

2

Executive summary

This chapter summarises our ambitious plan to meet the priorities of, and transform experiences for, our customers, colleagues and stakeholders, and the communities we serve.

We have set out a Plan which:

- Keeps the energy flowing to 11 million homes and businesses safely and reliably through targeted investment and operational management of the gas network
- Will deliver enhanced experiences for all our customers with a specific strategy to support customers in vulnerable situations
- Facilitates the urgent actions to tackle the UK's Net Zero climate change ambition by creating a pathway to clean gas
- Delivers a Consumer Value Proposition with an estimated net social value of £537m for RIIO-2
- Delivers a real bill reduction of over 10% for an average customer to less than £120 p.a. underpinned by over £500m of efficiencies
- Improves services for less than 33p per day (per customer)



Steve Fraser
Chief Executive Officer

Executive summary

Transforming experiences for Customers, Communities and Colleagues

A new company with an essential role

We are now a standalone gas distribution business with new ownership and a brand-new identity. We are excited about the opportunity to significantly **transform and refocus** the long history of custom and practice to deliver more for our customers, communities, colleagues and other stakeholders. Our new shareholders and our Board bring a wealth of experience from wide-ranging business sectors and businesses from around the world.

Society's expectations of energy companies are constantly increasing. We are the largest gas distribution company in the UK and we relish our role in **providing an essential service** that keeps the energy flowing to over 11 million homes, offices and businesses from the Lake District to London and from the Welsh Borders to the East Coast. We help to keep society and our customers safe and warm. The key role that the gas network plays should not be underestimated, with **over 80% of UK homes relying on gas for heating** as well as large UK manufacturers, businesses and commerce all reliant on gas to fuel their operations. At peak times the gas network supplies over **four times more energy than the electricity network**.

It is critical that we address the urgent challenges of climate change action to deliver Net Zero emissions for the benefit of current and future consumers. The scale of investment and change needed to deliver this in an affordable, secure and sustainable way should not be understated. It is important that government, regulators and businesses strike the appropriate balance between delivering the critical long-term needs for future consumers with affordability for existing consumers. The need to stimulate and incentivise the necessary investment and commitment in both public and private sectors will be critical to delivery.

Against this backdrop, we want to continue our leading role in driving and shaping practical ways to deliver clean gas to address the UK's Net Zero emissions climate change ambition. We have been at the forefront of developing practical pathways for clean gases such as biomethane, BioSNG and hydrogen through landmark innovation projects, working closely with our industry colleagues. We want to continue to invest in making this a reality as soon as possible, given the urgency for action on climate change and the wider societal benefits this will bring. We have set out how we will continue to facilitate and support clean gas resources to connect our networks. We have also set out how we plan to support Ofgem and national and local government in moving to Net Zero.

This ambition includes finding a solution to progressing with pioneering new projects such as HyNet where we are part of a consortium of different commercial, academic and entrepreneurial organisations working together. This will create and deliver a clean gas pathway using hydrogen, in order to decarbonise the North West region by the end of the next decade. This will create 5000 local jobs and stimulate industry whilst delivering significant carbon savings (1m tonnes) at a low cost, compared to alternatives.

Our new vision and a cultural and operational transformation

We have a new vision to **set standards that all of our customers love and others aspire to**. We appreciate the scale of the journey we must undertake to deliver this ambition. Our work to benchmark our current performance tells us we have **significant improvements to make**, both on cost, and on the quality and consistency of our services across our customer and stakeholder base. We want customers to feel the change that this will bring; that we are committed to understanding their needs and being courageous in changing our processes to make their lives easier. We will develop a real sense of community both within Cadent and with the regions that we serve by working more closely with them. We want to be **a company that is known for its forward thinking and leadership**, especially in rising to meet the challenges of a Net Zero emissions country, and one that delivers for all of its customers particularly those in vulnerable situations. A company that recognises that **without gas all of our customers can be vulnerable**.

Our plan for 2021-2026 is an important step on this journey. It will start to transform experiences and set stretching ambitions for the outputs we will deliver for our customers, whilst keeping a clear focus on managing affordability through reducing bills in real terms over the period.

