

**Stakeholder Engagement /
RIIO-T2**
August 2018

**SPEN
User Group
Terms of
Reference**

UG Terms of Reference

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2. OFGEM'S EXPECTATIONS

2.1 The purpose of SPEN's UG

Ofgem intends to enhance engagement during RIIO-T2 and incentivise companies to better understand their customers' needs and preferences. Due to the scale and pace of changes happening to the energy system, it is essential that companies are challenged on their assumptions and on how best to respond.

The UG forms a new part of this enhanced engagement within the price control process and serves as an additional layer of scrutiny to SP Energy Networks' business plan. The purpose of the group is to provide expert challenge and input on whether the business plan addresses the needs and wants of customers.

2.2 The role of SP Energy Networks

SPEN will be expected to ensure the effective working of the User Group over the entire duration of the RIIO-2 period, including all steps from the planning and set-up of the group to putting in place appropriate governance arrangements. Specific requirements include:

- Setting up the UG, ensuring all licensed areas are covered (e.g. through regional sub-groups), and provide secretariat and administrative support, as well as sufficient funding to the group. This will include:
 - The recruitment and remuneration of the Chair and all members
 - Travel and meeting costs,
 - Induction and onboarding packages for the group
 - Any other resources that are required for the effective running of the group
- Providing results and evidence from its engagement to the UG demonstrating that customers' views and needs have been sufficiently included in its business plan
- Providing all necessary information and data to the UG to enable members to assess the outputs required by Ofgem and proposals of SPEN's business plan
- Granting the group timely access to SPEN staff and ensuring that the SPEN Board and other relevant stakeholders are fully engaged with the group

2.3 The role of Ofgem within the wider RIIO-2 price control process

Ofgem will continue to enable and encourage Scottish Power to deliver high-quality customer engagement throughout the RIIO-2 period, and facilitate the challenge provided to SPEN through the following activities (but not limited to):

- Organising regular meetings with UG Chairs to share information and learning
- Providing a point of contact for the group Chair and be available for engagement
- Maintaining and updating guidance on the RIIO-2 process
- Providing guidance to the UG on the required content of its reports
- Establishing the RIIO-2 Challenge Group, including Chair and member recruitment, secretariat support and governance processes
- Identifying and sharing UG best practice



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3. THE ROLE OF SPEN'S USER GROUP

3.1 The role and scope of the group

For RIIO-T2, the Scottish Power's UG has two distinct functions:

- To scrutinise and provide input on the business plan
- To provide expert challenge to the business plan

Scottish Power's UG will work independently from all other bodies involved in the price control process and is aimed at providing additional scrutiny to SPEN's RIIO-2 business plan. This will inform both the RIIO-2 Challenge Group as well as Ofgem's business plan assessment.

It is not intended for the UG to discuss or review financial topics and it will hold no decision-making powers or ownership of the business plan.

The UG will scrutinise and provide expert challenge and input on how well customers' views have been considered across a range of topics, including but not limited to:

- SPEN's overall priorities and approach
 - e.g. its understanding of changes happening to the energy system and potential impacts on its activities
- Direct input to
 - the identification of investment requirements
 - outputs that represent desired performance levels and service quality improvements
- Associated total expenditure, considering:
 - Whether SPEN has demonstrated how their proposals go far enough
 - What evidence the UG has been provided by SPEN to assess the output targets and expenditure proposals
- Stakeholder engagement
- Investment proposal alternatives considered by SPEN, including non-network based solutions
- Local issues that are relevant to a particular region
 - Including significant investment choices
 - Challenging SPEN's consideration of competing interests and perspectives
- Range of scenarios considered for future network requirements and SPEN's approach to managing uncertainty and risk
 - Including testing the business plan against more extreme scenarios
- SPEN's approach to innovation
 - Including innovation into business-as-usual
 - Including innovative ideas from leading networks

3.2 The main objectives and expectations

The main objective of the UG is to thoroughly scrutinise SPEN's stakeholder engagement and proposals on the range of topics above, thus ensuring that the business plan is justified and fit for purpose for RIIO-T2.

