

12

Assurance

This chapter explains how we have assured our business plan to ensure our forecasts are accurate and our plans deliverable for our customers. We outline the process we followed, how we have assessed and prioritised risk, and the governance framework we established with our Board and Customer Engagement Group (CEG).

This chapter has the following structure:

- 12.1 Our plan is based on best practice and tailored to us
- 12.2 Our deliverability programme provides further confidence in the plan
- 12.3 We have engaged with our Board and CEG
- 12.4 Board statement.

Key messages

- We have taken a risk-based approach to developing our assurance plan, built on the internationally recognised 'three lines of defence' model and best practice observed in other industries.
- Our assurance approach has been designed to be dynamic, enabling us to respond to evolving requirements and changes in risks as they occur.
- Our assurance has been provided by a combination of internal processes and subject matter experts to give confidence to our Board and enable them to provide Ofgem with the assurance required in the RIIO-2 Business Plan Guidance Document.

Assurance continued

12.1 Our plan is based on best practice and tailored to us

Our Board is committed to our vision. A high quality RIIO-2 Business Plan is integral to achieving this vision. As a consequence, our Board has been heavily engaged in the development of our Business Plan, challenging management on all aspects of its development through dedicated all-day challenge sessions, Board meetings and focused reviews.

Our Board has provided assurance statements in line with Ofgem’s expectations, which have been submitted alongside this Plan.

We have a robust assurance programme which has tested that our Plan is built on customer feedback as well as its accuracy, ambition, efficiency, deliverability and financeability. This underpins the assurance statement that our Board has made. This programme is based on the internationally recognised ‘three lines of defence’ assurance model, which is deployed across Cadent. Our approach to assurance also draws on best practice from other sectors, including the approach to assurance adopted by leading water companies during the ongoing price control review (PR19).

Our approach to assurance has been designed to be dynamic, enabling us to respond to changes in risks as they occur. It was developed by our internal Assurance Team and reviewed by PwC, who supported Severn Trent in achieving ‘fast track’ status in their recent PR19 submission. The model is outlined in the table below, with an outline of how this was applied in practice to the key area of replacement expenditure, which was highlighted as a critical risk area due to its criticality in delivering a resilient network to our customers:

Table 12.01: Our three lines of defence

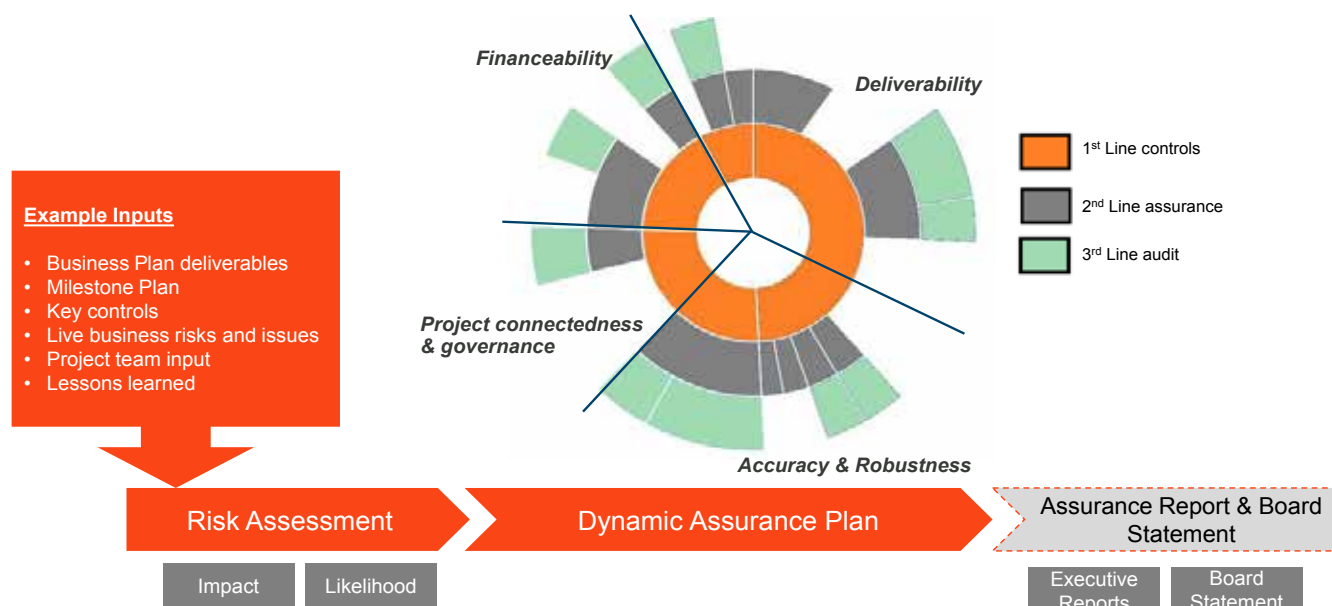
Line of Defence	Their activity	How this was applied to Replacement Expenditure
First Line of Defence <i>Management, project team and advisors</i>	<ul style="list-style-type: none"> Responsible for designing and implementing controls, based on risk assessments. Supported by specialist advisors to identify best practice e.g. development of engagement framework and lessons learned from PR19. 	<ul style="list-style-type: none"> Develop end-to-end process for analysing and forecasting replacement expenditure. Customer engagement around options. Key checks and balances over key inputs, calculation and outputs. Develop documentary evidence packs to facilitate quality assurance. Internal subject matter expert review.
Second Line of Defence <i>Performed by Cadent and PwC</i>	<ul style="list-style-type: none"> Review effectiveness of first line controls. Review documentation and perform quality checks. 	<ul style="list-style-type: none"> Walkthrough of end-to-end process. Sample testing of key checks and balances. Review of documentary evidence packs. Sample testing of data and spreadsheet integrity checks.
Third Line of Defence <i>Internal audit and independent subject matter experts</i>	<ul style="list-style-type: none"> Provide independent assurance on high risk areas, informed by risk assessment and second line assurance findings. Reviews undertaken as required by expert third parties to assure specialist subject areas (e.g. cost and engineering methodologies). 	<ul style="list-style-type: none"> Sample testing of calculations and spreadsheet integrity checks by KPMG and internal audit. Approach to asset management and costing, including sample testing undertaken by independent third parties. Review of Cost Benefit Analysis approach and compliance with Ofgem model undertaken by independent third parties.

