

RIIO GD2 Business Plan Appendix

Procurement & Native Competition

December 2019



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1 Overview

1.1 Scope

Our procurement strategy is adapted to provide the most appropriate approach to all our assets. This appendix discusses how our procurement strategy has evolved during GD1, the development of our native competition plan and proposals for a Supplier Code of Conduct for GD2. This appendix focuses upon our overall procurement strategy, with business area-specific details provided in the annex.

1.2 Impact

A comprehensive, fair and competitive strategy is essential to drive innovation, improve efficiency and ensure we provide value for money in all our activities. Our procurement activities are driven by the use of competition, be it native, early or late, to ensure value for money. In addition, to ensure we act responsibly and ethically in our procurement activities we are developing a Supplier Code of Conduct for GD2.

Native competition

Native competition is defined by Ofgem as competitions run by network companies within the price control framework. It is incentivised under the totex mechanism and Ofgem has proposed that it should be undertaken in line with principles of best practice. As such, our native competition plan, detailed in section 6.1, is determined by the following six best practice principles:

- **Comprehensive procurement:** Utilisation of competitive processes for all projects and procurements. Processes to deal with any necessary deviation from this;
- **Robust competition:** The competitive process must be robust, transparent and ensure equal treatment for potential bidders and protect information appropriately;
- **Efficient operating model:** The complexity of the competitive process used should be proportionate to the value and technical complexity of the works, goods or services in question;
- **Transparency:** All information must be provided equally to all parties and any conflicts of interest must be appropriately managed. Licencees should be agnostic to technology and bidder type;
- **Fairness:** We seek to ensure that the supply chain does the right thing through fair and reasonable processes, along with mandated evaluation criteria where appropriate; and
- **Customer outcomes:** Competitions should be structured to generate outcomes in the interests of existing and future customers.

Each of these principles is set out further in section 6 of this appendix, which evidences how using competition ensures that our customers get the best price. Native competition is used to ensure that we have clear market-tested benchmarks, forming the basis of a high confidence business plan submission.

Early and late competition

Ofgem defines early and late competition in its RIIO-2 Sector Specific Methodology Decision document¹. In summary: early competition can be described as competition run prior to the project design process to reveal the best idea to meet a system need; For late competition a tender is run for construction and operation of a project and subject to satisfying the criteria that the asset is new, separable from existing assets and above a £100m threshold.

¹ RIIO-2 Sector Specific Methodology – Core Document, 24 May 2019

Supplier Code

Our sustainable approach to procurement has largely been outlined within our Responsible Procurement Charter (See annex A), with our intention to operate responsibly and ethically. We are currently developing this Charter to work towards building a sustainable procurement programme. We have started work with our suppliers to develop a Supplier Code of Conduct and ensure that 80% of them, by spend, can meet the standards and targets we are seeking to adopt before the start of GD2. We envisage that the Code will be a living document, adapted and developed as we move through GD2 and beyond. Our proposals are discussed in section 6 and annex A.

1.3 Approach to GD2

During GD1, our strategy has shifted from single large suppliers delivering workloads across whole network regions, to multiple contractors aligned to sub-regions and managed by local depots. We will continue with this successful approach in GD2, remaining focused on driving customer value through procurement.

2 Procurement & competition within the business plan

Our procurement and native competition strategy impacts all our business activities. Section 3 outlines the development of our strategy during GD1 and the learnings we have taken from that as we move in to GD2. Sections 4 and 5 discuss stakeholder insight and cross-sector issues that will impact GD2. Finally, section 6 discusses our GD2 activity.

