

Stakeholder Justification Paper – Efficiency	
Output/Commitment Title Reduce how much it costs to run the business by 0.5% a year by improving the way we do things	
Detail	Further improve on our previous performance by becoming as efficient as we can and taking advantage of innovations that will cut costs while maintaining and improving service levels.
Targets (more stretching than GD2?)	Efficiency target proposed by the business in GD2 was 0.5%. Ofgem chose c.1%
Strategy Document/ Business Plan Section	Outputs & Incentives, Cost efficiency strategy
Benefits & risks	
Summary of benefits	Summary: A reduction in business costs will help us keep customer bills as low as possible.
Summary of risks	The productivity in the wider economy is near-zero and GDNs are no different. There is a risk that 0.5% is not achievable if productivity gains do not improve. This risk is heightened given the specific risks associated with the uncertainty in the gas sector, not only from a wider government policy perspective but also from the near-term end of the IMRP (2032) and a declining new connections workload. All of these factors could lead to difficulties in meeting productivity improvements of this size.
Stakeholder voice - Golden thread	
Engagement method (what and who)	Methods: Deliberative quantitative research studies (informed by qualitative research) and collaborative engagement with GDNs and economic consultants. Stakeholders: Economic consultants, GDNs, domestic and business consumers, including future bill payers.
Stakeholder Views (what they said, regional differences and how we responded)	Summary of feedback: Regulators should not continue to set ongoing efficiency targets based on expectations that improved productivity growth will occur. Even if productivity growth does eventually improve (which, at some point it must), there are concerns that the gas networks may have already been materially underfunded, because ongoing efficiency targets have been set too high at previous price controls. WWU and other GDNs commissioned work with economic consultants to undertake a benchmarking analysis, using total factor productivity (TFP) data to arrive at estimates for an appropriate ongoing efficiency challenge for gas networks in RIIO-GD3. Having developed robust and evidence-based approach, it was concluded that an ongoing efficiency target for RIIO-GD3 will most plausibly be in the range of 0.2% to 0.8% (the midpoint being 0.5%). The approach to ongoing efficiency should reflect a balanced treatment of evidence and be consistent over time. Therefore, the RIIO-GD3 ongoing efficiency target should reflect (to some extent) the UK's low productivity growth since 2008. This is a challenging target in the context of: <ul style="list-style-type: none"> • The near-zero productivity growth exhibited by the wider UK economy since 2008. • Outturn data for gas networks that shows their recent TFP growth has been: (a) reflective of the low economy wide productivity growth; and (b) significantly below the above range recommended by our consultants. • Evidence that there may have been an underfunding problem at recent price controls, which: (a) should not be exacerbated by continuing to set high ongoing efficiency targets; and (b) may limit future productivity gains. • Previous ongoing efficiency targets were set (in part) based on

expectations that UK productivity will improve; this improvement has not materialised.

- The actual TFP growth of gas networks have been significantly below recent ongoing efficiency targets.

Another economic consultant undertaking a cross-check exercise, considering the regional differences associated with our operations, were generally supportive of the key arguments made in the GDN collaborative work. They agree that the evidence of the UK's productivity slowdown is an important consideration for Ofgem. Following further analysis, their assessment is that a stretching, but achievable ongoing efficiency target is towards the lower-end of the recommended 0.2% - 0.8%. Their reasoning included reviews of the appropriateness of the comparator industries and the weighting that each was given in the calculation of an ongoing efficiency estimate in light of an activity mapping exercise they undertook; consideration of specific areas of our cost base and whether any should be excluded from having an ongoing efficiency challenge applied; and assessment of the approach used to estimate the upper bound in the range provided. Given the report provided from the collaborative work, their own insight and the context of RIIO-GD3 they consider an ongoing efficiency challenge of 0.5% will provide an appropriate but stretching target.

Engagement with 1,401 consumers (1,249 domestic and 152 business) on the acceptability of each of our proposed RIIO-GD3 commitments, including an ongoing efficiency target of 0.5%, showed over 90% of consumers understood what we are planning to do, the benefits of doing it and found the commitment to be acceptable.

We further tested this commitment in deliberative qualitative research, under the RIIO-GD3 theme, '*System Efficiency and Long-Term Value for Money*'. The research was carried out independently to ensure it was statistically valid and free from bias, involving 200 consumers from a broad range of demographics across our region. 89% of participants found the commitments grouped under theme to be acceptable.

How We Responded: Recognising the in-depth research by specialist economic advisors and the positive reception and acceptability from our stakeholders and consumers, we have decided to set our ongoing efficiency target at 0.5% each year of RIIO-GD3.

Triangulation scorecard

Our engagement scoring methodology leverages the information from the HM Treasury's Magenta Book, Quality in Qualitative Evaluation framework and various weighing methodologies used by networks to assess how much impact each piece of evidence should have on their decision-making process.

Each piece of evidence is given a score between 0-2 against a scoring criteria including *Relevance to topic*, *Level of stakeholder knowledge*, *Quality of engagement*, *Rigour of feedback collection* and *Credibility of analysis and interpretation*.

The table below outlines how the evidence used to produce this document scored against each criteria and its overall score. An average and modal score is then provided, which is associated to a grading system that demonstrates the feedback robustness and quality.

Document Name	Score					Final Score
	Relevance to Topic	Level of Stakeholder	Quality of Engagement	Rigour of Feedback	Credibility of Analysis and	

		Knowledge		Collection	Interpretation	
Economic Insight recommendations for OW at RIIIO-3 – 12-09-24	2	2	2	2	2	10
2024.10.16_WWU positioning note	2	2	2	2	2	10
1599 WWU Business Plan Acceptability Testing Report 181124	2	1	2	2	2	9
Ms1603 WWU GD3 Customer Consultation 2024 Summary Slides	2	1	2	2	2	9
Average Score of Sources						9.5

Score	Grade	Description
0-3	Poor	Feedback should not be used for triangulation as it does not meet the minimum quality standards.
4-6	Average	Feedback could be used for triangulation but possible lacks robustness.
7-8	Good	Feedback meets the standards necessary for credible triangulation.
9-10	Excellent	Feedback meets the best standards of rigour and quality.