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# APPENDIX 1

Assurance Statement RIIO-GD3 Business Plan Submission

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# Sufficiently Independent Directors' Statement

*This document sets out all the assurance processes that have been undertaken by Northern Gas Networks in the development of their RIIO-GD3 Business plan.*

*As an Independent Non-Executive Director of Northern Gas Networks, appointed under Standard Special Licence Condition A42, I have reviewed the content and assurance processes employed, and I am satisfied that Northern Gas Networks RIIO-GD3 plan and the associated costs and financial package have been appropriately challenged for accuracy, ambition, efficiency, and customer interest.*

*Mr John Burnham*

NGN's assurance approach includes 2<sup>nd</sup> line review and sign off processes, internal audit assurance and 3<sup>rd</sup> line assurance by independent third parties. NGN has also commissioned KPMG to undertake an independent review of NGN's RIIO-GD3 Assurance Framework.

## **Challenging the Business Plan for accuracy, ambition, efficiency and customer interest.**

**The NGN Board are satisfied that the business plan and the associated proposed costs and financial package have been appropriately challenged for accuracy, ambition, efficiency and customer interest.**

Evidence supporting this assessment is set out in sections 1.3 and 1.4 of this Board Assurance Statement.

## **Board Assurance of satisfaction of financeability**

The Board is satisfied that the RIIO-GD3 plan is financeable on both a notional company basis and also an actual company basis using Ofgem's working assumptions.

However, this assurance should not be interpreted as the Board's acceptance of the RIIO-GD3 SSMD financial framework and the proposed working assumptions any element of the financial package.

## **Board objectives and assurance statements**

Having approved the assurance framework, reviewed KPMG's independent review findings and management's response, the NGN Board have collectively satisfied

ourselves that assurance undertaken demonstrates that the NGN RIIO-GD3 Business Plan:

- Has been informed by a robust stakeholder engagement process which has influenced all areas of the plan. Feedback from NGN's Independent Stakeholder Group and Principal Advisors are considered and addressed;
- Is financeable on both a notional and actual basis;
- Contains expenditure forecasts which are efficient and have been produced using a robust process and expenditure forecasts represent value for customers in both the short and longer term;
- Is deliverable; and
- Is compliant with Ofgem requirements.

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# Northern Gas Networks Assurance Statement

## 1.1. Ofgem RIIO-GD3 assurance requirements

Ofgem outlines its requirement for a robust assurance and governance programme over Business Plan submissions in section 8.11 of its RIIO-GD3 Business Plan Guidance ('Assurance and Governance'). The Ofgem 'Assurance and Governance' requirements can be summarised as:

1. For a complete and high-quality submission, there must be robust assurance checks on the systems and processes for developing the Business Plan.
2. It is down to the companies and their Boards to decide exactly what role assurance plays in the Business Plan process. To this end, all assurance processes undertaken by the company should be clearly set out in the company's Assurance Statement.
3. The Assurance Statement should include a statement from a sufficiently independent director (defined in Standard Special Licence Condition A42) that they are satisfied that the Business Plan and the associated proposed costs and financial package have been appropriately challenged for accuracy, ambition, efficiency and customer interest.

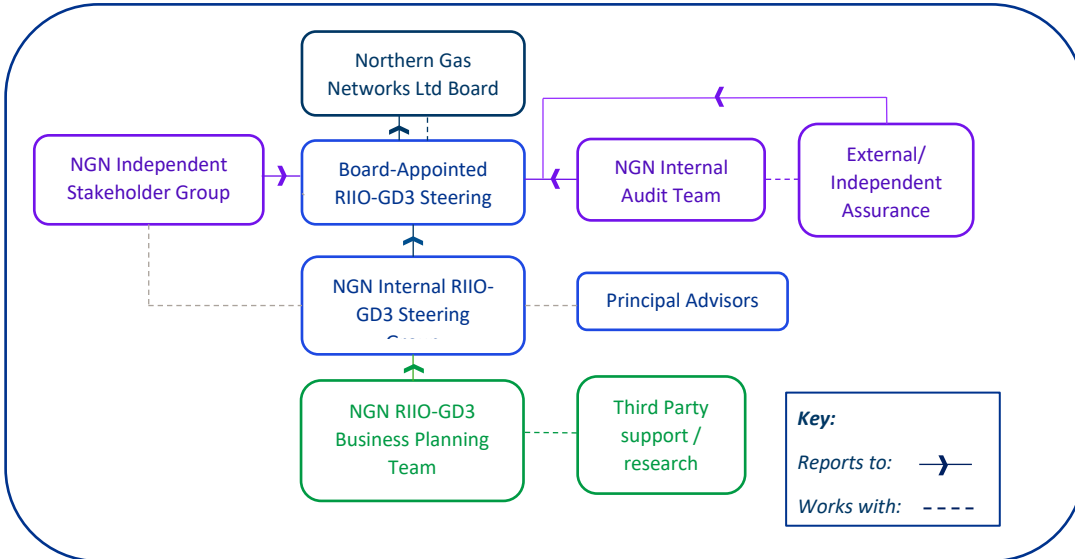
Ofgem separately states, in section 7 of its Business Plan Guidance (Financial Information), that Business Plans should also include licensee Board assurance that the Board is satisfied that the licensee is financeable on both a notional and actual capital structure basis (using Ofgem's working assumptions for cost of capital allowances and other pre-populated parameters).

Business Plans should also be prepared in accordance with all the chapter-specific Business Plan requirements. Whilst there is not a specific Ofgem condition for Business Plans to be assured against each chapter-specific Business Plan requirement, it is reasonable to expect that, in order to prepare a high-quality submission, there must be some challenge/assurance that these requirements have been met.

## 1.2. NGN assurance processes and assurance framework

### 1.2.1. RIIO-GD3 Governance and Assurance Framework

NGN's RIIO-GD3 Business Plan Governance structure is as follows:



### 1.2.2. RIIO-GD3 Assurance Objectives

NGN's Governance and Assurance includes the assurance objectives listed below, with the associated supporting evidence NGN has confirmed it has in place to support the demonstration that the objective has been met.

- The Business Plan has been informed by engagement and feedback from NGN's Independent Stakeholder Group about the quality of that customer engagement and how this has been incorporated;**
  - Stakeholder engagement remains an essential component of business planning
  - Stakeholder mapping to reflect a deeper understanding of the changing landscape
  - Engagement must be proportionate
  - Engagement must identify risks and enhance inclusivity
  - Engagement must balance centralised and regional engagement
- The Business Plan is based upon the proposed financial parameters, that NGN is financeable on both the notional and actual capital structure and is resilient to reasonable sensitivities to key parameters;**
  - Evidenced via external assurance and stress testing by Economic Insight.
- The Business Plan is built on expenditure forecasts which have been produced using a robust and efficient process and represent value for customers in both the short and longer term;**
  - Expenditure Forecasts are derived from NGN's Frontier Efficiency position as determined by Ofgem's Comparative Efficiency Analysis framework for Total Expenditure (Totex);
  - Expenditure forecasts are based upon reported Actual Expenditure included in NGN's Annual Regulatory Reporting Pack to Ofgem;
  - Historic and Forecast expenditure included within the plan has been prepared in line with NGN's Regulatory Reporting Policy;
  - Where, appropriate, individual expenditure categories/items are subject to external assessment and/or wider benchmarking;
  - Expenditure Forecasts include a robust assumption about ongoing efficiency/ productivity improvements over the RIIO-GD3 period;
  - Efficiency is also fully considered in terms of robust 'Optioneering' of proposed expenditure;
  - Where appropriate, expenditure forecasts are supported by documented Cost Benefit Analysis; and

- Where appropriate, expenditure forecasts are supported by documented measures of Network Asset Risk Metric (NARMs)

**4. The Business Plan and the commitments made are ‘Deliverable’;**

- Any new commitments made have been through a robust governance and assurance process.