Figure 1: Appendix structure

	Distribution Mains & Services	Distribution (Governors & Crossings etc)	Transmission	Other Assets	Cost Efficiency, Financeability, Procurement, Stakeholder Engagement
Management	Work Management & Business Support				
	Environmental Action Plan				
Systems	IT & Cyber Resilience		Electrical & Instrumentation		
	Energy Futures: Whole Systems & Scenarios, Energy System Transition, Innovation				
People	Workforce Management				
Other Assets	Property, Fleet, Plant & Equipment				
Customers	Customer Service & Vulnerability				
Emergency Service	Emergency Service			SIUs	
	Repair Service				
Inspection/ Maintenance		Asset Maintenance			
Repair & Revalidation	Repex	Integrity	Integrity & Compliance		
Refurbishment / Replace / Rebuild					
Growth/Resilience	Connections				
	Capacity Management				
Removal		Maintenance	Integrity & Compliance		

3 GD1 performance

3.1 Overview of service delivered

Our procurement strategy for GD1 has been focused upon ensuring delivering best value for money for our customers across all our assets. This appendix focuses on the service delivered and lessons learnt during GD1 with regards to our procurement strategy for three main asset categories: replacement expenditure (repex), governors, and major projects (transmission and E&I).

Replacement expenditure

Prior to GD1 our repex contracting strategy for Southern was via an Engineering, Procurement and Construction (EPC) model, with a sole supplier covering 95% of mains activity. In Scotland we also used an EPC model but with limited geographic footprint supported by smaller contractors where necessary. For GD1, to drive improved efficiency, performance and value for money we developed a new strategy based on a series of framework agreements. This has allowed us to engage further down the supply chain, improving efficiency and reducing costs. Due to diversity in requirements and various geographical challenges within both Scotland and Southern regions, separate contracts exist. This has allowed:

- The introduction and development of Small to Medium Size Enterprises (SMEs) to deliver works programmes; and
- Geographical focused performance management to ensure local ownership and accountability.

We have put customers at the heart of our contracts. Throughout all repex framework agreements we have included Contract Performance Reviews (CPRs), with a dedicated Customer Experience Officers (CXOs) to advise and support contractors on all customer service issues. In addition, the monthly CPRs include updates on safety and a review of working practices.

Case study: Flexibility of approach

During GD1 we had a requirement to deliver a large-scale project (13km) in Glasgow; it was a single project, not comparable to works typically delivered under longer-term framework agreements. As such, we offered it to both framework contractors and the open market.

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The primary reason for this one-off package being procured more cost effectively is that the bidding contractors had full visibility of the package requirements.

This flexibility in our approach to procurement for larger and/or single projects have seen contractors provide more competitive rates and ensure greater value for money for our customers. Annex B provides a comprehensive account of our procurement strategy for repex during GD1.

Governors

We are in the process of developing an Invitation to Tender (ITT) for our distribution governors across both our Southern and Scotland networks. The intention is to create a new multi-supplier framework agreement. This change in strategy has been driven in part by over reliance on a single supplier (see the case study below). In 2018 we trialled the new strategy on lower value products with the outcome supporting the intention of securing new entrants. Development of a framework agreement will provide many benefits, including:

- Standardisation of specification and pricing;
- On-going support for suppliers;
- Opportunities to innovate; and
- Opportunities of 'mini-competitions' to compete for bundled packages.

Case study: Over-reliance on a single supplier

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Major projects (transmission and E&I)

Major projects consist of mechanical, civil, design services, boiler houses, skid unit supply and E&I installations. For GD1, these have been predominately call-offs under framework agreements. Where circumstances dictate, we use one-off contracts, generally under the New Engineering Contract (NEC) suite of contracts. All major Framework Contracts have either been recently re-awarded or are in a retender process in readiness for GD2. As part of this process we have introduced new market entrants into the framework agreements which has increased competition and improved the prices secured.

Over the last two years we have reviewed individual projects with regard to the apportionment of risk. Historically risks, such as ground conditions, have been borne by the contractor but we have become concerned about the potential cost impact of this strategy. We have revised our strategy and now, where appropriate, we will take on this risk as an employers' item. Such flexibility as allocation of risk ensures appropriate value is maintained across all our contracts.

Annex D discusses the GD1 procurement strategy for major projects in more detail, including examples of our contracting strategy across the major project categories

3.2 Legislative background

The legislative requirements for competitive procurement are set out through the Utilities Contracts Regulations (UCR) 2016 and the Utilities Contracts (Scotland) Regulations (UCSR) 2016 which revoke and replace the 2006 regulations. The regulations apply to both our networks businesses where the estimated value of a proposed contract or aggregated value exceeds either £363k for supplies or service contracts, or £4.5m for works contracts.