The assurance Plan was designed to provide assurance across all our business planning activities. To enable the assurance programme to be delivered effectively, we split the Plan into four key areas:

- Accuracy and robustness
- Financeability
- Deliverability
- Project connectedness and governance

Across these four areas, we adopted a risk-based approach to developing our assurance framework, which is shown in Figure 12.01 below:

Figure 12.01: Assurance Approach



The first step in our risk-based approach was forming a ‘level 1’ assurance plan. We used a broad set of inputs to perform a ‘top-down’ risk assessment to identify the key areas to be assured. This was carried out against the risk factors set out in table 12.02 below:

Table 12.02: Business Plan risk factors

Category	Description	Related Data Assurance Guidelines ('DAG') criteria
Likelihood		
Complexity	Based on the number of potential failure modes, their interdependence and predictability	Complexity, completeness, manual intervention
Change	The extent to which the component requires change from our RIIO-1 approach or performance	Complexity and maturity
Roles and responsibilities	Degree of clarity about who is responsible for the component	Not covered by DAG – new criteria
Subjectivity	The extent to which development of the component involves subjectivity	Not covered by DAG – new criteria
Impact		
Value	How significant the component is in our plan, especially financially	Financial, comparative efficiency
Customer/ stakeholder impact	How material any errors would be for customers and for other stakeholders	Customers
Regulatory requirement	Whether or not the component is a regulatory requirement	Competition
Reputation	The extent to which errors are likely to reflect poorly on Cadent	Not covered by DAG – new criteria

The risk factors build on the DAG framework, but also reflect the specific characteristics of the business planning process (e.g. the greater level of uncertainty in forecast, rather than historic data) and draw on lessons learned from the past. They also reflect the need to have compelling evidence to support our proposals and the potential reputational impact of errors.

In the case of the data tables, NARMs and Cost Benefit Analysis models that accompany our Plan, we have performed our risk assessment in line with Ofgem’s Data Assurance Guidelines ('DAG')¹. The DAG requires companies to assess the inherent risk of data errors and the extent to which these inherent risks are altered by the controls that the company operates. Details of this assessment are also set out in our Irregular NetDAR submission which has been made alongside the December Plan. This has allowed us to combine a top-down and bottom-up risk assessment to form our more detailed 'level 2' assurance plan.