**5. The Business Plan is compliant with Ofgem requirements set out in any published guidance**

### 1.2.3. Assurance programme

NGN’s programme of assurance for its RIIO-GD3 business plan includes various assurance activities and governance groups. These assurance activities cover a wide range of the ‘Data Assurance Activity options’ from the latest Ofgem ‘Data Assurance Guidance for Electricity and Gas Network Companies’ (January 2024).

The table below summarises the key assurance activities undertaken split into first, second and third-line assurance functions. We are adopting the following definition of first, second and third-line assurance in the context of developing the RIIO-GD3 Business Plan:

- **First line assurance:** Business plan challenge provided by operational functions and / or chapter leads including peer-reviews and any activities done (including the commissioning of third parties to conduct research / advisory studies) to challenge and enhance the quality of the business plan.
- **Second line assurance:** Assurance provided by (or supervised by) those separate from operational delivery but not independent of the organisation’s management chain.
- **Third line assurance:** Independent assurance provided by 3<sup>rd</sup> parties to challenge the Business Plan on any areas of risk to compliance, or to enhance the quality of the business plan by suggesting more ambitious / efficient approaches.

*Table 1 - NGN assurance bodies and activities across first, second and third lines.*

First line assurance	Second line assurance	Third line assurance
<p><b>RIIO-GD3 Business Planning team</b> - Assurance/ challenge activities include chapter lead reviews and sign-off.</p> <p><b>Third party research/advisory studies</b> commissioned to challenge and enhance the quality of the Business Plan.</p>	<p><b>Board-Appointed Steering Group</b> - Consists of executive and non-executive directors. Oversees assurance and challenge activities and discusses findings/progress.</p> <p><b>Internal Steering Group</b> – Activities overseen include Challenge sessions and second line reviews of Business Plan chapters including ‘data accuracy checks’ and reviews by independent persons.</p> <p><b>RIIO-GD3 Principal Advisors</b> – Independent experts with subject matter expertise to challenge the financial and regulatory content of the plan.</p>	<p><b>Independent Stakeholder Group</b> established by NGN that has remained in place since GD2. Provides independent scrutiny and challenge over the Business Plan.</p> <p><b>Internal Audit</b> function, operating independently from NGN management, providing third line challenge over the quality and regulatory compliance of the Business Plan.</p> <p><b>Other external / independent assurance and challenge.</b></p>

### 1.2.4. KPMG Assurance Framework review

KPMG were appointed to perform a review over NGN’s Assurance Framework. KPMG sought documented evidence of each business plan assurance activity performed by NGN (first, second and third line) to confirm that these are complete, and that any challenge provided has been sufficiently considered and addressed in the development of the Business Plan.

KPMG’s role was in the review of the Assurance Framework rather than the provision of the assurance activities themselves.

The findings of KPMG’s checks have fed into the development of NGN’s Assurance Statement and subsequent approval by the Board. KPMG’s final report which contains further detail on all evidence assessed is available upon request.

## 1.3 Implementation of assurance plan against Ofgem key criteria

This section discusses NGN’s adherence with the Ofgem requirement that the business plan should be appropriately challenged for the four areas of accuracy, ambition, efficiency and customer interest. For each of the four areas, as is consistent with our Assurance programme structure, we summarise below the challenge provided by our first, second, and third-line assurance teams and initiatives.

### 1.3.1 Accuracy

Table 2 – Accuracy assurance activities

Accuracy first line assurance	Accuracy second line assurance	Accuracy third line assurance
<p><b>Peer-review:</b> Each Business Plan chapter has gone through two rounds of first line peer review. Evidence of this exists in the form of ‘sign-off forms’ for each relevant chapter to confirm that the Business Plan has been appropriately checked and signed-off.</p> <p><b>Data Accuracy checker:</b> In addition to the peer-reviews conducted on each chapter, a designated ‘data accuracy checker’ is assigned to review and sign-off each cost-related chapter (3, 4, 5 6 and 7) of the Business Plan. The data checker’s role is to confirm that data in the Business Plan matches with source data including Data Tables, Engineering Justification Papers, CBAs, RRP submissions, and Annual Environmental Reports.</p> <p>Evidence of this exists in the form of ‘sign-off forms’ for each relevant chapter to confirm that a data accuracy checker (for chapters with data) and independent reviewer had reviewed and signed these chapters. Comments are provided by reviewers on draft versions of the report to maintain an audit trail of the review.</p>	<p><b>Second Line review of all data inputs:</b> In addition to peer reviews and designated ‘data-accuracy checks’ of cost-related data, a second line check was conducted over all numerical data inputs in each Business Plan chapter to confirm that numbers have been accurately transposed from source data. This review was documented on a ‘non-cost assurance tracker’ where source data was referenced for each data input.</p>	<p><b>External assurance over source data used:</b> This includes Internal Audit review over Regulatory Reporting Pack submissions and external assurance over Engineering Justification Papers and Cost Benefit Analysis.</p> <p><b>Internal Assurance:</b> NGN’s internal assurance / audit function has undertaken accuracy checks over Business Plan Data Tables on a sample basis.</p>

### 1.3.2 Ambition

Table 3 - Ambition assurance activities

Ambition first line assurance	Ambition second line assurance	Ambition third line assurance
<p><b>Stakeholder engagement best practice review:</b> Create Clarity were commissioned to produce a 'best practice review' report, analysing NGN’s current performance in stakeholder engagement and a pathway towards best practice. The</p>	<p><b>NGN Internal and Board-Appointed Steering Groups:</b> These steering groups have been responsible for ensuring that the overall Business Plan meets the different Ofgem and internal objectives, including providing regular challenge over the level of ambition in the plan. Monthly meeting packs exist as evidence of</p>	<p><b>Independent Stakeholder Group (ISG):</b> One of the ISG’s roles, as outlined in the NGN/ISG Terms of Reference (September 2024), is to “assess the methodologies used by NGN in considering the quality and ambition of the Business Plan in line with the criteria Ofgem has set out in</p>

Ambition first line assurance	Ambition second line assurance	Ambition third line assurance
<p>report recommended various approaches to stakeholder engagement including increasing the granularity of mapping and using data triangulation methods. NGN confirm that these recommendations were all taken on board and actioned.</p>	<p>discussions that have taken place regarding ambition, including defining ambition early in the planning process (November 2023).</p> <p><b>Ambition outputs challenge session:</b> An ‘outputs challenge session’ was run on 15 October 2024 by key NGN’s representatives (attendees included members of NGN’s Governance Group and Principal Advisors). The focus of this session, as seen by meeting minutes and agendas reviewed, was to challenge all adjustable and bespoke outputs in the Business Plan for level of ambition.</p> <p><b>Expert 'Principal Advisory Challenge':</b> As seen in the 'TOR for Principal Advisors' document, NGN commissioned "Independent experts with extensive and specific subject matter expertise to challenge the financial and regulatory content of the plan". The scope of work included scrutiny of the Business Plan against Ofgem’s Business Plan guidance. For ambition, we noted that a review and summary of the Business Plans ambition was performed by the Principal Advisors.</p>	<p>Stages A and C of the Business Plan Incentive. A challenge log is maintained by the ISG where findings are outlined, and actions are issued by NGN to address these (or provide counter challenge with justification where appropriate).</p> <p>The ISG also provided comments related to best-practice suggestions in the deep-dive review conducted for ‘value for money’.</p> <p><b>Acceptability testing with stakeholders and customers:</b> Citizens Panel were engaged by NGN to gather Customer and Stakeholder feedback to assess the ‘acceptance’ of key Business Plan requirements. Customer feedback was collected from Citizens Panel in October 2024, and feedback was split into key areas and summarised in an independent report produced by Create Clarity. Key areas included acceptability and Value for Money.</p>