In addition to this legislation, we ensure that these positive obligations are upheld in more general procurement events which do not exceed the statutory thresholds.

3.3 GD1 lessons learnt

Outturns against authorised costs

As part of our ongoing project review process for major projects we have carried out an assessment of outturn against authorised costs.

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As a result, we have sought some improvements (e.g. approaching the market at the most opportune time) and we have reviewed our costs models to take account of the lessons learnt from the review.

Mitigation against market pressures

To mitigate against market pressures, it is important that we work with contractors, both during tender events and throughout the contract delivery period. We have designed our contracts to drive not only value for the customer but to promote contractor sustainability. Some of the activities undertaken are:

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- To ensure the growth and development of our contractors we have established payment terms and Key Performance Indicator (KPI) incentives which maximise contractors' sustainability. Our 14-day payment terms and weekly applications allow contractors to maintain a consistent cashflow.
 - A move from priced projects to annual guaranteed workloads in Scotland.
 - In Southern we provide guaranteed workloads to encourage contractor commitment and on-going loyalty to deliver their full programme of works.
 - We have developed contractor workshops to provide support when new tenders are introduced to the market.
 - Our blend of national and regional suppliers has increased resource within the general gas contracting market.
 - Introduced Supplier Relationship Management (SRM) with strategic contractors.
 - Existing framework contractors are given the opportunity to develop and grow as varying workloads become available.
 - Where framework contractors are requested to work outside their geographical boundaries additional fees may be paid to cover mobilisation costs such as setting up the infrastructure required to deliver a contract successfully.
 - We also offer support with new systems, payment mechanisms and selected training.
 - Due to the loss of contractors and workload pressures, there is a requirement for one-off competitive tender packages which can be attractive to smaller/new companies looking to establish themselves within the gas industry.
 - With all tender events, both successful and unsuccessful companies are provided with constructive feedback to build their knowledge of what is required to secure works through procurement events with SGN.

Case study: Scotland reinstatement contract

An example of how we have adapted to market pressures, remain focused on value and ensured supply is the Scotland reinstatement contract.

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A new strategy was developed and included the following key amendments:

- Depot coverage - split into two tenders (Scotland central and Scotland rural)
- Pricing mechanism - incorporated lump sum/percentage-based management fee to supplement measured rates. The rationale behind this recommendation is to maintain supplier interest as the volume of works and measured areas are reducing and are likely to reduce over the term of the framework. This approach did not have a negative commercial impact on the rates but increased supplier interest.
- Delivery timescales - amending D+2 delivery timelines with an incentive uplift for achieving D+1 and a reduced payment value for delivery greater than D+2. Delivery timescales for the interim to permanent replacement was also amended to D+90 to maximise efficiency of supplier works.
- Measurement principles - introduced clear and concise guidance on measurement of works which ensured consistency across depot locations.

These subtle amendments increased supplier interest, evidenced through 21 submissions in lieu of seven submissions from the previous tender event. Five awards were also made whereas in 2014 a single supplier approach was adopted.

Ongoing market pressures

Despite the GD1 initiatives in contractor development activities, improved terms and conditions and KPIs, we are still experiencing difficulties in attracting and retaining contractors within the gas industry. Annex E provides a summary of the constraints, evidence of market response and our continued mitigative action.

4 Stakeholder insight

We have undertaken a comprehensive programme of engagement and research during the development of our GD2 business plan, helping us to understand our customers' and stakeholders' priorities. This is described in more detail in chapter 4 of our business plan and the Enhanced Engagement appendix (022). The following sections describe how our procurement strategy impacts upon the three commitments at the heart of our business plan; making a positive impact, building a shared future and delivering a safe and efficient service.

4.1 Positive impact

Our customers would like us to keep our costs down, maintain excellent levels of service and support those vulnerable in our communities.^{2,3} Our actions to ensure we have a comprehensive and cost-effective procurement strategy supports our commitment to make a positive impact for our customers and stakeholders.