1 Ofgem, Data Assurance Guidance for Electricity and Gas Network Companies.

Assurance continued

As the assurance programme developed, the lessons learned and feedback were used to iteratively develop the control framework and also target more detailed assurance activity. As a consequence, assurance was not a 'one size fits all' exercise, as the different size 'spokes' in Figure 12.01 (Our risk-based, dynamic assurance programme) above show on an indicative basis.

Our initial assessment identified the need for specific external assurance which has been provided by independent experts over the following areas:

- Financeability, including stress testing of the Business Plan.
- Engineering and cost methodologies.

Advice has also been sought on the robustness of the assurance plan.

The table below summaries the external third party assurance which supports our plan.

Table 12.03: Summary of external assurance

Assurance Provider	Scope
CEG	The extensive input and challenge from our independent Customer Engagement Group is set out in Appendix 01.01 and will be visible in the challenge log where we have responded to over 200 separate challenges.
R2CG	Our response to the feedback from Ofgem's independent RIIO-2 Challenge Group is set out in Appendix 01.01.
PwC	Provided second line assurance over the robustness, accuracy, triangulation methodology and deliverability of our plan. This included process walkthroughs to identify and understand controls and detailed sample testing to verify whether controls were implemented effectively.
NERA	Technical review of a sample of CBA models to ensure they complied with Ofgem's guidance and expected good practice.
ICS	Technical review of the production and completion of the NARMS models to ensure they complied with Ofgem's guidance.
Costain	Technical review of our approach to investment costing.
Lloyd's Register	Technical review of our methodology and asset management approach to investment planning.
KPMG	KPMG provided a review of specific input files that feed data to BPDTs covering the structure of the files, linearity, hard coded inputs in these files, and a detailed review of unique formulae where required.
KPMG	Financeability of our RIIO-2 Business Plan under notional and actual structures based on our forecasts. Stochastic risk modelling and scenario analysis to analyse financeability and financial resilience under downside risk scenarios.
Internal Audit	Internal Audit reviewed a number of areas including a deep dive into repex and reviews over the second line assurance work carried out by PwC.

A more detailed summary of the assurance undertaken and the assurance provided is included in our assurance **Appendix (12.00)**.

12.2 Our deliverability programme provides further confidence in the Plan

In **Chapter 7, Our Commitments**, we set out the four outcomes areas that our insight tells us are the most important for our customers. We also set out the key priorities in each area. We have then set out the commitments we are making to address each priority area. In doing so, we explain for each priority area how we are addressing the associated delivery risks, as well as how we are mitigating the risk for customers of non-delivery (see in Chapter 7, priority areas summaries in sections 7.2 to 7.5).

In **Chapter 4, Learning from past performance**, we discussed the areas where we have faced particular challenges during RIIO-1. In **Chapter 9, Costs and Efficiency**, we detailed the ambitious transformation programme we are actively pursuing and that will make step-changes to several aspects of our business performance and culture.

These narratives underline the significant level of ongoing change in our business. However, the demanding commitments we are making in our RIIO-2 Plan require further, additional change activity. The scope of our RIIO-2 deliverability programme includes:

- Ensuring the alignment of our ongoing transformation activities with the riio-2 plan;
- Ensuring our legislative obligations are covered in full;
- A programme of readiness assessments and early mobilisation of key commitments, and
- A programme of capability assessments to ensure the resources we require are in place.

To support the development of our plan, we appointed an operational Director to test our emerging thinking with our operational teams. The focus was on identifying areas which might give risk to delivery risks, for example, because delivery:

- Required a major change to the competency of our workforce;
- Relied upon a major or core system change;
- Will go beyond known operational or technological solutions;
- Might distract attention from the efficient delivery of core services;
- Might undermine our ability to comply with our obligations, or;
- Relies on a more risky contracting route.

We undertook delivery risk assessment surveys and developed high level plans which were tested by our operational teams. Our Board spent time with these teams to challenge them and test their understanding of how they plan to deliver our commitments.

Our RIIO-2 submission is made sixteen months before the commencement of the new regulatory period. There are limitations to the extent to which it is possible to assure future events and activities. Hence, assurance work on deliverability has focused on assessing the processes we followed to assess deliverability risks, together with detailed scrutiny of our plans for five outcome areas.