### 1.3.3 Efficiency

Table 4 - Efficiency assurance activities

Efficiency first line assurance	Efficiency second line assurance	Efficiency third line assurance
<p><b>Frontier Economics cost justification support:</b> External consultants Frontier Economics were engaged to support NGN with articulating and evidencing increased Totex costs for GD3. The scope of Frontier’s work (as outlined in the ‘NGN GD3 Totex Cost Justification’ scope of work) included providing a detailed review of NGN’s proposed costs</p>	<p><b>NGN Internal and Board-Appointed Steering Groups:</b> These steering groups have been responsible for ensuring that the overall Business Plan meets the different Ofgem and internal objectives. Monthly meeting packs and minutes exist as evidence of this, which topics covered including “challenge on efficiency”.</p> <p><b>Expert 'Principal Advisory Challenge':</b> Principal Advisors have been commissioned by NGN and the scope of their work, as specified in the 'TOR for Principal Advisors' document, includes scrutiny of the Business Plan against</p>	<p><b>Independent Stakeholder Group (ISG):</b> One of the ISG’s roles, as outlined in the NGN/ISG Terms of Reference (September 2024), is to “seek to understand the bill impact and value for money for customers of NGN’s plans, including in the context of a declining customer base and uncertain future for gas”. A challenge log is maintained by the ISG where findings are outlined, and actions are issued by NGN to address these (or provide counter challenge with justification where appropriate).</p> <p>The ISG conducted a deep-dive review of ‘value for money’ providing challenge on</p>

Efficiency first line assurance	Efficiency second line assurance	Efficiency third line assurance
<p>including whether costs are efficient and whether they benchmark well against national and international comparators.</p> <p><b>Cost analysis report:</b> External consultants were engaged to support with producing a cost analysis report which included cost justification analysis, uncertainty analysis and GDN benchmarking.</p>	<p>Ofgem's guidance with a focus on key areas that include "Value for money justification of expenditure and outputs". A PA tracker exists which includes challenge/comments provided by the Principal Advisors on efficiency. The tracker includes columns for NGN owners for each area of challenge and a confirmation on when the Business Plan was updated to address the challenge (and rationale where the business owner had rejected the challenge).</p> <p><b>Cost challenge sessions:</b> A two-day cost challenge workshop was run on 15/10/24, the purpose of which was for NGN's internal assurance teams to ensure confidence over costs through reviewing:</p> <ul style="list-style-type: none"> <li>- GD2 vs GD3 costs and value for money justifications</li> <li>- Need for investment and options considered</li> <li>- Assumptions made and how SMEs have been engaged throughout</li> <li>- Efficiency vs other GDNs.</li> </ul> <p>The outcome of these sessions were summarised in notes with key insights, challenges raised, actions and next steps. An action log was maintained to monitor the closure of actions.</p>	<p>various areas relevant to efficiency including value for money, Network Asset Risk Management strategy and efficiency improvements, REPEX Cost justification, CAPEX management and transparency, Future Cost Management, Cost Benefit Analysis, and efficiency improvements.</p> <p><b>NGN Internal Assurance:</b> NGN's Internal Assurance / Audit team, as outlined in the Strategic Planning Internal Audit Report (KPMG reviewed the draft report on 05 November 2024), performed an Internal Audit over NGN's Business Plan submission. This review covered scope areas that included a review of sample forecast figures to ensure that they are sufficiently supported, reliable and compliant with Ofgem guidance, and a review of a sample of Engineering Justification Papers (EJPs) and Cost Benefit Analysis (CBAs) to ensure that they are based on reliable information and reasonable assumptions.</p> <p><b>Oxera review:</b> Oxera was appointed by NGN to review the 16 Engineering Justification Papers (EJPs) for submission by NGN to Ofgem. Oxera's scope of work, as outlined in the Oxera EJP review report, included identifying the relevant Ofgem guidelines and best practice precedents and benchmarks to then assess each of NGN's EJPs against these.</p>

### 1.3.4 Customer Interest

Table 5 – Customer interest assurance activities

Customer Interest first line assurance	Customer interest second line assurance	Customer interest third line assurance
<p><b>Stakeholder steering group:</b> This group has been responsible for driving the internal delivery of stakeholder engagement initiatives including commissioning the best practice review and actioning recommendations, in particular, the 'triangulation programme':</p> <ul style="list-style-type: none"> <li>• As outlined in periodic Stakeholder Steering Group reports (latest issue August 2024),</li> </ul>	<p><b>NGN Internal and board-appointed Steering Groups</b> These steering groups have been responsible for ensuring that the overall Business Plan meets the different Ofgem and internal objectives. Monthly meeting packs and minutes exist as evidence of this, with topics covered including "Stakeholder Engagement" and "challenge on Customer Interest".</p>	<p><b>Independent Stakeholder Group (ISG):</b> The ISG, established by NGN, has remained in place since GD2. The ISG, as is required by the Ofgem RIIO-3 Business Plan Guidance, continues to provide scrutiny and challenge for the Business Plan. The scope of challenge, as outlined in the ISG terms of reference document, includes challenging how NGN engages effectively with its</p>



Customer Interest first line assurance	Customer interest second line assurance	Customer interest third line assurance
<p>this programme consisted of a detailed 'critical review' of 574 stakeholder documents spanning direct engagement, operational data and third-party insights. The outcome of this review was a long list of key stakeholder feedback gathered for each of the relevant Ofgem outcome areas (1. Infrastructure fit for a low-cost transition to net zero, 2. secure and resilient supplies, 3. quality of service from regulated firms and 4. system efficiency and long-term value for money).</p> <ul style="list-style-type: none"> <li>Feedback was then summarised into 17 key 'insights' that were defined, tracked, and monitored on the 'Stakeholder Engagement and Decision Log', clearly describing the summary of the feedback received and the impact of this in the business plan.</li> </ul>	<p><b>Expert 'Principal Advisory Challenge':</b> As seen in the 'TOR for Principal Advisors' document, NGN commissioned "Independent experts with extensive and specific subject matter expertise to challenge the financial and regulatory content of the plan". The scope of work included scrutiny of the BP against Ofgem's BP guidance, and a PA tracker exists which includes challenge / comments provided by the PA on Customer Interest. The tracker included columns for NGN owners for each area of challenge and a confirmation on when the business plan was updated to address the challenge.</p>	<p>stakeholders and promoting the interests of consumers by holding NGN to account on how stakeholder views are used in decision- making processes.</p> <p><b>Internal Assurance:</b> The NGN internal assurance scope included a review of evidence to confirm that input from Stakeholder Engagement Groups has been incorporated into the Business Plan. The outcomes of this review was that there is a significant level of evidence suggesting compliance with Ofgem guidance around stakeholder engagement and transparency. Some minor issues were noted at the time of the review (concluded on 17/09/2024) due to the incomplete status of some stakeholder engagement initiatives, for example the ISG feedback logs which were yet to be fully incorporated into the draft business plan at the time.</p>

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## 1.4 Assessment of evidence supporting Board and assurance objectives

### 1.4.1 The Business Plan is based on a robust stakeholder engagement process and has been informed by the feedback received. Feedback from NGN's Independent Stakeholder Group and Principal Advisors are considered and addressed

Overall, NGN's RIIO-GD3 Business Plan has followed an engagement process that meets NGN's definition of robust, and there is evidence that the plan has been informed by stakeholder feedback as well as feedback by the Independent Stakeholder Group (ISG) and Principal Advisors.