Case Study: Contractor performance reviews – Focus on the customer

Our Contract Performance Reviews (CPRs) have a direct link to customer management/care as we have a dedicated Customer Experience Officer (CXO) in attendance. The CXOs assist and advise contractors with all customer service-related queries and communications. In addition, the CXOs provide customer service training, joint customer visits and audits specifically on the contractor. The audits include all related aspects of the contractor's interface with the customers including:

- customer service records;
- procedures to ensure compliance with statutory requirements; and
- SGN policies and guaranteed standards (continual monitoring of customer service standards, usually quarterly).

The CXO, operations team and contractor jointly manage and record customer claims complaints and claims. These are then analysed to identify any trends or concerns to improve future interactions with customers. This dual approach to customer engagement maximises the likelihood of increased customer satisfaction scoring and experience of their interaction with us. Influencing contractor performance is discussed further in annex B.

4.2 Shared future

Customers consistently rate future energy solutions as a high priority for further investment,^{4,5} and stakeholders expect us to further develop and understand our role in a future decarbonised energy system.^{6,7} An environment that promotes competition will help to stimulate new and existing markets. Actively promoting opportunities for small suppliers and new entrants will bring flexibility and responsiveness in new markets.



² Explorative Qualitative Workshops and interviews (Exploratory Phase) (Ref: 002)

³ SGN Business Plan Acceptability Testing Phase 1 (Ref 078)

⁴ Explorative Qualitative Workshops and interviews (Exploratory Phase) (Ref: 002)

⁵ Conjoint & WtP Summary report (Valuation Phase) (Ref: 005)

⁶ Future of Heat specialist panel Aug 2018 (Ref 023)

⁷ Collaborative future of gas networks workshop (Ref 070)

In addition, our customers have repeatedly exhibited a strong appetite for us to minimise our environmental impact.⁸ Customers attending our qualitative workshops felt that we should administer a supplier code to ensure our contractors are held to high standards of environmental best practice.⁹

Case studies: Mechanical and civil works

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4.3 Safe & efficient

Our customers have told us that safety and reliability are priorities for them¹⁰. The development of our Responsible Procurement Charter and Supplier Code ensures that all those we work with are as committed to safety as we are.



Case study: Mains replacement contracts

Contractors working on our sites are expected to respect our safety culture. We want to ensure that this is evidenced in practice. To promote this, contractors have SHE representation at our performance review meetings, allowing regular discussion on safety, incidents and trend analysis. During GD1 we also introduced safety management forums which allows our SHE managers to interact/interface with our supply chains safety teams as a group rather than aligned to regions or geographical lots.

Case study: Traffic management

Our initial framework agreements placed the responsibility and costs of all traffic management on the contractors. This required the contractors to take on additional specialist training costs or be subjected to highly inflated sub-contractor costs. This approach also increased safety risk as some contractors did not procure and manage larger scale traffic management projects adequately.

Following a review of the traffic management scope of works, we have clarified responsibilities and excluded four-way traffic management requirements from a proportion of our Scotland contractors' responsibilities. This also aligns the scope with the New Roads and Street Works Act (NRSWA). Contractors are now responsible for all traffic management up to and including three-way lights, which is seen as industry standard

⁸ Conjoint & WtP Summary report (Valuation Phase) (Ref 005)

⁹ Qualitative workshops - Environmental Action Plan (ref 084)

¹⁰ Explorative Qualitative Workshops and interviews (Exploratory Phase) (Ref: 002)



and does not required any additional or specialist training.

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5 GD2 cross sector issues

5.1 Decarbonisation & whole system

As noted in section 1, the UK government's Heat Policy is due in 2023. This may trigger a reopener during GD2 that enables GDNs to bring forward significant capital investment projects, most likely for delivery in GD3, that could open the sector to competition through Ofgem's proposed early competition model.

Our native competition plan will help to ensure we remain alert and flexible to this possibility.

5.2 Innovation

Innovation is embedded in our culture. Our achievements in GD1 and proposals for GD2 are discussed in detail in our Innovation appendix (008). Regarding our procurement and competition strategy, innovation can take many forms e.g.:

- driving improved efficiency in repex by developing a new strategy based on a series of framework contracts; and
- the evolution of our Responsible Procurement Charter in to a Supplier Code of Conduct.

Our learning and initiatives from GD1 will drive innovation in procurement and native competition going forward.