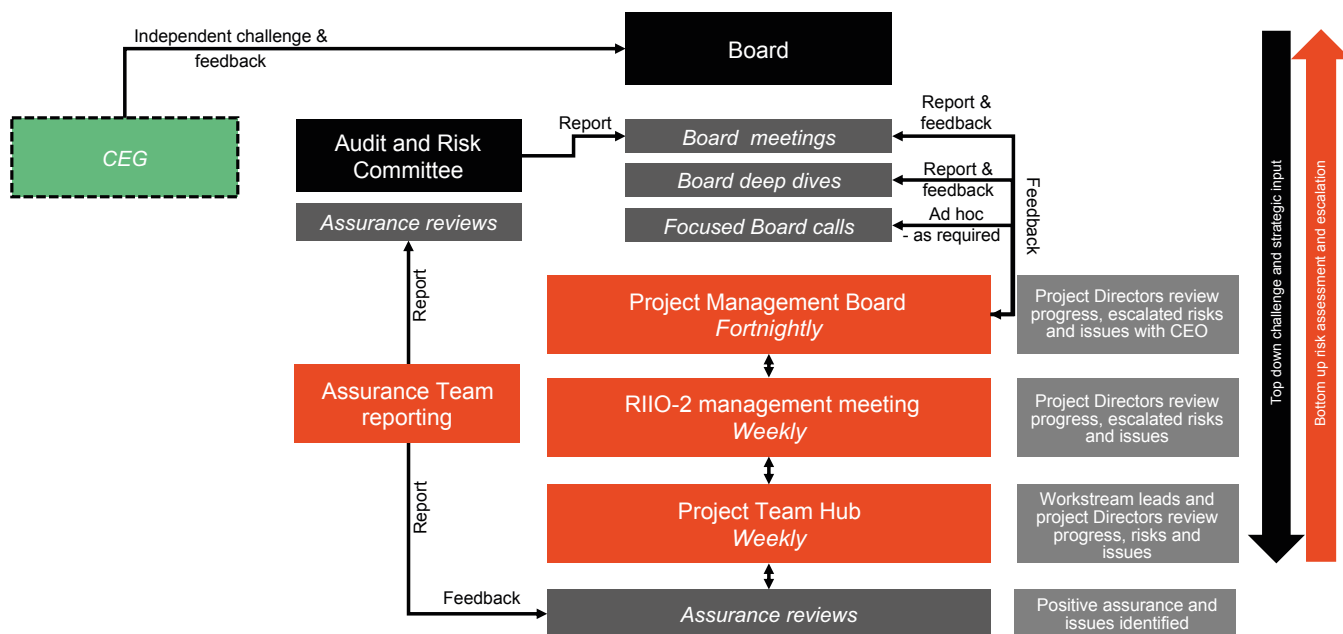
We are required to operate under a Health and Safety Executive-approved safety case and, given the significant changes that our transformation and the RIIO-2 Business Plan require, we will need to ensure that the Health and Safety Executive are comfortable with what we propose to do.

12.3 We have engaged with our Board and CEG

The assurance Plan has developed to deliver fast feedback to ensure issues can be addressed and assurance is provided as risks change. It was aligned to the overall project plan to ensure that assurance activities coincided with project milestones.

We established a reporting and governance framework to ensure that there was appropriate oversight of risks and issues and that our senior leaders and Board remain informed of emerging issues, including the challenges raised by our CEG. This is depicted in Figure 12.02 below:

Figure 12.02: Reporting lines and governance framework



Our Board has been involved throughout the development of our Business Plan to date. The Board has:

- Led the development of our ambition and vision;
- Challenged our emerging thinking through workshops and Board discussions;
- Reviewed and challenged costs and outputs set out in our Plan;
- Challenged the Executive Team to build our confidence that the Plan is stretching but deliverable;
- Reviewed and commented on successive drafts of our Plan;
- Ensured suitable assurance processes have supported the Plan and its data; and
- Provided members to attend meetings of our CEG and have invited our CEG Chair to brief them on the CEG’s views about our Plan.

The governance framework and assurance plan were designed to ensure that the Board retained close oversight of the development of our Plan and a high level of assurance over the business plan. The Board have also had visibility of the output of our assurance programme which has enabled the Board, including our Sufficiently Independent Directors, to confirm their approval of and commitment to the business plan.



Assurance continued

12.4 Board statement

The statement below has been approved by our Board.

On 11th June 2019, the Prime Minister committed the United Kingdom to a target of Net Zero greenhouse gas emissions by 2050.

It is against this background that we, the Board of Cadent, are pleased to submit our RIIO-2 Business Plan.