The expectation is that the group will create a list of challenges that focuses on SPEN's proposals, business plan and engagement efforts. This list of challenges will form an integral part



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of the enhanced engagement expected in RII0-2 and will be evaluated to determine the overall impact the UG has on SPEN's business plan.

The UG will work in addition (while separate) to SPEN's existing Strategic Stakeholder Panel. The UG will not hold any decision-making power or ownership of the business plan, however it will provide direct input on a number of topics where required.

4. RESPONSIBILITIES OF THE USER GROUP

4.1 Working practices

Throughout the regulatory period, the UG will convene every 2 months to discuss, review and challenge the proposals put forward by SPEN. To do so effectively, the group will dedicate sufficient time to the following activities:

- Participating in meetings, site visits and other group activities
- Reading and understanding information, preparatory material and meeting minutes
- Meeting formally as a group
- Meeting informally as a group (without SPEN representatives)
- Agreeing on minutes and the formal challenge log after each meeting

The group will also meet with SPEN representatives when deemed necessary or conducive to its effective working. Periodic interaction with Ofgem will allow the group to give feedback on the progress made by SPEN, and on the process itself. These meetings can either be held by the Chair or the entire UG.

4.2 Outputs and associated timescales

The main output of the UG will be an independent report that will be submitted to Ofgem and the RII0-2 Challenge Group, highlighting areas of agreement and disagreement. This will be submitted to Ofgem and the Challenge Group at the same time as SPEN's business plan.

The UG will also be responsible for the following, regular outputs:

- Formal minutes
 - The group is expected to produce formal minutes after every meeting, with the support of the independent secretariat, outlining the topics that were discussed, a summary of the comments from members, any actions agreed and proposed content and topics for the next meeting
- Challenge log
 - Before its first iteration, the group will design and agree on a challenge log. The UG will then populate the log after each meeting, listing the areas of formal challenge they wish to raise, and the details of their challenge. This will then be given to SPEN for response



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- Annual report
 - Every year of the regulatory period, the UG (led by the Chair and the secretariat) will prepare an annual report for SPEN, summarising the group's activities and input. This will help SPEN, and indirectly Ofgem, in evaluating and justifying the benefit that the UG has added to the RIIO-2 business plan and overall price control process
- Other responses to consultations, as required

5. MEMBERSHIP OF THE GROUP

5.1 Group composition

Ofgem expects UG membership to include users of the network, such as shippers and suppliers, as well as users from new business models to challenge and provide an alternative to traditional network functions. These can sit alongside consumer bodies and other stakeholders capable of providing necessary challenge and input.

The SPEN UG will thus be composed of a total of 10, split as follows:

- An independent Chair
- Secretariat Support
- 9 members

The UG may also form sub-groups to discuss certain topics in more detail that may be of a more technical nature or of relevance to a particular region. These groups will meet outside of the regular meeting schedule and produce a report on SPEN's activities and proposals on their dedicated topic. This report will be delivered to the entire UG to inform all members and Chair of the sub-group's discussion and findings.

The membership has been carefully determined to ensure the UG can provide robust and full challenge to SPEN's proposals across a variety of Stakeholder groups and topics. The UG will therefore be composed of members from the following areas:

- Customer research
- Large transmission customers
- DNOs
- Suppliers
- Generators
- Non-traditional transmission users

In addition, the UG will invite advisors and topic experts to their meetings, if and as required, which may include auditors, regulators, innovation experts, engineering or finance specialists, or research consultants. This will help the group gain a better understanding of particularly complex or technical issues, allowing for more thorough scrutiny of SPEN's proposals.



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5.2 SPEN quorum members

A minimum of 5 members should be present for meetings (not including the Chair and independent secretariat, or other representatives/specialists). If members are unable to attend in person, they may participate by phone or video conference if agreed by the Chair.