The stakeholder engagement process that was followed is outlined within chapter 2 of the Business Plan. NGN has based its engagement approach on a review of best practice engagement undertaken by Create Clarity. NGN's strategy and view of "robust engagement" has been set against this best practice review, with the engagement strategy being based upon the 8 pillars identified from the best practice review.

NGN provided evidence of the process in place for engaging with its ISG and there are numerous trackers providing evidence of how ISG feedback has been actioned, addressed and/or incorporated into the NGN Business Plan. There is also evidence of NGN Board-Appointed RIIO-GD3 Steering Group engagement with the ISG, with the ISG Chair attending some Board-Appointed RIIO-GD3 Steering Group sessions during the development of the plan. A draft of the ISG Statement was shared with KPMG in November 2024. In this statement the ISG Chair notes that "NGN has carried out inclusive and comprehensive stakeholder engagement to shape the plan" and that the ISG's "challenges and feedback are all documented, and NGN has responded to requests for additional evidence".

There is evidence of comments received from Principal Advisors regarding stakeholder engagement and how NGN has actioned these.

An overarching summary of how the NGN RIIO-GD3 Business Plan has been informed by stakeholder engagement is provided in the Stakeholder Engagement Annex (document 'A3').

Assurance undertaken in this area was:

- The NGN Internal and Board-Appointed Steering Groups were responsible for ensuring that the overall Business Plan met the different Ofgem and internal objectives, with the Board-Appointed Steering Group including executive and non-executive members of the NGN Board. Monthly meeting packs and minutes exist as evidence of this, with topics covered including "Stakeholder Engagement" and "challenge on Customer Interest". Deep dives were also held via this group, including with the ISG.
- The NGN internal assurance scope included a review of evidence to confirm that input from Stakeholder Engagement Groups has been incorporated into the Business Plan. KPMG was provided with Internal Audit's Draft Internal Audit report in November 2024. The review found that NGN's approach was compliant with Ofgem guidance around stakeholder engagement and transparency.
- Review and challenge from the ISG
- Review and challenge from Principal Advisors
- First line assurance from Chapter Leads and other associated sign offs

Assurance undertaken regarding customer interest more widely is outlined in section 1.3.4.

## 1.4.2 The Business Plan is financeable on both a notional and actual basis

Economic Insight undertook quality assurance (QA) for NGN’s Business Plan submission for RIIO-GD3, in relation to their Business Plan Financial Model (BPFM) submissions. Assurance for two versions of BPFM was undertaken for submissions prepared for Ofgem:

- Ofgem-prescribed BPFM – a RIIO-GD3 Ofgem “official” copy of the model which is fully aligned to Ofgem guidance.
- NGN Bespoke BPFM – a RIIO-GD3 BPFM with NGN bespoke edits, which is representative of the NGN RIIO-GD3 Business Plan.

For Ofgem-prescribed BPFM, Economic Insight specifically carried out the following assurance checks:

- ensuring the main cost inputs are correctly sourced from BPDT;
- checking that the calculations of revenue for RIIO-GD3 flow through the model correctly; and
- checking that there is no inconsistency in NGN’s approach with the Ofgem guidance.
- assessing whether the credit ratios for NGN in the Ofgem base case and the Ofgem-prescribed stress-test scenarios are consistent with achieving Ofgem’s required investment-grade credit rating and NGN’s target credit rating; and
- assessing whether the model reasonably forecasts NGN financeability under the Ofgem base case and the Ofgem-prescribed stress-test scenarios for RIIO-GD3.

Economic Insight concluded via its independent review of Ofgem-prescribed BPFM and NGN Bespoke BPFM that there were no areas of concern based on the assurance process that were undertaken. These statements are provided as appendices to this document.

NGN also undertook its own sensitivity analysis on financeability as part of Chapter 7 and this evidence was presented to KPMG and the Board with a review undertaken by the Board-Appointed Steering Group and a sub-steering group. The Board was kept informed via regular reports which were shared to keep the Board apprised of plan development. Other assurance covering financeability included:

- Review and challenge from Principal Advisors on Chapter 7 of the plan.
- Maintenance by NGN of a Business Plan Guidance compliance tracker, detailing Section 7 Ofgem requirements, corresponding actions for compliance, ISG-specific items for inclusion in the workstream lead’s plan, and reference points in the Business Plan where each requirement is addressed.

## 1.4.3 The Business Plan contains expenditure forecasts which are efficient and have been produced using a robust process. Expenditure forecasts represent value for customers in both the short and longer-term

For this objective NGN set out the evidence it has in place to demonstrate that this objective has been met. This list of evidence is based upon similar evidence from RIIO-2. The evidence provided to KPMG is set out in the table below.

Table 6 - Summary of NGN’s supporting evidence for Objective 3 and KPMG’s review of evidence in place

NGN intended supporting evidence for objective	KPMG review of evidence in place
Expenditure Forecasts are derived from NGN’s Frontier Efficiency position as determined by Ofgem’s Comparative Efficiency Analysis framework for Total Expenditure (Totex)	NGN has provided evidence that its expenditure forecasts are derived from its Frontier Efficiency position by providing analysis of sector RRP data and its Cost Analysis Report (September 2024) where findings from comparative analysis and benchmarking are set out. Cost data from other GDNs was analysed and reviewed to demonstrate where GD3 costs are more efficient than the equivalent costs at GD2.