5.3 Resilience

Our native competition plan will ensure that our major capital investment programmes are resilient to change, are cost efficient and provide value for money for our customers.

6 GD2 activity breakdown

6.1 Approach to GD2

Native competition plan

As noted in section 1, native competition are competitions run by network companies within the price control framework. Following Ofgem's proposal that such competitions should be undertaken in line with principles of best practice, we have developed a native competition plan based on six best practice principles:

Comprehensive procurement

The UCR/UCSR require us to competitively tender for supplies or service contracts that exceed a value of £363k or for work contracts above £4.5m. These thresholds capture most of the goods, works and services required to support the network and are therefore subject to the regulations. However, in addition to EU legislation, we ensure that these positive obligations are upheld in more general procurement events which do not exceed the stated thresholds.

Procurement policies and procedures govern all types of procurement activity and are maintained by our internal standards and assurance team. This team is supported by a documented audit programme, an accessible site holding all relevant information for procurement professionals and a customer facing procurement portal for the business to access purchase to pay guides and 'How to Comply' guidance sheets.

The best practice set out in the procurement policies and procedures ensures compliance with UCR/UCSR, promotes competition in the supply chain and drives value for money for our customers. To support this ethos, we have a policy that all requirements over £10,000 are routed to our procurement department to ensure we

are not exposed commercially through inadequate terms and condition; and to maintain competition through market testing to confirm that best total cost is achieved.

Robust competition

Under UCR all tenders must be made available to the market via an e-platform solution. We have extended this to all tenders which are issued to the market regardless of value. We believe that this approach supports transparency and rigour within our process and encourages the market at all contract levels.

We take our role in ensuring robust competition seriously and will look to support more competition wherever possible. Key activities of any event are:

- Pre-procurement market engagement: these can include Requests for Information (RFIs); public events such as supplier days or attending local authority and enterprise forums to promote SGN to a new potential supply chain; and bespoke project sessions.
- Formalising purchasing strategies: to determine how best to ensure competition and obtain competitive pricing along with required level of quality; formally advertising opportunities e.g. directly in the Official Journal of the European Union (OJEU) or via Achilles.

Every year we advertise our use of Achilles¹¹ by way of a Periodic Indicative Notice (PIN) in OJEU. This advises all interested suppliers that we will advertise our requirements on Achilles, and to be considered they are required to register. Registration is free on the Supplier Registration System (SRS), which allows suppliers of all sizes to get involved.

- Consideration of selection and award criteria to ensure that price and quality weightings are appropriate and do not inadvertently exclude potential suppliers wherever possible.

As an example, during a recent tender event, where it was envisaged to be a limited number of suppliers in the market, we attended a 'Meet the Buyer' event which was organised with North Lanarkshire Council. The event allowed us the opportunity to interact with over 200 suppliers from various sectors and share information of upcoming tender opportunities and the process required to become one of our suppliers. As a result, we identified eight new suppliers that could potentially support major project activity in the future. This approach was further justified when we received pre-qualification submissions from three of those in relation to a mechanical and civil framework opportunity.

We find that this external engagement is particularly important for encouraging participation in tender events, particularly from SMEs.

In addition to supporting competition for individual tender events, we also consider it important to support competition into sections of the market where there is an over reliance on a restricted supplier base. At the time we were created as a separate entity, there were numerous instances where there was a single source supply, such as for pipe fittings, and we therefore worked with the supply base to promote new entrants and competition, by increasing accessibility to the market. This is important for improving supply chain resilience as well as increasing efficiency.

In 2019/20 alone, we will be issuing 32% of total expenditure to the market for competitive responses. This is in addition to spend which is currently under contract. This will be a mixture of framework agreements and fixed price one-off projects. This does not include mini-competitions which will be run against existing framework agreements and call-offs from existing contracts. We currently have 73% of spend attributed to competitively tendered projects. The world class measure for this KPI is 85%¹² and we are therefore aiming for

¹¹ www.achilles.com

¹²Sourcing and Procurement report: Top 10 KPIs to benchmark your Sourcing & Procurement function

this standard in GD2.