“Efficient costs driving at least a 10% reduction in customer bills to less than £120 p.a. delivering a safe and reliable supply for less than 33p per day for customers, communities and colleagues.”

“Enhanced services to make a real difference to customers in vulnerable situations driving a social value of £537m.”

“Creating practical solutions to deliver clean gas to meet the UK's Net Zero emissions challenge.”

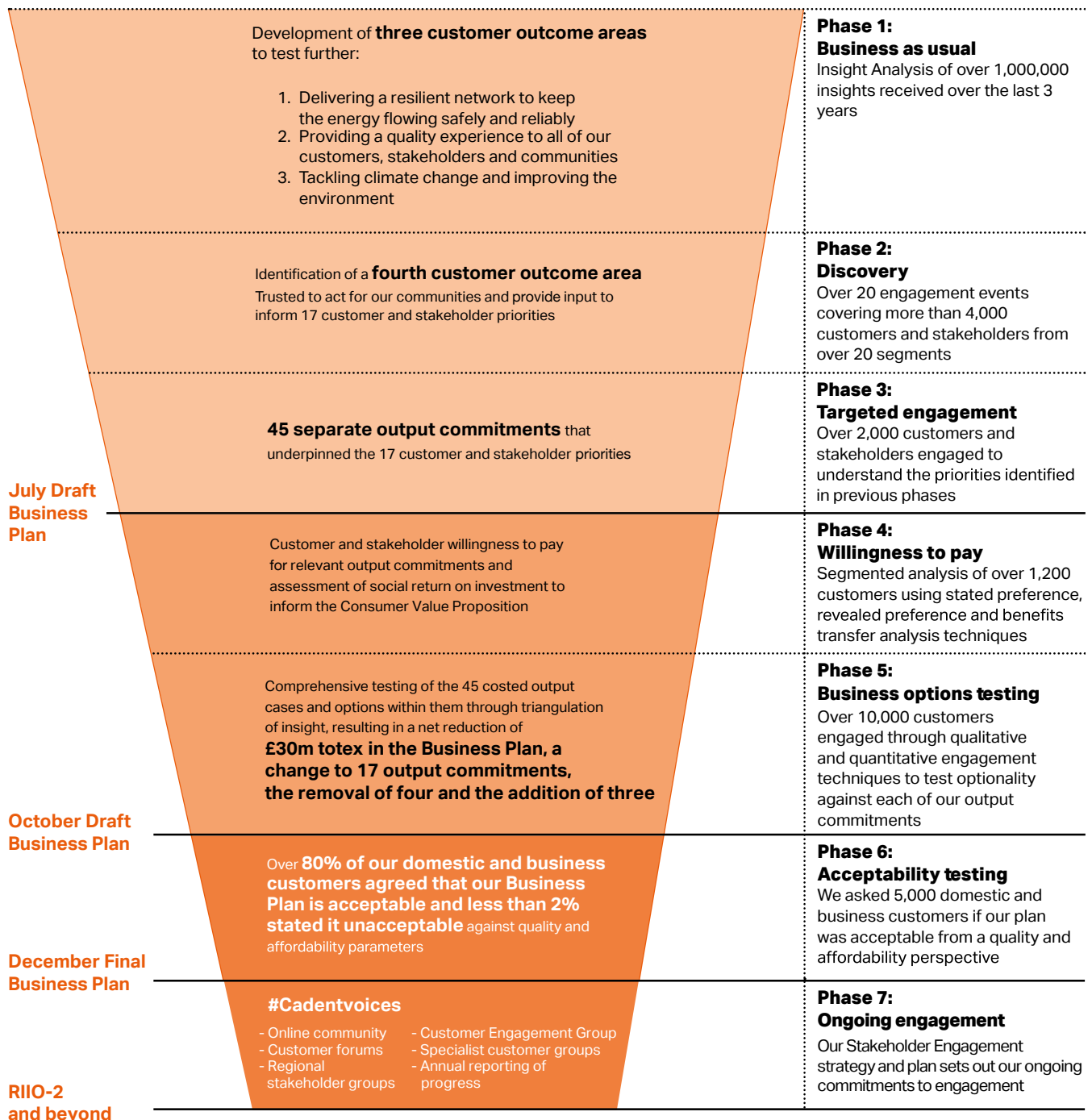
Executive summary continued

Our plans are built on our most tailored and extensive engagement process ever

Under our new ownership, we have undertaken an **unprecedented level of engagement** with our customers and stakeholders across our regions to understand their priorities and we are using this insight to develop a business, and a Plan, which will deliver on their priorities. Our comprehensive seven-stage process has used a variety of techniques and methods to gather and assess insight and test that our plans deliver what our customers desire. We have also established a **highly skilled, independent Customer Engagement Group** to challenge us on the ambition of our plans and bring experience from different sectors into our thinking. This group has set a high bar on its expectations for our plans, consistent with our and our Board's desire to transform our service.

We have followed a structured research and engagement programme to understand the needs and expectations of our customers and stakeholders to build these into our Plan.

Figure 02.01 Structured research and engagement programme



Transforming experiences

Customers. Communities. Colleagues.

Our gas network plays a critical role in delivering affordable, safe and reliable heating to over 80% of domestic homes and fuelling major industry, businesses, schools and hospitals in England. We will be at the forefront of shaping and delivering the road to Net Zero emissions through facilitating clean gas and demonstrating a hydrogen pathway for our current and future customers.

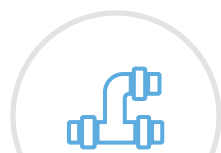


Keeping the energy flowing safely and reliably



99.9%

Reliability keeping customers on gas



1,705km

Of old metallic mains replaced each year – a distance greater than John O'Groats to Land's End



35mins

World-class emergency response service with average arrival time of 35 minutes



>£500m

Cost efficiency savings for customers embedded in our Plan



A quality experience for all our customers and stakeholders



60%

Reduction in time interrupted for customers in multi-occupancy buildings



36,500

Interventions to support households in fuel poverty



2m

Direct conversations to raise awareness of the Priority Services Register



3m

Alarms issued and 200k customers educated on the dangers of carbon monoxide



Tackling climate change and improving the environment