NGN intended supporting evidence for objective	KPMG review of evidence in place
<p>Expenditure forecasts are based upon reported Actual Expenditure included in NGN’s Annual Regulatory Reporting Pack to Ofgem</p> <p>Historic and Forecast expenditure included within the plan has been prepared in line with NGN’s Regulatory Reporting Policy</p>	<p>NGN provided packs to KPMG on the process followed to develop Opex, Capex and Repex data for the BPDTs. These packs confirm that RRP data is the source data for historical/actual information.</p> <p>NGN confirmed to KPMG via email that:</p> <ul style="list-style-type: none"> <li>• Asset specific costs are compared against a third-party industry database to understand where deviations from average costs might be and the reason for these changes;</li> <li>• Costs are then compared against Year 3 (of RIIO-GD2) industry RRP data to assess how NGN costs compare to current delivered costs across other GDNs;</li> <li>• Future investment programme is then compared to current actual data using Ofgem GD2 benchmarking.</li> </ul> <p>Where forecasts are based on historical data, NGN relies upon its assurance processes around ensuring the accuracy of its RRP data. The process for ensuring robustness of this data is set out in NGN’s established Regulatory Reporting Policy. The Regulatory Reporting Policy sets out the policy and minimum standards for the compilation and submission of all Regulatory Reporting issued by NGN.</p> <p>NGN Internal Audit’s scope includes ‘a review to ensure that the Business Plan and BPDTs have been compiled in compliance with the DAG and Regulatory Reporting Policy’. Findings regarding BPDTs were set out in the NGN Internal Audit Report dated October 2024.</p>
<p>Where, appropriate, individual expenditure categories/items are subject to external assessment and/or wider benchmarking</p>	<p>NGN has commissioned Oxera to undertake a review of all EJPs for submission. NGN’s Cost Analysis Report (September 2024) set out findings from various comparative analyses and benchmarking.</p>
<p>Expenditure Forecasts include a robust assumption about ongoing efficiency/ productivity improvements over the RIIO-GD3 period</p>	<p>NGN has set out the assumptions for its expenditure forecasts in Chapter 6 of its Business Plan, the supporting Cost Assessment and Benchmarking Annex and in the accompanying EJPs. Assumptions were challenged within NGN at a two-day cost challenge session in October 2024 and at bi-weekly Asset Strategy steering group sessions. The two-day cost challenge session included reviews of GD3 costs in the context of previous costs at GD2, the narrative around investment need and options considered, and assumptions made. Assumptions are also set out in the Opex, Capex and Repex data assurance packs provided to KPMG. An assessment of ongoing efficiency was undertaken by Economic Insight collectively with other gas distribution networks. These assumptions were included in NGN’s plan.</p>

NGN intended supporting evidence for objective	KPMG review of evidence in place
Efficiency is also fully considered in terms of robust 'Optioneering' of proposed expenditure	NGN has set out the assumptions for its expenditure forecasts in Chapter 6 of its Business Plan, the supporting Cost Assessment and Benchmarking Annex and in the accompanying EJPs. Assumptions were challenged within NGN at a two-day cost challenge session in October 2024 and at bi-weekly Asset Strategy steering group sessions. The two-day cost challenge session included reviews of GD3 costs in the context of previous costs at GD2, the narrative around investment need and options considered, and assumptions made. Assumptions are also set out in the Opex, Capex and Repex data assurance packs provided to KPMG.
Where appropriate, expenditure forecasts are supported by documented Cost Benefit Analysis	NGN has set out its optioneering and cost benefit analyses in the individual EJPs, an example of which was shown to KPMG during a walkthrough session. NGN has commissioned Oxera to provide external assurance over its EJPs. Oxera was appointed by NGN to review the 16 Engineering Justification Papers (EJPs) for submission by NGN to Ofgem. Oxera's scope of work, as outlined in the Oxera EJP review report, included identifying the relevant Ofgem guidelines and best practice precedents and benchmarks to then assess each of NGN's EJPs against these. Oxera's report was shared with KPMG in November 2024.
Where appropriate, expenditure forecasts are supported by documented measures of Network Asset Risk Metric (NARMs)	NGN confirmed to KPMG during a walkthrough that it has used the NARM framework to drive optioneering and cost benefit analysis.

#### On value for money:

- There is evidence that value for money (over both the short and longer-term) was tested with customers through specific values testing research, with evidence that the outcomes of the engagement fed through into the main triangulation analysis used to develop the RIIO-GD3 Business Plan. The methodology to be used in this customer value perception engagement was discussed with the NGN Independent Stakeholder Group (ISG) in a session run by Create Clarity in April 2024.
- There is also evidence that the ISG challenged NGN on value for money, with evidence of this challenge (and confirmation that the ISG considered this challenge addressed) documented in the ISG Challenge Log. A deep dive session was held with the ISG in September 2024.
- NGN confirmed to KPMG that acceptability of the final Business Plan and bill impacts was tested with its informed customers through the Citizens Panel in October 2024. In addition to assessing acceptance, Citizens Panel members also rated affordability and value for money of the plan.

Assurance undertaken regarding efficiency is outlined in section 1.3.3.

#### 1.4.4 The Business Plan is deliverable

NGN is satisfied that the Business Plan is deliverable based on historical performance, comparison of performance to other GDNs, and the robust internal assurance and sign off processes in place relating to its Business Plan and

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associated commitments. This was confirmed with NGN's Chief Operating Officer and Chief Executive Officer and signed off by the NGN Board.

In its Business Plan guidance Ofgem set out that "In assessing business plans, we will consider how deliverable the plans are in the context of past performance and the level of commitment provided for delivering the activities and outcomes set out in the plan". NGN has used this principle of past performance throughout the Business Plan, focusing on its "strong track record" for delivery in the past and how this will be built upon. According to its Business Plan, in both RIIO-GD1 and RIIO-GD2 NGN met all primary targets in the regulatory contract agreed with Ofgem. NGN's GD3 commitments are based on both previous GD2 performance and the commitment to remain frontier during GD3.

NGN provided evidence of the governance and assurance process in place for assuring the accuracy of its RRP data which is used as the basis for past performance levels. The process for ensuring robustness of this data is set out in NGN's established Regulatory Reporting Policy. The Regulatory Reporting Policy sets out the policy and minimum standards for the compilation and submission of all Regulatory Reporting issued by NGN.

There is evidence that NGN has also tested itself for deliverability by comparing its past performance levels to that of other GDNs. Decisions regarding the levels set for outputs were discussed and made at both the Internal RIIO-GD3 Steering Group and the Board Appointed RIIO-GD3 Steering Group.

NGN provided evidence of internal governance and sign off processes in place regarding NGN's RIIO-GD3 outputs and commitments. NGN provided evidence of 6 levels of sign off for Chapter 3 ("High quality of service from regulated firms") via the chapter sign off form, which included review and sign off by Independent Reviewers (Principal Advisors). The sign off form included confirmation that Ofgem guidance and requirements have been met.

Assurance undertaken in this area was:

- Internal Audit reviews of the Business Plan Data Tables and Business Plan data validation (KPMG was provided with Internal Audit's Draft Internal Audit report in November 2024).
- Internal reviews and sign off processes (for Business Plan Chapter 3).

#### 1.4.5 The Business Plan is compliant with Ofgem requirements

NGN understands that its Business Plan should be prepared in accordance with all the chapter-specific Business Plan requirements, and that, in order to prepare a high-quality submission, there must be some challenge/assurance over adherence to these requirements.

To ensure confidence that each of the business plan requirements are met, NGN has maintained a GD3 Assurance Tracker. This tracker logs the assurance progress by area, detailing the requirement source, its objectives, the necessary evidence to meet the requirements, and the supporting evidence provided.

Below summarises NGN activities to implement RIIO-3 Business Plan requirements and the specific controls / signoffs that have been conducted for each Business Plan chapter.

##### RIIO-3 Business Plan Guidance, chapter 2: Transparency and Stakeholder Engagement

Chapter 2 of the RIIO-3 Business Plan Guidance outlines the key requirements for establishing the Independent Stakeholder Group (ISG), its functions, and ensuring it has access to relevant data during the development of the RIIO-GD3 Business Plan. NGN has completed three separate and independent peer reviews of the drafts for Section 2 of the Business Plan and chapter 2 of NGN's Business Plan has been signed off by the designated chapter owner, a peer-reviewer, an independent approver, and a chapter approver to confirm that the chapter is compliant with the Ofgem requirements. NGN is satisfied that:

- It has an ISG, which has provided challenge and scrutiny in the RIIO-GD3 Business Plan development, ensuring engagement with stakeholders. The ISG was established in 2018 prior to the GD2 business planning process and has been an enduring presence for NGN, challenging both delivery of GD2 outputs and development of GD3 plan.

