



# A35 - NGN RII0-2

Business Plan V2 to Final  
High-level Changes

*together*

**we are  
the network**

## High-level Business Plan changes from Draft V2 to Final Business Plan

The changes that we have made to our RIIO-2 Business Plan between our v2 submission on 1 October 2019 and our Final Business Plan Submission on 9 December 2019 relate primarily to:

- Feedback that we have received from either our Customer Engagement Group (CEG) or Ofgem's Consumer Challenge Group (CCG) from the review process;
- Completion of further analysis or projects to inform our plan that were not completed in time to include in version 2
- Meeting updated guidance received from Ofgem on 31 October that we could not include in our v2 submission due to timing.

### Summary of changes:

- Inclusion of Board Assurance statement and message from our CEO,
- Further evidence to specify how customers and stakeholders have shaped our plan,
- Inclusion of cost and monetised benefit information to support our RIIO-2 outputs,
- Inclusion of our RIIO-2 Customer Value Proposition,
- Inclusion of a section on how we are modernising our data, linked to our digitalisation strategy,
- Clear delineation within our Environmental Action Plan of our Pathway to Net Zero and the contribution we will make to meeting the UK's 2050 net zero targets,
- Clear justification of our target credit rating and evidence to support the financing of our plan.

## Structural changes

<b>Draft V1 Structure</b>
Section 1.0 Executive Summary
Section 2.0 NGN – Who Are We?
Section 3.0 The Next RIIO Period
Section 4.0 Addressing Customers in Vulnerable Situations
Section 5.0 Meeting the Needs of our Customers & Stakeholders
Section 6.0 Innovation & Competition
Section 7.0 Commitments to our Customers
Section 8.0 Guaranteeing Value for Money
Section 9.0 Revenue & Customer Bills
Section 10.0 Board Assurance

<b>Draft V2 Structure</b>
<b>PART 1: An overview of our plan</b> 1.1 A message from our CEO 1.2 Confidence at Board level and beyond 1.3 Who we are and where we serve 1.4 A summary of our 2021-2026 business plan 1.5 Signposting: where to find supporting information
<b>PART 2: Giving customers confidence that we will deliver</b> 2.1 Our track record and performance in GD1 2.2 Lower returns for our investors and greater efficiency 2.3 A plan that offers better value
<b>PART 3: Giving consumers a stronger voice</b> 3.1 A plan that puts customers and communities first 3.2 Collaboration and challenge 3.3 Together we have created a plan for the future 3.4 Moving forward, together - Our approach to stakeholder engagement for 2021 – 2026
<b>PART 4: Delivering better outcomes for our customers</b> 4.1 An overview of our Plan 4.2 Meeting the needs of consumers and network users 4.3 Maintaining a safe and resilient network 4.4 Delivering an environmentally sustainable network 4.5 Delivering more for our customers
<b>PART 5: A sustainable plan for the future</b> 5.1 Enabling whole systems energy solutions 5.2 Managing uncertainty 5.3 A consistent view of the future 5.4 Driving efficiency through innovation and competition
<b>PART 6: Delivering value for money</b> 6.1 Our planned expenditure for 2021 – 2026 6.2 Total expenditure (Totex) 6.3 Operating expenditure (Opex) 6.4 Investment expenditure 6.5 Capex summary 6.6 Repex summary
<b>PART 7: Financing our plan</b> 7.1 Principles and assumptions 7.2 Assessment of Ofgem’s ‘base case’

- 7.3 Options to address Financeability
- 7.4 NGN proposal on Revenue and Financeability for RIIO GD2
- 7.5 Customer Bills

## **Final Business Plan Structure**

### **PART 1: An overview of our plan**

A message from our CEO

- 1.1 A summary of our 2021-2026 business plan
- 1.2 Board Assurance Statement

### **PART 2: Giving customers confidence that we will deliver**

- 2.1 Our performance in RIIO-1
- 2.2 Return on regulated equity
- 2.3 Financial returns to shareholders
- 2.4 Lower customer bills

### **PART 3: Giving customers a stronger voice**

- 3.1 A plan that puts customers and communities first
- 3.2 Collaboration and challenge
- 3.3 Together we have created a plan for the future
- 3.4 Moving forward, together - Our approach to stakeholder engagement for 2021 – 2026

### **PART 4: Delivering better outcomes for our customers**

- 4.1 Our RIIO-2 outputs: Highlights
- 4.2 Meeting the needs of customers and network users
- 4.3 Maintaining a safe and resilient network
- 4.4 Delivering an environmentally sustainable network
- 4.5 Our Customer Value Proposition
- 4.6 Modernising data

### **PART 5: A sustainable plan for the future**

- 5.1 Enabling whole systems energy solutions
- 5.2 Managing uncertainty
- 5.3 A consistent view of the future
- 5.4 Driving efficiency through innovation
- 5.5 Driving efficiency through competition