14-17%

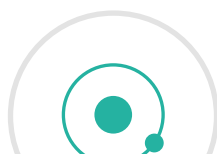
Reduction in leakage from our network



Road to Net Zero



CO₂
Carbon neutral in other operations by 2026 with zero emissions emergency response vehicles across our regions



HyNet

Innovation to decarbonise the North West with hydrogen



Clean gas

Enabling network capacity for greener resources



Trusted to act for our communities



£6m p.a.

>1% post-tax profit invested back into our communities through our charitable foundation – c. £6m p.a.



>10%

Saving p.a. in customer bills in real terms (excluding inflation)



£537m

Net social value delivered for our communities through our Consumer Value Proposition



60%

Of colleagues giving back to our communities through volunteering

Continuous engagement with our stakeholders and customers across all of our regions through **#Cadentvoices** and multiple channels

Executive summary continued

The outcomes we need to deliver in RIIO-2

Based on our insight and engagement we have set out our plans to deliver **four key outcomes** for our customers over RIIO-2 and beyond.



Providing a resilient network to keep the energy flowing

Our purpose is to keep the energy flowing to enable people to run their daily lives and keep safe and warm, keep industry functioning and support businesses and the economy. Our customers expect us to **maintain the exceptional levels of performance in safety and reliability** that we deliver today. This is against a backdrop of aged metallic assets which need to be replaced and supporting a network capable of delivering a hydrogen future. We are driving improvements in asset health that are required to keep the energy flowing safely and reliably whilst keeping investment at an affordable level.

Highlights from our plan commitments:

- Replacing 1,705km annually of old and higher risk iron and steel pipes (**a length greater than than the distance between John O’Groats and Land’s End**) to meet our statutory obligations and additionally, reduce leakage of gas and prepare the network for transportation of hydrogen as part of the decarbonisation demands of society.
- An asset health programme to continue to deliver 99.9% reliability by managing an ageing network by interventions to keep overall risk levels from rising over RIIO-2. This includes proactive interventions which will see us **improve the asset health of high rise buildings**.
- Our **world class emergency service** delivering a 24/7 call centre and emergency response to public reported escapes
- A comprehensive Business IT Security Plan and a Cyber Resilience Plan to protect our physical and data assets and manage external threats.
- We detail in our plans our Data Strategy to provide improved and resilient data for the future and to modernise energy data through digitalisation.