- The ISG has access to the relevant data, information and evidence that enabled them (i) to provide meaningful input and challenges, and (ii) to monitor how consumer and stakeholders have been engaged.
- NGN ensured the ISG had the right level of data and information in specific areas required by the RIIO-3 Business Plan Guidelines, such as: vulnerability strategy, social return of investment, and value for money for customers.
- The ISG proved challenge and scrutiny of NGN's RIIO-GD3 Business Plan during its development and encouraged change towards a culture of more consistent, relevant, and more effective stakeholder engagement.
- The ISG will respond to Ofgem's call for evidence, to be published shortly after the submission of NGN's RIIO-GD3 Business Plan.
- The ISG's Chair has produced a statement confirming that the ISG had the opportunity to scrutinise all the elements of the Business Plan, commenting on 3 drafts and the accompanying strategy documents and annexes, plus a sample of engineering justification papers. In addition, members of the ISG have observed most of the engagement session carried out by NGN to shape the plan, to ensure the company focused on the priorities of its diverse range of stakeholders.

### RIIO-3 Business Plan Guidance, chapter 3: High quality of service from regulated firms

Chapter 3 of the RIIO-3 Business Plan Guidance details the key requirements in several critical areas: (i) vulnerability strategies, (ii) innovation, (iii) competition, and (iv) output incentives. NGN has completed three separate and independent peer reviews of the drafts for Section 3 of the Business Plan and chapter 3 of NGN's Business Plan has been signed off by the designated chapter owner, a peer-reviewer, an independent approver, and a chapter approver to confirm that the chapter is compliant with the Ofgem requirements. NGN is satisfied that:

- NGN ensured their vulnerability strategies are up to date and tailored to the needs of consumers and that they are tested with stakeholders and the ISG.
- NGN submitted their up-to-date individual vulnerability strategies and a draft of the joint-GDN vulnerability strategy to us alongside their Business Plans.
- NGN provided an overview of the BAU innovation they plan to undertake, alongside justification of companies' planned utilisation of the flexible Network Innovation Allowance (NIA). NGN submitted an overview of their Innovation Strategy, summarising their approach to innovation.
- NGN has not identified projects that would meet the criteria of early/late competition.
- NGN has provided evidence of output delivery (i.e., Output Delivery Incentives, Licence Obligations, and Price Control Deliverables).

### RIIO-3 Business Plan Guidance, chapter 4: Infrastructure fit for a low-cost transition to net zero

Chapter 4 of the RIIO-3 Business Plan Guidance details the key requirements in several critical areas: (i) planning scenarios and forecasting, (ii) RIIO-T2-T3 crossover, (iii) environment. NGN has completed three separate and independent peer reviews of the drafts for Section 4 of the Business Plan and chapter 4 of NGN's Business Plan has been signed off by the designated chapter owner, a peer-reviewer, an independent approver, and a chapter approver to confirm that the chapter is compliant with the Ofgem requirements. NGN is satisfied that:

- NGN developed the RIIO-GD3 business plan using FES scenarios and pathways published by the National Grid ESO, and submitted the Investment Decision Packs, Business Plan Appendix 1, in accordance with Ofgem's guidelines.
- NGN provided narrative for those projects that cross over between RIIO-GD2 and GD3 as part of the Business Plan Data Table (BPDT) Commentary submission.
- NGN identified and explained adjustments they made to the Holistic Transition pathway assumptions and alternative data they used instead of relevant FES scenarios, to ensure their planning complies with regulatory, legislative, and policy obligations.
- NGN has developed the Environmental Action Plan (EAP), setting out their initiatives to mitigate and improve the environmental impact of their network.
- NGN committed to reporting progress on EAP in the Annual Environmental Report (AER) at the end of each year.

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- The EAP was developed based on baseline expectations in five key areas: business carbon footprint, embodied carbon, supply chain, resource use and waste, and biodiversity & natural capital.

### **RIIO-3 Business Plan Guidance, chapter 5: Secure and resilient supplies**

Chapter 5 of the RIIO-3 Business Plan Guidance details the key requirements in several critical areas: (i) network asset management, (ii) climate resilience, risk assessment & investment, (iii) workforce and supply chain resilience, (iv) cyber resilience, (v) IT & telecoms strategy. NGN has completed three separate and independent peer reviews of the drafts for Section 5 of the Business Plan and chapter 5 of NGN's Business Plan has been signed off by the designated chapter owner, a peer-reviewer, an independent reviewer and a chapter approver to confirm that the chapter is compliant with the Ofgem requirements. NGN is satisfied that:

- NGN has developed the Climate Resilience Strategy (CRS), outlining the climate resilience initiatives planned for the duration of RIIO-GD3 and beyond.
- NGN completed the climate resilience memo table within the BPDT submitting estimates of spend associated with climate resilience.
- NGN outlined the barriers to making a viable business case for climate resilience projects.
- NGN has developed the Workforce and Supply Resilience Strategy, outlining: (i) the plan to build and sustain a modern, diverse, high-quality, and well-trained workforce for the future, and (ii) a strategic approach to mitigating supply chain pressures.
- NGN set out how they plan to use Information Technology (IT) and Telecoms to achieve the proposals set out in RIIO-GD3 Business Plan in the IT and Telecoms Strategy document.
- NGN produced the Network Asset Management Strategy alongside setting out what they are doing to ensure best in class asset stewardship.
- NGN has produced the NIS-R Cyber Resilience Business Plan (CRBP), complying with RIIO-3 Business Plan Guidelines requirements.

### **RIIO-3 Business Plan Guidance, chapter 6: System efficiency and long-term value for money**

Chapter 6 of the RIIO-3 Business Plan Guidance details the key requirements in several critical areas: (i) cost information and frontier shift, (ii) growth duty, (iii) data and digitalisation. NGN has completed three separate and independent peer reviews of the drafts for Section 6 of the Business Plan and chapter 6 of NGN's Business Plan has been signed off by the designated chapter owner, peer-reviewers, a data accuracy checker, an independent reviewer, and a chapter approver to confirm that the chapter is compliant with the Ofgem requirements. NGN is satisfied that:

- NGN has submitted cost information as part of its business plan. In proposing costs for operating and developing its network, NGN has provided detailed explanations of their cost and workload forecasts, particularly highlighting areas where these diverge from historical trends. Additionally, NGN has produced supporting evidence, including: (i) evidence demonstrating that the proposed costs are efficient, (ii) details of the assumptions and justifications for projected changes in efficient unit costs over time, and (iii) a breakdown of activities and indicative costs that are proposed to be directly funded through Totex allowances.
- NGN has set out in RIIO-GD3 Business Plan the ongoing efficiency assumptions submitted for each expenditure category, along with evidence of how these assumptions have been derived.
- NGN explained how the RIIO-GD3 Business Plan will contribute to sustainable economic growth for the wider UK economy in the medium to long term, both within the energy sector and more broadly.
- NGN complied with the licence obligation to publish a Digital Strategy and Action Plan (DSAP), making information publicly available about their intentions and plans for digitalisation of its energy network and associated Products and Services for data.
- NGN has demonstrated how it will meet the existing licensee competency requirements in compliance with the Data Best Practice Guidance under the current price control period.