### **PART 6: Delivering value for money**

- 6.1 Total expenditure summary
- 6.2 Background and key assumptions
- 6.3 Investment approach
- 6.4 Capital expenditure summary (Capex)
- 6.5 Replacement expenditure summary (Repex)
- 6.6 Operating expenditure summary (Opex)

### **PART 7: Financing our plan**

- 7.1 Principles and assumptions
- 7.2 Assessment of Ofgem's 'base case'
- 7.3 Options to address Financeability
- 7.4 Our proposed financial package for RIIO-2
- 7.5 Customer Bills

### **Our List of Terms**

## Changes by section

### PART 1: An overview of our plan

We have added this section to our Final Business Plan. It includes a message from our CEO, a high-level overview of our plan outlining the key highlights and our Board assurance statement.



*See pages 1-10 of our business plan*

### PART 2: Giving customers confidence that we will deliver

We have made minor drafting changes to this part of our plan, in addition to adding further detail on:

Ofgem's comparative efficiency assessment, highlighting NGN as the most efficient company, as benchmarked by Ofgem.



*See page 10 of our business plan*

Additional information on the alignment of pay and reward within the organisation.



*See Part 2.1.8, pages 21 – 22 of our business plan*

Further information on how our performance in RIIO-1 will impact on customer bills in the future



*See Part 2.1.9 page 22 of our business plan*

### PART 3: Giving customers a stronger voice

We have incorporated all the evidence that we gained through our stakeholder engagement programme into our final draft. Some this analysis was not complete for our October submission. This has included:

Updated Business Plan acceptability testing outcomes to reflect the combined scores across all customer groups (this was limited to domestic customers in v2).



*See Part 3.3, pages 36-46 of our business plan*

Additional information and evidence on areas of compromise with our customers.



*See Part 3.3, pages 36-46 of our business plan*

Further information on how we have implemented our RIIO-2 Engagement Strategy to ensure stakeholders consider our approach offers value for money.



*See Part 3.4, pages 46-51 of our business plan*

Inclusion of a specific reference to how we will engage with Biomethane stakeholders following feedback from the CCG on our V2 business plan submission.



*See Part 3.4, page 50 of our business plan*

We have also included significant additional information as an Appendix to our plan which evidences the approach and insights of our stakeholder engagement programme for RIIO-2.



See *Appendix A3 – NGN RIIO-2 Stakeholder Engagement Strategy*  
*Appendix A4 – NGN RIIO-2 Stakeholder Engagement Insights*  
*Appendix A5 – NGN RIIO-2 Stakeholder Engagement Benchmarking*

## PART 4: Delivering better outcomes for our customers

We have updated the output summary tables within Part 4 to include a clearer delineation of the costs and benefits associated with the delivery of our outputs, in addition to referencing the specific customer insight associated with informing each output. Where possible we have monetised the benefits that we will deliver through our RIIO-2 Plan using information from our Willingness to Pay research and Customer Value Proposition to quantify the benefits. We have also:

Included an overview of the enabling activity that we are implementing to ensure we can deliver our outputs in RIIO-2 at no incremental cost to customers.



See *Part 4.1.2, page 55 of our business plan*

Included 3 Common GSop Outputs (GSop 3, 12 and 14) that were inadvertently omitted from our V2 submission. These outputs are now reflected in the summary tables consistent with all other outputs.



See *Part 4.2, pages 56-65 of our business plan*

Included a reputational output, to include an annual showcase event and publication of an annual report to share knowledge and best practices relating to our vulnerability initiatives.



See *Part 4.2.3, pages 66-71 of our business plan*

Prepared a detailed Outputs Appendix which outlines the process we have gone through to derive our RIIO-2 outputs to justify inclusion of bespoke outputs and targets in the business plan consistent with Ofgem's guidance.



See *Appendix A6 - NGN RIIO-2 Outputs*

### Our Environmental Action Plan (EAP)

We have changed the presentation of Section 4.4 to clearly demonstrate how our EAP meets the business plan requirement for decarbonising our business, reducing our environmental impact and supporting the transition to an environmentally sustainable, low-carbon energy system. Clear targets and outputs are identified for each of the three areas consistent with the requirements of the Business plan guidance. We have also included specific reference to how customer insights from our engagement have informed the development of our EAP and its initiatives.

We have also:

Revisited and refined our existing science-based carbon reduction targets in light of the net zero target. We are now targeting net zero direct carbon emissions from our business operations (Scope 1 and 2) by 2030/31.



See *Part 4.4.1, pages 83-84 of our business plan*

Section 4.4 now includes information demonstrating our Pathway to Net Zero by 2050 and the incremental changes we expect to make to our network to enable the decarbonisation of gas to provide sustainable heat to our customers.