Tackling climate change and improving the environment

Gas plays a critical role in heat and electricity sectors as well as an increasing role in heavy goods transport. We recognise that as we transport a fossil fuel, **the gas network will play a key role in supporting the energy transition** in the most secure, affordable and sustainable way. We will continue to play a leading role in creating the vision of the pathways to the energy systems transition through our **pioneering innovation projects**. It is a critical **time to maintain momentum, demonstrating practical pathways** for all regions of the UK and we are supporting policy makers and Ofgem in delivering this. Our gas network can play a pivotal role in facilitating a lower carbon future for heat and transport by **the use of clean gas such as hydrogen** and by **facilitating renewable resources** onto the network. We will also explore and develop the operational requirements and the commercial and regulatory frameworks that will need to underpin this decarbonisation pathway.

Our **Environmental Action Plan** commits to:

- Preparing to deliver clean gas at scale through the **HyNet North West project** following direction from government which will create **5,000 jobs and save 1 million tonnes of CO₂ p.a.**
- support customers on the clean gas transition, demonstrating the potential for the **transportation of a hydrogen blend of gas** through our HyDeploy and HyDeploy 2 projects and creating a commercial framework for how this could work in practice.
- Providing **flexible capacity on the network** to facilitate the connection of new clean gas resources such as biomethane plants, compressed natural gas filling stations and power stations.
- Creating a commercial regime to enable firm connection dates and maximum capacity for new clean gas resources by leading a charging and access review.

We will **reduce our own carbon footprint** and reduce our wider environmental footprint by:

- Becoming a **carbon neutral business by 2026 with zero avoidable waste to landfill**.
- Continuing to drive down leakage of methane from our networks (targeting between **14% to 17% by 2026**).
- Tackling the theft of gas through reshaped incentives with the aim of recovering £8m (creating more value to be returned to customers).
- Supporting our employees to reduce 5,000 tonnes from their carbon footprint.
- **Introducing zero emissions emergency response vehicles** across our networks.



Delivering a quality experience for all of our customers and stakeholders

Our customer strategy goes well beyond consolidating the customer satisfaction and complaints handling improvements we have made in the last two years. We are striving to identify and understand the needs of all of our customers and stakeholders better, and seek to add additional value by establishing benchmarks and improving their experiences of working with us. Our aim is to create accessible and inclusive services for all.

Our plan highlights:

- Establishing new benchmarks, improving and measuring **all our customer and stakeholder experiences**.
- Delivering a **step-change in the quality of our connections service**.
- Transforming our service for customers living in multi-occupancy buildings ('MOBs') including **reducing interruption times by 60%**.
- Providing **better roadworks information and communication** of progress of works.
- Coordinating with other utilities in planning works, **seeking to reduce congestion** due to roadworks and building on the use of robotics such as CISBOT in urban centres to reduce the need for excavations.

Our teams are passionate about meeting the needs of customers in vulnerable situations and we have set out a **multi-faceted Customer Vulnerability Strategy** around a goal of helping **keep all of our customers safe, warm and independent in their homes** and an ambition to never leave a customer vulnerable without gas.

This includes:

- **Two million conversations and over 80 strategic partnerships** to raise awareness of the Priority Services Register and help identify individual needs.
- Going beyond our traditional boundaries to create partnerships to **enable services beyond the boundary of our network** and linking to the support mechanisms available.
- Scaling up our carbon monoxide awareness initiatives, **partnering with every fire service and NHS service** in our footprint, distributing **three million CO alarms and educating 200,000 children** through our Safety Seymour education programme.
- **36,500 interventions to support households in fuel poverty** and pioneering a new funding approach to how we address fuel poverty in England.



Trusted to act for our communities

Through our engagement insight, we have identified a further outcome area that goes beyond the requirements set out by Ofgem that relates to building trust in how we operate, making a real and sustainable difference to the communities we support and demonstrating fairness in our approach. This is at the top of a customer's hierarchy of needs. For example, we will go beyond our traditional boundaries and embrace the **need for a wider social responsibility** that delivers **more sustainable outcomes** for all through collaboration and innovation. In addition, we will be transparent in our operational and financial performance.