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- NGN has signposted in the RIIO-GD3 Business Plan their expectations of what spending is needed to connect to the Data Sharing Infrastructure (DSI)

### **RIIO-3 Business Plan Guidance, chapter 7: Financial information**

Chapter 7 of the RIIO-3 Business Plan Guidance details the key requirements in several critical areas: (i) financial BPDT and Business Plan Financial Model (BPFM), and (ii) financial modelling assumptions (financeability assessment). NGN has completed three separate and independent peer reviews of the drafts for chapter 7 of the Business Plan. NGN is satisfied that:

- NGN used the financial BPDTs and the Business Plan Financial Model (BPFM) to submit business plan information, including any analysis presented in the plan, such as an analysis of financeability or investability, scenarios or tables of values.
- NGN's RIIO-GD3 Business Plan set out: (i) Financial projections for each year of the RIIO-GD3 period, (ii) a clear explanation of any additional stress test scenarios, (iii) NGN's target ratings and the key financial ratios and qualitative factors used to assess maintenance, (iv) proposed capitalisation rates and regulatory depreciation rates.
- NGN's RIIO-GD3 Business Plan provide and assessment of financial risks and evidence of risk management measures. NGN also provided justification for any proposed company-specific alternative cost of capital estimates, including a well-evidenced demonstration that it is in customers' interests.
- NGN's RIIO-GD3 Business Plan also includes Board assurance that NGN is financeable on both a notional and actual capital structure basis, covering the baseline level of Totex as well as the 'best view' level of Totex as described in the BPDT guidance.

### **RIIO-3 Business Plan Guidance, chapter 8: Presentation and submission requirements**

Chapter 8 of the RIIO-3 Business Plan Guidance details presentation and submission requirements. At the time of writing, NGN's assurance activity has not yet been completed, this is largely due to the timing of the writing of this report, checks are ongoing and there is a structure and a plan to ensure everything is in place ready for submission.

- NGN has produced a concise RIIO-GD3 Business Plan no longer than 100 pages excluding annexes and other submission documents listed in Table 2 of Ofgem's business plan guidance.
- NGN provided annexes for the policy areas stated in the table 2. Each annex's page limit is set out in Table 2, and they are clearly cross referenced within the core business plan text.
- NGN cross-referenced different sections of the RIIO-GD3 Business Plan, wherever possible using hyperlinks or reference points and foot notes.
- NGN's assurance processes are clearly set out in this Assurance Statement.
- NGN published their RIIO-GD3 Business Plan in its entirety, making only necessary redactions. Redactions have been clearly and comprehensively set out in an explanatory statement published alongside the plan.
- Since NGN have commissioned reports from consultants to support their business plan submission, NGN has provided executive summaries within the relevant parts of their submission, with full reports included as additional annexes to the business plan. The executive summaries should cross refer to the relevant annexed reports

### **RIIO-3 Business Plan Guidance, chapter 9: Business Plan Incentive**

Chapter 9 of the RIIO-3 Business Plan Guidance details Stage A, Stage B and Stage C requirements. NGN is satisfied that:

- NGN developed their business plan using FES 2024 Holistic Transition pathway in accordance with the requirements of the relevant sector-specific guidance.
- NGN provided evidence of how they decided which projects or programs should be included in its RIIO-GD3 baseline funding request and how it manages uncertainty.
- NGN provided evidence of how the RIIO-GD3 Business Plan will deliver a high quality and reliable service to consumers and network users.
- NGN provided evidence that they have worked with stakeholders to develop targets to reduce shrinkage by the end of RIIO-GD3, and the EAP explained how the NGN will deliver against these targets.

- 
- NGN provided examples and evidence of how the RIIO-GD3 Business Plan leverages new technologies or innovative practices, including the deployment of solutions, to achieve the overall RIIO-GD3 outcomes.
  - NGN provided evidence through the Workforce and Supply Chain Resilience Strategy of how the RIIO-GD3 Business Plan meets workforce and supply chain needs.
  - NGN has provided information in the RIIO-GD3 Business Plan on (i) cost drivers, (ii) consideration of options, (iii) justification of costs – evidence provided shown how NGN has produced its cost forecasts [...], (iv) improvements and innovation will be delivered to reduce costs and/or add value for money for consumers over the RIIO-GD3 period.
  - NGN has completed the Business Plan Data Templates (BPDTs) and commentary in accordance with the Ofgem BPDT guidance.

# BPFM Assurance Statement

## NGN RIIO-3 financeability

Commercially confidential | 29 November 2024

Economic  
Insight

### 1

## Purpose

This document provides a summary of the quality assurance (QA) measures undertaken by Economic Insight for NGN's Business Plan submission for RIIO-GD3, in relation to their Business Plan Financial Model (BPFM) submissions. We provide assurance for two versions of BPFM that NGN has prepared for submission to Ofgem:

- Ofgem-prescribed BPFM – a RIIO-GD3 Ofgem “official” copy of the model which is fully aligned to Ofgem guidance.
- NGN Bespoke BPFM – a RIIO-GD3 BPFM with NGN bespoke edits, which is representative of the NGN RIIO-GD3 Business Plan (albeit with some differences to NGN internal modelling remaining).

NGN has also prepared for submission a third version of BPFM called the Extended BPFM which is a supplementary copy of Ofgem-prescribed BPFM extended to RIIO-GD4 to demonstrate a hypothetical high-level financeability position if Ofgem's current assumptions for 2030/31 were to be carried forward to RIIO-GD4. The longer-term inputs for this version are very high-level and assumption driven. The RIIO-GD4 outputs are therefore purely indicative, do not form a part of the NGN Business Plan, and cannot be assured. Therefore, Economic Insight does not provide assurance for them.

### 2

## Overview of assurance process

For both Ofgem-prescribed BPFM and NGN Bespoke BPFM, we have carried out the following in the assurance process:

- ensuring the main cost inputs are correctly sourced from BPDT;
- checking that the calculations of revenue for RIIO-GD3 flow through the model correctly; and
- checking that there is no inconsistency in NGN's approach with the Ofgem guidance.

For Ofgem-prescribed BPFM, we have specifically carried out the following checks:

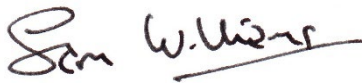
- assessing whether the credit ratios for NGN in the Ofgem base case and the Ofgem-prescribed stress-test scenarios are consistent with achieving Ofgem's required investment-grade credit rating and NGN's target credit rating; and
- assessing whether the model reasonably forecasts NGN financeability under the Ofgem base case and the Ofgem-prescribed stress-test scenarios for RIIO-GD3.

For NGN Bespoke BPFM, we have specifically carried out the following checks:

- assessing whether the credit ratios for NGN in the NGN base case, as well as the bespoke additional Economic Insight recommended scenarios, are consistent with achieving Ofgem’s required investment-grade credit rating and NGN’s target credit rating; and
- assessing whether the model reasonably forecasts NGN financeability under the NGN base case and the bespoke additional Economic Insight recommended scenarios for RIIO-GD3.

### 3 Formal assurance and acknowledgement

We confirm that our independent review of Ofgem-prescribed BPFM and NGN Bespoke BPFM finds no areas of concern based on the assurance process that we have undertaken. We confirm that all the findings of our review were discussed with the NGN team and incorporated into Ofgem-prescribed BPFM and/or NGN Bespoke BPFM as appropriate.