During GD2 we will continue to post all tenders on publicly available websites and continue to foster competition in areas where markets are restricted in order to drive competition, reduce costs and add value. Each year we will disclose in our financial report the number of tender published on either Achilles or direct with OJEU and the number of contracts awarded.

Efficient operating model

We recognise that there is a cost associated with the procurement activity from both the supply chain and the corporate centre. It is therefore important to ensure the correct balance between the complexity of the procurement processes and Contract by both value and technical merit. Structurally we look to deliver this by organising the Procurement team into three key areas to serve the business:

- Purchase to pay, low value/transactional procurement support and data analytics;
- (Strategic) category management;
- Commercial management and high value bespoke major works contracts.

As a part of the strategy development, we have focused on the use of framework agreements with multiple suppliers rather than awarding to only one supplier. We believe this has several benefits which ultimately leads to added value and obtaining the best possible price for the consumer whilst securing supply and increasing diversity and choice.

Transparency

Transparency is embedded into our internal processes, which also extend to our interface with the supply chain. Processes are captured on our procurement management platform which provides a structured approach and ensures information is shared and distributed in a fully auditable and transparent manner.

Fairness

In addition to ensuring we do the right thing through fair and reasonable processes along with mandated evaluation criteria, there is an expectation that the supply chain do likewise. This ensures that our people and customers are at the heart of what we do. Policies are in place to support this as follows:

- PLN-PRS-002 Modern Slavery & Fairness at Work in the Supply Chain Plan
- PR-PRS-031 Responsible Procurement
- PR-PRS-032 Financial Sanctions – Screening of Suppliers within Procure to Pay
- STM-PRS-001 Procurement Mandate Statement
- STM-PRS-002 Responsible Procurement Charter
- STM-PRS-004 Statement of Compliance with EU Procurement Regulations
- STM-PRS-005 Application of Business Separation Rules within Sourcing Events
- GD-PRS-006 Info Security & Data Protection via Procurement

performance, Jean-Philippe Massin; Procurement Leaders: [Category Planning Guide 2020](#)

Customer outcomes

We operate based on the Most Economically Advantageous Tender (MEAT) that set headline award criteria according to price, qualitative aspects, environmental aspects, and social aspects. These are defined and specified in advance according to the subject matter of the contract whilst ensuring that all parties are equally treated and have equal opportunity.

Though quality and price ratios are included and evaluated during tender events, it is not always the case that the lowest cost provides for the best customer outcome. Within the tender process, we are required to stipulate the criteria for both price and quality and ensure that these criteria are clearly set out in advance. By including the quality and price ratio, this determines the most competitive cost by considering the full life cycle of the procured good, works or services.

An example may be price 70% and qualitative 30%. Qualitative criteria may cover areas such as such: technical merit, cultural fit, safety, environmental and social aspects, delivery methodology, digital security etc. Following stakeholder feedback, we are reviewing the weighting of the quality component to put a greater focus on environmental considerations.

There will still be instances where the quality component does not change the overall award and the lowest tender will be successful.

Early and late competition

We have not identified any projects which either exceed or have the potential to exceed the £50m threshold identified by Ofgem for early competition. We will continue to review this as we progress towards a decarbonised pathway. For example, the UK government's heat policy (due in 2023) may provide the potential for projects which involve a significant repurposing of the gas network to be brought forward to enable hydrogen to be transported.

Similarly, we do not have projects identified that either exceed or have the potential to exceed the £100m threshold identified for late competition. Given the safety critical nature and the associated legal costs of late competition we do not believe that there would be a consumer benefit of introducing it into any of the projects which are being proposed for GD2.

Notwithstanding the above assessment of early and late competition for GD2, we will continue to ensure that all investment achieves the best consumer outcome through the implementation of our native competition plan.

Supplier code

We are committed to achieving relationships with suppliers that are mutually beneficial and promote best practices and continuous improvement throughout our operations. As a business, we have historically worked closely with our suppliers to ensure we minimise risk throughout our operations. Following the introduction of the Bribery Act 2010 and later the Modern Slavery Act 2015 we have strived to improve the level of engagement within our supply chain and ensure we, as well as our suppliers, abide to mandatory legal requirements.