Highlights from our newly established **Trust Charter** include:

- Through our **charitable foundation**, we will **invest over 1% of our post-tax profits (c.£6m p.a.)** to offer support to the communities we serve, focusing on protecting customers in the most vulnerable situations and addressing environmental challenges. This will be underpinned by ongoing stakeholder engagement and our public Safety & Sustainability Strategy.
- A **detailed ongoing stakeholder engagement plan** using a range of channels to continue to share progress against our plans. These include an ongoing role for an independent Customer Engagement Group, an ongoing online forum, enduring regional stakeholder engagement groups across each of our networks and dedicated customer groups on multi-occupancy buildings, new gas connectees and our internal customer insights group.



Whole System Solutions

Across all of the four customer outcome areas and through our investment plan we have taken a whole system solution approach and looked to deliver the best outcomes for customers and stakeholders wider than just the gas network. We have made some specific commitments to:

- Develop joint planning offices with electricity networks to support regional authorities on their energy plans.
- Optimise capacity between transmission and distribution including use of flexible capacity.
- Enhance engagement on whole system thinking.

Executive summary continued

Pushing the boundaries on efficiency

We are setting our toughest challenge ever on efficiency and are putting forward a transformational plan which will deliver **over £500m of efficiencies** over the eight-year period (from the cost of service in Cadent's first year of operation in 2017/18 to the end of the RIIO-2 period in 2026). This equates to a saving of **c.£100m p.a. in RIIO-2**. We have already made progress on this journey with significant efficiencies generated in the first two years of our life as a separate business and our Plan takes us much further through the remainder of RIIO-1 and further still in RIIO-2. This should take us to the frontier benchmark. Our standalone RIIO-2 efficiencies represent a **0.94% p.a ongoing efficiency**, ahead of Bank of England estimates of total productivity factor and the RIIO-1 benchmarks. We have benchmarked our plans against industry costs and other external costs. Based on our assessment, our plan is **2.2% ahead of our forecast of an upper quartile efficient level** over the RIIO-2 period.

Our Plan and efficiencies are also underpinned by a **clear and ambitious innovation strategy** which builds on the learning from RIIO-1 and the creation of business as usual innovation through our performance excellence programme. We will continue our landmark innovation projects to support policy makers in solving the UK climate change challenges at the lowest cost and disruption for future consumers. We will also continue to drive innovations which reduce disruption and congestion on our streets as well as embrace the benefits of machine learning and satellite technology to protect our assets.

We are using **competitive processes to drive the best contracting and procurement approaches** and delivery mechanisms for our services. Having identified a lack of competition in the Tier 1 contracting market, our plans look to reach into the Tier 2 market (smaller, more locally based suppliers) to stimulate more activity and maximise competitive pressures in our major expenditure areas of mains replacement and capital investment work to drive value. We will also continue to build on the successes we have made in **facilitating competition in the connection market**, particularly with enabling third parties to construct and self-lay connections for new resources such as biomethane plants and compressed natural gas fillings stations. In addition, we have reviewed all of our work types to assess the extent of competition already present and what further options we may be able to use, and **identified some new areas we could stretch contestability** to drive further potential efficiency in RIIO-2 and beyond.

Appropriately managing risk and uncertainty

We have reflected on the uncertainty over the multiple pathways that could be followed to deliver decarbonisation between 2030 and 2050 and considered how our RIIO-2 plans manage this. We have scrutinised discretionary spend and ensured any investments are underpinned by robust cost benefit analysis that **determines 'no regrets' actions**. Where we are less certain on volumes of work required, we have **proposed mechanisms to protect both customers and companies from windfall gains or losses**. In addition, we have identified the key uncertainties associated with work volumes, legislative or policy change, cost confidence and heat policy changes that may impact on RIIO-2 output delivery. We have undertaken **Monte Carlo analysis** to assess the potential distribution of these uncertainties and used this to develop the fairest mechanism to share risk between ourselves and consumers.