A Net Zero commitment necessitates radical changes in the country's energy mix and presents profound investment challenges. We are convinced that gas has a central role to play in a Net Zero future, but only if it can meet head-on the challenges of decarbonisation.

As the operator of the largest gas distribution network, Cadent will take a leading part in the debate. Through selective investment, during RIIO-2 we will demonstrate the pathways to decarbonisation. In refreshing our innovation strategy, we will seek to leverage the skills and capabilities of our employees, our supply chain partners, and ideas from multiple industries, so that, by the end of RIIO-2, the contribution of clean gas to a net zero environment is evident.

To play our part in this process, Cadent must demonstrate that it is 'match fit' and has earned the trust and respect of its consumers, regulators and other stakeholders. We will do this by achieving our plan, which sets out to deliver our most stretching and tailored output commitments, underpinned by our vision for setting standards all of our customers love and others aspire to. Our plan for 2021-2026 is an important step on this journey to transform experiences and set stretching ambitions for the outputs we will deliver for our customers whilst reducing our bills in real terms over the period. Trust is earned, not claimed, but by the end of RIIO-2 we want to be recognised through our performance as both a trusted network operator and as a respected leader in the net zero debate.

We have actively engaged with customers and stakeholders during RIIO-1. This has been extended so that our plan has been built on insight from the most tailored and extensive customer and stakeholder engagement process we have ever undertaken, building trust that we are acting in the best interests of society and embracing whole system thinking. Our Plan will maintain the levels of safety and reliability that our customers rely on, and focuses on improving the experience for all our customers including a targeted consumer vulnerability strategy. We are committed to continuing engagement through RIIO-2, to ensure we continue to deliver what our customers need and to inform decisions.

Our Plan is underpinned by a cultural and operational transformation designed around delivering for all our customers and creating an environment for our employees to thrive and be proud of the service they deliver.

Testing our Plan

To support our Plan we, the Board have:

- led the development of our ambition and vision;
- challenged our emerging thinking through workshops, dedicated reviews of key topics and Board discussions;
- reviewed and challenged the costs and outputs set out in our Plan;
- challenged the Executive Team to build our confidence that the Plan is stretching but deliverable;
- overseen a robust governance structure to ensure we maintained oversight of the Plan and any emerging issues in relation to the Plan;
- reviewed and commented on successive drafts and the final versions of our Plan;

- put in place suitable assurance processes that have supported the Plan and its data.

Alongside this, Members of the Board have participated in meetings with our Customer Engagement Group.

In giving this statement, we are acting as one Board, including the Sufficiently Independent Directors.

We have delivered a risk-based assurance programme, based on the internationally recognised 'three lines of defence' model to verify that the Plan is accurate and efficient. Where appropriate, specialists have also been engaged to provide assurance that our Plan is robust in the approach we have taken to asset management, and provides value for money to customers through cost benchmarking. Specialists have also been engaged to provide assurance in relation to the 'financeability' of our Plan through a number of techniques including stress testing analysis. In addition to our own review, PwC have also reviewed the robustness and deliverability of our commitments.

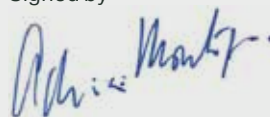
We are satisfied that our Plan meets Ofgem's minimum requirements. This has been assured both for completeness and quality through sample testing conducted by our second line assurance providers, PwC.

We have high expectations for what we want to achieve, and we have challenged all aspects of our Plan throughout its development, including our cost and efficiency projections. We have commissioned independent assurance of those projections and are satisfied that our Plan uses efficient and robust expenditure forecasts.

The integrity of our data is a priority for us as a Board and essential to deliver an accurate Business Plan. We have applied Ofgem's Data Assurance Guidance for Electricity and Gas Network Companies to the information contained within our Plan and in the Business Plan Data Templates, NARMS tables and Cost Benefit Analysis Templates. The data in our Plan has been subject to assurance by our external assurance provider, PwC, and we have reviewed the outputs of the assurance work with them. We have taken all reasonable steps to test the accuracy of the data in our Plan, including reviewing the work carried out by external assurance providers.

We, as a Board are satisfied that our Plan demonstrates the right degree of ambition for the business to deliver for current and future customers.

Signed by



Sir Adrian Montague, Chairman, on behalf of the Board

Statement approved by the Board
4 December 2019

1 Our financeability assessment has assumed base returns to equity of 4.8% (CPIH real)