposition
Companies should seek to provide a monetised value to consumers for each proposal forming part of the CVP. Companies should set out any methodology employed in determining this monetised value, along with any underlying data used in its calculation. Ofgem will take this information into account in determining whether a proposal should receive a reward and, if so, the size of that reward.	5.15	NGN RIIO 2 Business Plan section 4.5 NGN RIIO 2 Business Plan section 4 Appendix A13 - NGN RIIO-2 Consumer Value Proposition
Proposals forming a part of a company's CVP should be clearly and unambiguously identified as such.	5.17	NGN RIIO 2 Business Plan section 4.5 NGN RIIO 2 Business Plan section 4 Appendix A13 - NGN RIIO-2 Consumer Value Proposition
If the company receives a reward under this element of the BPI, Ofgem will consider whether it should include provision for the clawback of the reward in the event that the commitment(s) in question are not delivered. Companies should consider this in their Business Plan and, where appropriate, commit to returning any associated rewards in the event of non-delivery.	5.2	noted
In assessing a CVP proposal, Ofgem expects to consider matters including: <ul style="list-style-type: none"> Whether the proposal consists of something incremental additional to the minimum requirements. The extent to which the proposal represents additional value to consumers, taking into account the functions typically undertaken by an energy network company as business as usual. The extent to which the proposal includes evidence that shows how it incorporates consumer expectations/priorities and value (which may include willingness to pay). The extent to which the proposal has been reviewed by and received the support of the Ofgem RIIO-2 Challenge Group, companies' CEGs and UGs or, otherwise, the extent to which reasons for the lack of such support are clearly and satisfactorily explained. Whether the proposal includes a monetised consumer benefit and an associated monetisation methodology and the extent to which such a methodology is reasonable. The extent to which the monetised benefits associated with the proposal accrue to either to current consumers, future consumers and/or consumers in vulnerable situations. Where the proposal relates to a commitment to deliver something within RIIO-2, whether arrangements to address the possibility of non-delivery are set out and the extent to which such arrangements for non-delivery are appropriate and implementable. 	5.21	NGN RIIO 2 Business Plan section 4.5 NGN RIIO 2 Business Plan section 4 Appendix A13 - NGN RIIO-2 Consumer Value Proposition

Compliance Requirement Description	RIIO2 Sector Specific Guidance	
	Compliance Requirement Reference Business Plan Guidance (BPG) & Sector Specific Methodology (SSM)	Reference Point in NGN BP where the requirement is being addressed/met or not.
Track record and business plan commitment	BPG - 2.3 – 2.4	Business plan section 1 and 2 Appendix A2 - NGN RIIO-2 Business Plan Assurance
Giving Consumers a Stronger Voice	BPG - 2.6 – 2.8	Business plan section 3
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CS Comments