5.3 Responsibilities of key roles

5.3.1 The Chair

The Chair will head up the entire UG, acting in an independent capacity, and is considered essential to the group's effective working. The role includes the following responsibilities:

- Provide direction for the development of the UG, shaping how the group interacts with SPEN throughout the RIIO-2 period
- Be independent of SPEN, able to demonstrate complete impartiality
- Lead the challenge on SPEN's overall priorities and approach, their understanding of changes happening to the energy system and their impact on their activities
- Lead the challenge on the quality and extent of SPEN's customer and stakeholder engagement, providing appropriate assurance to Ofgem that customers' wants and needs are being addressed
- Act as a spokesperson, taking an independent viewpoint and encouraging the various members of the group to engage and work together
- Lead the group's interaction with Ofgem, either individually or through meetings

The Chair will be recruited by SPEN through a transparent process that has been developed based on Ofgem's Enhanced Engagement guidance and further liaison with the regulator, as well as SPEN's own list of criteria and desired skills for a Chair. Recruitment followed the steps below:

- Internal development of candidate long-list
- Filtering of candidates and creation of short-list based on fulfilment of:
 - Ofgem requirements and SPEN's job description of desired skills
 - Motivation
 - Knowledge of key topics
 - Industry knowledge
 - Facilitation capabilities
 - Availability & time
- Final SPEN team's and Executive assessment
- Submission of short-list to Ofgem for feedback
- Interview rounds with SPEN teams and Executive management for final candidate selection

The Chair will report directly into SPEN's CEO, as well as engage, if and when needed, with non-executive members of the board.

5.3.2 The Independent Secretariat



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The Secretariat will serve in an auxiliary capacity to the UG and will be supported and fully resourced by SPEN. Similar to the Chair, SPEN may recruit for this position. It is expected that they attend all UG meetings in order to fulfil their responsibilities:

- Ensure Agendas and Briefing Papers are created and distributed in adequate time prior to the group's meetings
- Produce detailed minutes of every meeting containing all relevant and non-sensitive information and topics that were discussed
- Make these publicly available on the SPEN UG website
- Maintain a challenge log listing all areas of disagreement and reasoning behind those
- Keep a list of all actual or potential conflicts of interest of any UG member or the Chair, and make these publicly available on the SPEN UG website
- Track and manage the completion of all challenges within the business

5.4 Period of appointment & termination process

5.4.1 The Chair

The Chair's period of appointment will last an initial 2-year term followed by two optional 1-year extensions.

In the case of the Chair's resignation, SPEN will inform Ofgem immediately. SPEN will then set out to recruit a replacement, following the same process outlined above. Notice should be given at least 2 months in advance to allow sufficient time to search for, recruit and onboard a new Chair.

In the unlikely event that SPEN wish to remove the Chair, SPEN will provide 2-months' notice, and detailed reasoning to Ofgem.

5.4.2 The members

It is intended for all members to serve for the entire duration of the RIIO-2 price control period to ensure consistency in the quality of challenge and input. This will also allow for a smooth and effective way of working, as the entire group will become more familiar with one another, and benefit from the same learnings and experience.

In the event of any member(s) wanting to resign or not seen as being as effective as desired, the Chair reserves the right to ask for a member's resignation from their position. Notice should be given at least 2 months in advance to allow sufficient time to search for, recruit and onboard a new member.

5.5 Operating principles and remuneration

The entire UG is committed to acting as individuals and not as representatives of any particular organisation or companies and to carrying out their joint work in the most transparent way



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possible. The members will work in a collaborative and inclusive manner to provide the most robust challenge, assurance, and input to the RII0-2 process.

The Chair will be remunerated with a fixed amount per annum, commensurate with the skills, experience, effort and gravitas required to complete the role.

Members may be remunerated in various ways, based on the nature of the organisation they represent and their relationship with SPEN, as agreed upon recruitment.

In addition to those fixed amounts, all reasonable travel and meeting costs (in line with SPEN's existing expense policy) related to UG members' and the Chair's participation will be covered by SPEN.