As we look towards GD2 and seek to increase our level of ambition around sustainable procurement, we will be ensuring that the suppliers and contractors that we work with can meet and support our endeavours to operate in a more responsible manner.

A key focus of our GD2 business plan is the relationship with our supply chain and how we increase the standards we expect from those who provide the products and services we utilise in our day to day activities. As part of this, we have begun the exercise of building on our existing Responsible Procurement Charter to develop a set of standards to address any environmental and social impacts across our supply chain. Our **Supplier Code of Conduct** will set out the standard and expectations with respect to our corporate responsibility as well as the standards we expect of our suppliers during GD2.

The expectations for suppliers across all industries has shifted, with a call for suppliers to move beyond just meeting minimum compliance levels. Some of the key areas we will be focusing on will include labour and human rights standards, minimising environmental impact, health and safety and cyber security & governance. The **Code** will be designed to ensure that our suppliers are working to support the standards outlined, providing a safe working environment and ensure that goods and services are produced responsibly while minimising environmental impact. We will ensure that 80% of suppliers, by spend, meet the codes key requirements by the end of GD2 and report annually on this target.

To achieve this, we need to work to understand the challenges our suppliers may face in developing these standards and work to provide support and tools to address them. We work with suppliers of various sizes and levels of risk and it is imperative that the code provides a clear pathway to them to meet these standards as well as appropriate levels of support to allow them to incorporate them into their business.

A copy of our Responsible Procurement Charter and our work on developing a **Supplier Code of Conduct** are attached as annexes A.1 & A.2 respectively.

6.2 Assurance

Our business plan, including appendices, has been subject to a rigorous assurance process which is detailed in chapter 3 of the plan and the Board Assurance Statement.

Our Commercial Director was appointed as the Sponsor for the Procurement appendix and associated Business Plan Data Templates (BPDTs); which have been through the following levels of review and assurance:

First Line

This was undertaken at project level by the team producing the document, as a regular self-check or peer review.

Second Line

This was undertaken independently within the organisation to review and feedback on product development, including a GD2 workshop on procurement. Internal Audit reviewed the third line assurance work conducted by Ove Arup and Partners against scope.

Both senior manager and Director sign-off was obtained and our RIIO-GD2 Executive Committee: (1) considered the appropriateness of assurance activity for the appendix and (2) provided assurance to SGN's Board that the business plan meets Ofgem's assurance requirements.

Third Line

This was undertaken by external advisors and groups providing critical challenge during the development of products within the business plan. In addition to the feedback and challenge provided by the Customer Engagement Group (CEG) and Customer Challenge Group (CCG) this appendix was developed after consultation with and advice from:

Advisor / Group	Contribution
Ove Arup and Partners	Consultancy support to enable development of an evidence based high quality business plan draft by acting as an expert challenge group through independent peer reviews against Ofgem business plan guidance.
Hargreaves Jones	Cost analysis and adjustments over the GD1 period

Fourth Line

This was undertaken by independent and impartial external providers, who provided a detailed and comprehensive report to both the Executive Committee and Board of Directors:

Advisor / Group	Contribution
Ove Arup and Partners (‘Clean’ Team)	Efficiency review in relation to all OPEX, CAPEX and REPEX appendices

7 Annexes

Annex A.1	Responsible Procurement Charter
Annex A.2	Developing our Supplier Code of Conduct
Annex B	Repex in GD1
Annex C	Governors in GD1
Annex D	Major Projects (Transmission and E&I) in GD1
Annex E	Ongoing Market Pressures

Annex A.1 Responsible Procurement Charter

SGN seeks to be a leading energy provider in a low-carbon world. We aim to achieve that in a sustainable way, acting in the public interest and for the benefit of energy customers.

To ensure that SGN's business is conducted ethically, sustainably and within the law, SGN expects its suppliers, and encourages the same of their supply chains, to meet the principles outlined in this Charter. This means as a minimum complying with local laws and regulations and respecting internationally recognised human and labour rights, however the values of fairness and respect are equally important to SGN.

Health, Safety and Environment

Health and safety

At SGN if it's not safe, we don't do it, and we expect that all our contractors working with us follow that approach, so that we all get home safe.