Sam Williams, Director, Economic Insight

## Disclaimer

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### 1 Who may rely on this report

- 1.1 This report has been prepared by us on the instructions of the organisation(s) or person(s) named on the cover page and / or elsewhere in the report (“The Client(s)”).
- 1.2 Subject to paragraph 1.3, this report is confidential, solely for the benefit of The Client(s) and solely for the purpose of fulfilling the scope of work, as specified in the report.
- 1.3 This report may be disclosed on a non-reliance basis: (i) where required by law (including the rules of a recognised stock exchange) or judicial process; (ii) to your professional advisers, auditors, insurers and to any regulator (having jurisdiction over your affairs); (iii) to your affiliates, and any of its or their officers, directors, employees, auditors and professional advisers; (iv) to persons who in the ordinary course of your business have access to your papers and records on the basis that they will make no further disclosure; (v) to a government department or other agency or quoted or referred to in any public document or domain; or (vi) to all persons (for example, by means of publication on the websites of The Client(s) and / or Economic Insight), should there be express written agreement between The Client(s) and Economic Insight confirming that both parties consent to this.

### 2 Scope of our advice

- 2.1 We do not provide legal advice, nor legal services. We are not authorised to undertake reserved legal activities under the Legal Services Act 2007; and
- 2.2 We do not provide investment advice. We are not licensed in the conduct of investment business, as defined in the Financial Services and Markets Act 2000.

### 3 Assumptions and Qualifications

- 3.1 We have relied on the following assumptions in relation to the information supplied to us (or obtained by us, such as public domain information and data) (“The Information”) in preparing this report: (i) there are no material errors or omissions in The Information; (ii) The Information is current, accurate, reliable and complete; and (iii) no party to The Information (or this report), is or will be, engaging in any fraudulent, misleading or unconscionable conduct or seeking to conduct any transaction in a manner or for a purpose not evident on the face of The Information reported by us in connection with The Information (or this report) or that any relevant transaction or associated activity is illegal, void, voidable or otherwise unenforceable.
- 3.2 If any of the above assumptions or areas of reliance are not valid, the conclusions reached in this report may need to be re-examined and may need to be varied.

### 4 Limitations on liability

- 4.1 We will not be liable for any loss, damage, cost or expense arising in any way from, or in connection with, any dishonest, deliberate or reckless misstatement, concealment or other conduct on the part of any other person.
- 4.2 We will not be liable, whether in contract, tort (including negligence), breach of statutory duty or otherwise, for any loss of profit, loss of business, business interruption, or loss of business opportunity or any indirect or consequential loss arising under or in connection with the provision of our services (including but not limited to this report).
- 4.3 Economic Insight accepts no liability for any action taken on the basis of the contents of this report. Further to paragraph 2.2, any individual or firm considering a specific investment should consult their own broker or other investment adviser. Economic Insight accepts no liability for any specific investment decision, which must be at the investor’s own risk.
- 4.4 Subject to losses wholly excluded under paragraphs 4.1 to 4.3, our aggregate liability for any damage, loss, cost, claim or expense arising out of, or in connection with, this engagement, including any reports or documents prepared pursuant to it, whether such liability arises in contract, tort, negligence or as a result of a claim for misrepresentation or breach of statutory duty or otherwise, shall be limited to the sum in accordance with our terms of service, or as separately agreed with you (The Client(s)).
- 4.5 If any provision or part-provision of this paragraph 4 is / or becomes invalid, illegal or unenforceable, it shall be deemed modified to the minimum extent necessary to make it valid, legal and enforceable. If such modification is not possible, the relevant provision or part-provision shall be deemed deleted. Any modification to or deletion of a provision or part-provision under this paragraph 4 shall not affect the validity and enforceability of the rest of this report.

# NGN Financeability Assurance Statement

## NGN RIIO-GD3 financeability

Commercially confidential | 06 December 2024

Economic  
Insight

1

## Purpose

This document provides a summary of the assurance that Economic Insight (EI) has provided on the assessment of:

- whether NGN is financeable on both a notional and actual capital structure basis for its RIIO-GD3 business plan. Our analysis covers whether NGN achieves credit ratios that are consistent with the requirement to achieve investment-grade ratings with more than one credit rating agency.<sup>1</sup>
- NGN compliance with Ofgem requirements on 'Financial Information' outlined in Section 7 of the RIIO-3 Business Plan Guidance.<sup>2</sup>

2

## Overview of assurance process

EI has assessed whether NGN is financeable, in the sense of achieving credit ratios consistent with an investment-grade credit rating, on a notional and actual capital structure under:

- Ofgem's and NGN's working assumptions for cost of capital allowances; and
- Ofgem's pre-populated and NGN's bespoke BPFM parameters.

We have not assured the robustness of these underlying inputs to the analysis.<sup>3</sup>

In addition to analysing credit ratios under the base case in NGN's RIIO-GD3 business plan, EI has applied:

- Ofgem-prescribed stress tests (SSMD assumptions); and
- Bespoke Economic Insight recommended stress tests (SSMD assumptions).

<sup>1</sup> We consider that, for a firm to be financeable, it must both: (a) be expected to generate a rate of return commensurate with its level of risk (as typically measured by the weighted average cost of capital); and (b) have cash flows that are consistent with being able to make debt payments and raise debt finance on reasonable terms. Item (a) is outside the scope of our assurance work.

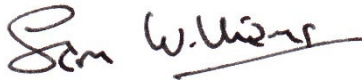
<sup>2</sup> 'RIIO-3 Business Plan Guidance' (Ofgem) September 2024.

<sup>3</sup> The assessment of whether cash flows are consistent with being able to make debt payments and raise debt finance on reasonable terms is only meaningful to the extent that modelled cash flows accurately reflect expected cash flows. This further requires that the assumptions made about the notional and actual firm (both separately and in combination with one another) are robust. This issue is outside the scope of our assurance work.

We have also assessed whether NGN has complied with Section 7 of the RIIO-GD3 Business Plan Guidance, released in September 2024 and subsequent Ofgem communication to NGN that has been shared with us on points relevant to this part of the Guidance, for example following Working Groups.

### 3 Formal assurance and acknowledgement

Based on the assessments set out in the preceding section, our independent review of the financeability of NGN's RIIO-GD3 business plan confirms that, under Ofgem's and NGN's working assumptions and parameters detailed in section 2, NGN achieves credit ratios that are consistent with the requirement to achieve investment-grade ratings with more than one credit rating agency on both a notional and actual capital structure basis. We have also independently assured NGN's compliance with Section 7 of the RIIO-3 Business Plan Guidance, and modelling guidance from Ofgem, in its submissions.



Sam Williams, Director, Economic Insight

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### 4 Limitations on liability

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- 4.2 We will not be liable, whether in contract, tort (including negligence), breach of statutory duty or otherwise, for any loss of profit, loss of business, business interruption, or loss of business opportunity or any indirect or consequential loss arising under or in connection with the provision of our services (including but not limited to this report).
- 4.3 Economic Insight accepts no liability for any action taken on the basis of the contents of this report. Further to paragraph 2.2, any individual or firm considering a specific investment should consult their own broker or other investment adviser. Economic Insight accepts no liability for any specific investment decision, which must be at the investor’s own risk.
- 4.4 Subject to losses wholly excluded under paragraphs 4.1 to 4.3, our aggregate liability for any damage, loss, cost, claim or expense arising out of, or in connection with, this engagement, including any reports or documents prepared pursuant to it, whether such liability arises in contract, tort, negligence or as a result of a claim for misrepresentation or breach of statutory duty or otherwise, shall be limited to the sum in accordance with our terms of service, or as separately agreed with you (The Client(s)).
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