Effectively financing this plan

We have undertaken initial analysis of the **financeability of both the actual and the notional company** using the assumptions Ofgem have prescribed (namely using their working assumption of the expected equity returns of 4.8% (CPIH-real), cost of debt indexation using the 11-15 year trombone IBoxx index and a full move to CPIH indexation). Our analysis suggests **we are financeable on a notional company basis with returns to equity at 4.8%**. We **do not support the concept or the assumed value of the 'outperformance wedge'** and hence have not included this in our analysis. At this equity return level, the **notional company will face reduced financial headroom and significant deterioration in the risk-return balance**. In addition, due to the step-change required in our transformational plans, we will face a greater operational performance challenge compared to other GDNs in RIIO-2.

Our actual company financial position is sector-leading following support from shareholders to refinance debt and our continued success in diversifying our source of debt across currencies, maturities and markets. Due to the mitigations already implemented by shareholders and as a result of the transition to CPIH indexation, **we are confident we will be able to ensure financeability for the actual company in RIIO-2 (assuming a fair settlement on incentives, totex and outputs at Final Determination)**. This is despite the reduction in key credit metrics driven by a significant reduction in the allowed rate of return and the challenge to maintain a comfortable investment-grade credit rating. However, we have **concerns over the transition to CPIH indexation** and its impact on networks' long-term sustainability and level of headroom (as CPIH indexation masks underlying pressures on the notional company in RIIO-2) as well as its intergenerational impacts on our customers.

We continue to work on **assessing the robustness of the overall RIIO-2 framework**, including the underlying cost of capital parameters as we move towards Final Determination. **Being financeable is not a reflection of earning fair returns** and we have set out our evidence which suggests that **5.6% CPIH is a fairer return position**, to underpin delivery of the long-term outputs our customers rely upon and will increasingly depend on, as we deal with the cost to deliver decarbonisation. In addition, the **Cadent Foundation**, which is funded by our shareholders, will divert profits to make a positive difference to the communities we serve. It is a long-term commitment funded in part through our financial performance.

Our value proposition: much more for less

The Plan we have set out delivers enhanced outputs that our customers desire and provides greater efficiency with effective and efficient financing which leads to lower overall bills for our customers.

We have estimated, through assessing the social return on investment and willingness-to-pay analysis, that **our Plan will deliver a net value of £537m to consumers over RIIO-2**. This is delivered through the commitments which stretch beyond business as usual activities. In particular this includes greater support for customers in vulnerable situations, improving the environment, driving bill reductions through enhanced efficiency and making a positive difference to the communities we serve through the reinvestment of profits through our charitable foundation. We have estimated the customer bill impact reflecting Ofgem's latest guidance for the key financial parameters including cost of equity and debt and based on a full conversion to CPIH indexation, and hence bills are higher than they would have been under an RPI indexation.

Taking these assumptions together and combined with the efficient spending plans we are committing to, this scenario suggests we will be able to deliver the improved outputs and additional consumer value proposition whilst driving **at least a 10% real reduction in customer bills to less than £120 p.a. (or 33p per day) based on Ofgem's cost of capital assumptions**. This is primarily a result of totex and other efficiencies, which contributes the majority of the reduction.

Our commitment

Our **Board has reviewed and tested the development of our plan** through their direct engagement with the company and a multi-faceted assurance framework has provided confidence in the accuracy of the data underpinning our plan and tested the analysis that is the foundation to our proposals. Our **Board has provided an assurance statement** to this effect. It has enshrined its commitment to the plan both through **linking executive and staff reward directly to delivering the output commitments to our customers** as well as committing to ongoing investment of **at least 1% of post-tax profits to the Cadent Foundation** to make a positive difference to the communities we serve.

We have **acceptability tested and developed our plans with our customers** and stakeholders throughout as well as responding to **over 200 challenges from our Customer Engagement Group**. We have set out commitments to ongoing engagement through a variety of different channels to share and report progress on our plans. This will be delivered through ongoing oversight from a continued customer engagement group, an online community and regional stakeholder communities.

We appreciate the scale of the challenge to deliver this ambitious plan over RIIO-2. We recognise that actions speak louder than words and we look forward to continuing to build on the progress we are already making in **transforming experiences for our customers, colleagues and the communities we serve**.