6. INDEPENDENCE & TRANSPARENCY

6.1 Group independence

The UG will operate in a completely independent capacity from both SPEN and Ofgem and report directly to Ofgem. Independence is ensured in several ways, including:

- Selecting a Chair and members who are clearly independent from SPEN, and have no other interests in any aspect of SPEN's business
- A detailed conflict of interest check, carried out during the recruitment process
 - A register of conflicts of interest that will be updated and maintained by the secretariat throughout the existence of the UG
- A process for raising concerns about a member's independence
 - If a UG member has concerns about another member's independence, this should be privately communicated and explained to the Chair. The Chair may then address the issue with that particular member, or raise it with SPEN/Ofgem, as deemed appropriate to resolve the matter
- A process for raising concerns about the Chair's independence
 - Should any member have serious concerns about the Chair's independence, this should be directly communicated to SPEN and/or Ofgem

Members of the group are all expected to work at arm's length from SPEN, and not substitute their views for those of consumers. They should also not act as a representative for any particular organisation or consumer group and base their review of the business plan on factual evidence, engagement and research.

6.2 Ensuring transparency

To ensure full transparency, all formal processes and arrangements for the group's management and working have been outlined in these Terms of Reference. As the UG's transparency extends to documentation and decision-making processes, all relevant outputs



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and materials will be made publicly available on the SPEN UG website, including:

- These Terms of Reference
- The onboarding pack for new members
- Copies of the agenda for each meeting
- Any briefing material provided for each meeting (excluding sensitive information/data)
- All meeting minutes and written protocols (excluding sensitive information/data)
- Up-to-date challenge logs
- The annual and formal UG reports

Ahead of the first iteration of the UG, all members will have received a full induction and onboarding pack containing background information, data and an overview of all relevant topics and outputs that the group will concern itself with. Throughout the duration of the price control, meeting minutes of the previous meeting as well as an agenda for the upcoming one will be sent (by paper or e-mail) to the members. To allow sufficient time to read, potentially raise questions or concerns and understand the material, members should receive this no later than 2 weeks in advance of a meeting.

6.3 Conflicts of interest

Recording and keeping track of all potential and actual conflicts of interest of both the members and the Chair is an essential part of ensuring the UG's transparency.

The Secretariat will be in charge of recording any conflicts, providing background on the nature and reason. When needed, the UG will carry out checks during meetings to ensure any potential conflicts have been addressed and resolved.

7. GOVERNANCE ARRANGEMENTS

7.1 Reporting processes

The UG will report to and be governed in the following ways:

- Through the Chair, the UG is ultimately responsible to the board of SPEN
- The Chair will facilitate discussions of the UG and between the UG and SPEN representatives, ensuring all members have an opportunity to contribute to discussions and to challenge the business
- The UG will have a working relationship with the RIIO-T2 team and the SPEN Stakeholder Engagement Manager
- Between meetings, the Chair will act as a link between the UG and SPEN, and between the UG and Ofgem
- The Chair will also be given the opportunity to access the board of SPEN, if required



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8. REVIEW, EVALUATION & APPROVAL PROCESSES

8.1 Approving and amending the ToR

These Terms of Reference have been developed and approved by the Chair and relevant stakeholders at SPEN, including the RIIO-T2 team, Stakeholder Engagement team and members of the Board.

In developing these, Ofgem's guidance and the requirements it sets out were closely followed, as well as what is considered best practice in other regulated industries.

If a member or the Chair deem it necessary to amend the Terms of Reference, this should be communicated to the secretariat to be included in the agenda for the upcoming iteration. All members will have the opportunity to discuss and review the proposed amendment brought forward and vote on it. The Chair's agreement will be required for it to pass.

8.2 Reviewing and evaluating the ToR

The UG will regularly review and evaluate these Terms of Reference, which is in line with good practice of challenge groups. This will ensure that they are up-to-date with the group's progress that has been made, its current way of working and any changes to the process or guidance.

The review will be carried out and discussed at regular intervals/on an annual basis/when needed throughout the duration of the RIIO-2 price control period by the entire UG. The Terms of Reference should be evaluated against a set of questions, as deemed appropriate or required by the UG, such as:

- Are the outputs and timescales still proportional, and if not, do these need to be adjusted?
- What changes/updates have there been to UG guidance, if any, and are these sufficiently reflected in the Terms of Reference?
- Have the transparency and independence measures that are in place been sufficient, or do these need to be updated?