*See Part 4.4.2, pages 84-88*

## PART 5: A sustainable plan for the future

### 5.1 Enabling whole system solutions

We have strengthened the customer focus in our Whole Systems Strategic Framework in response to stakeholder feedback. We have also clarified our hydrogen focus areas in RIIO-2, which include completing the necessary Research and development to evidence hydrogen blending (through HyDeploy) as well as 100% hydrogen conversion (through our H21 work programme) as the foundation of our pathway to net zero carbon by 2050.

We have added extra detail on the role that heat pumps could play in supporting the achievement of our net zero emissions target by 2050. This has been added in response to stakeholder feedback seeking clarity on how we have considered the potential impact of heat pumps in our business plan.



*See page 102 of our business plan*

Greater clarity has been provided on how we will use an uncertainty mechanism to support delivery of the government's policy decision on heat, which we expect during RIIO-2.



*See Part 5.1 pages 98-103 of our business plan*

### Driving efficiency through innovation & competition

This part of the plan has been re-ordered to start with our RIIO-2 priorities and how we will drive efficiency through Innovation in RIIO 2 (Part 5.4) and ending with how we will drive efficiency through competition (Part 5.5).

We have included further detail on our innovation priorities and how the portfolio will deliver clear customer outcomes.



*See Part 5.4.1, page 106 of our business plan*

We have added extra detail on our plans for stakeholder engagement and insights, specifically acting on feedback that areas of focus should be on systems and technology, communication and collaboration



*See Part 5.4.5, page 110 of our business plan*

We have added extra detail to make clear the link between the Energy System Transition NIA projects, the Whole Systems Strategy and the Digitalisation Strategy.



*See Part 5.4.8, page 117 of our business plan*

The section on Business as usual innovation has been re-ordered to illustrate NIA projects completed by others, supply chain funded, and third party funded projects and how all are being deployed as part of the NGN innovation portfolio.



*See part 5.4.8, pages 118-119 of our business plan*

We have included further detail on the tracking of innovation benefits in RIIO-1.



*See Part 5.4.9, page 120 of our business plan*

## PART 6: Delivering value for money

Part 6 has been re-ordered to start with our total investment expenditure and end with our operating expenditure.

Further evidence has been added in to our Capex and Repex summaries to include information within our Investment Decision Packs (IDP) and to highlight why particular workloads have been chosen.

We have also made minor amendments to both the profiling of the expenditure plans and to where some costs are recorded to match to Ofgem's final Business Plan Data Tables (BPDT). All financial tables are cross referenced to the relevant IDP and BPDT.

In addition, further supporting evidence has been added to demonstrate that workload volume and mix is increasing our Repex costs, and that unit costs are decreasing.



*See pages 135-182 of our business plan*

## PART 7: Financing our plan

The overall position on key elements of the financial package that was provided in our draft plan submitted in October has not changed. However, we have supplemented our analysis with new evidence where appropriate, particularly on the cost of equity.

All key financial outputs and credit ratios have been derived using Ofgem's Business Plan Financial Model (BPFM).

We have included two additional sensitivity scenarios that have been tested as part of the financeability assessment (namely, RPI index-linked debt scenario and Zero Return on Regulated Equity (RoRE) outperformance (4.3% allowed equity return with an assumption of zero outperformance) scenario.

We have also provided a comprehensive justification of our target credit rating of Baa1/BBB+ to support our financeability assessment.



*See Part 7.1.3, pages 184-185 of our business plan; Appendix A27 - NGN RIIO-2 Review of NGN's RIIO-2 Business Plan Financiability; Appendix A26 – NGN RIIO -2 Assessment of a Comfortable Investment Grade Credit Rating*

Our assessment of risks and potential mitigating actions has been further developed in the Financial risk & resilience section.



*See Part 7.2.2, pages 188-191 of our business plan*

The analysis of options to address financeability has been expanded upon and we have also included a summary of our dividend policy, in addition to including our analysis on the implications of further notional de-gearing.



*See Part 7.3, pages 192-196 of our business plan*

We have included an outline of our position on Ofgem's working assumptions in relation to the cost of capital, which has been summarised in Section 7.4.



*See Part 7.4, page 196 of our business plan*

In accordance with Ofgem's guidance, our proposals on the financial package for RIIO-2 have been moved from the main business plan to a separate document – Appendix A33.



*See Appendix A33 - NGN RIIO-2 NGN's Proposed Financial Package for RIIO-2*

We have updated part 7.5 of our plan which outlines the impact on customer bills. Domestic customer bills have been estimated using NGN's transportation charging model both with and without the impact of NTS exit capacity costs.



*See Part 7.5, page 197 of our business plan*

Alongside the submission of this business plan, we have provided two instances of Ofgem's BPFM (one populated with Ofgem's working assumptions and the other with NGN's proposals on key elements of the financial package) together with two additional models used to estimate average domestic customer bills and credit ratings.