SGN seeks to work with contract partners who have a similar positive approach to safety.

SGN aims to provide staff with the training, work methods and equipment necessary to achieve the highest level of health and safety performance.

SGN expects its suppliers to adhere absolutely to relevant legislation such as COSHH, REACH and RoHS where appropriate, and furthermore to work to industry best practice, where this exceeds the legislation.

Suppliers working on SGN's sites are expected to respect SGN's health and safety culture and where appropriate SGN will seek evidence that its suppliers are compliant.

Environment

SGN aims to prevent environmental damage and at all times comply with legislative and regulatory requirements. Furthermore, SGN will actively seek to develop positive environmental impacts as a responsible energy operator, develop and supplier.

SGN expects its suppliers to measure, manage and reduce their carbon footprint within their own business and supply chain.

Bribery and Kickbacks

SGN is committed to maintaining its established reputation for lawful and ethical behaviour and for financial integrity in all aspects of its business. SGN has zero tolerance of corruption, fraud and criminality (including financial crime), and the giving or receiving of bribes for any purpose in its business and supply chain.

SGN's suppliers must not engage in any form of commercial bribery or kickback, or offer any incentive to any SGN employee, their family or friends, in order to win or retain SGN business or induce those with a public function to perform it improperly.

SGN's suppliers must keep current, accurate written accounts of all payments (including gifts, meals, entertainment and anything of value) made on behalf of SGN, or from funds provided by SGN, and make a copy of these accounts available on request.

Supporting Local Economic Supply Chains

SGN is committed to ensuring that real economic and social benefits flow to local businesses and communities as a result of our investment in new energy infrastructure throughout the UK and Ireland. SGN's key supply

partners are critical to delivering this objective. SGN looks to them to form constructive local relationships so that local communities feel a direct benefit from those significant capital investments. SGN undertakes significant economic impact assessments of its investment portfolio to monitor the impacts made on the UK, Scottish and Irish economies.

Modern Slavery and Human Rights

SGN has a zero tolerance of modern slavery in all its forms in its own business and supply chain. This means not using forced labour, servitude, slavery, human trafficking, debt bondage, forced or servile marriage, descent-based slavery or child labour, and the right to freedom of association and collective bargaining is respected.

SGN's suppliers must not have any form of modern slavery across their business or supply chain. SGN's suppliers with a turnover over £36m must comply with the Modern Slavery Act 2015 and publish modern slavery statements publicly. SGN will seek evidence that suppliers are compliant with the Act.

Fairness at Work

Underpinning SGN's responsible employer ethos is the fundamental principle that all SGN employees and those in its supply chain must be treated – and treat each other – with fairness and respect.

Inclusion

SGN is committed to promoting inclusive growth which sustains skilled jobs for people of all backgrounds, with positive outcomes for shareholders and society. With a stark lack of diversity in the energy sector, there needs to be meaningful social change as well as improvements at the organisational level. SGN is continuing to play its part in addressing this challenge.

SGN will not discriminate on the basis of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race (which includes colour, nationality and ethnic or national origins), religion or belief, sex or sexual orientation. SGN seeks to go beyond protecting people from discrimination by also focusing on delivering equality of opportunity for people, regardless of their characteristics.

We expect all businesses in our supply chain to respect the people they employ directly or indirectly and offer a safe workplace that is free from discrimination, harm, intimidation, harassment or fear.

Information Security and Data Protection

SGN's suppliers should protect confidential information and personal data belonging to or vested in SGN in accordance with all relevant laws, and act to prevent its misuse, theft, fraud, or improper disclosure.

SGN's suppliers must take due care in handling, discussing, or transmitting confidential information and personal data that could affect SGN, its employees, its customers, the business community or the public, even after their assignment or contract with SGN has expired.

Conflicts of Interest

SGN's suppliers should avoid any interaction with SGN employees that may conflict, or appear to conflict, with any employee acting in the best interests of SGN.

SGN's suppliers should not employ or otherwise make payments to any SGN employee during the course of any business transaction (other than pursuant to the SGN contract).

If a supplier is aware of any family relations existing between its employees and SGN's, or if the supplier is aware of any other relationship which might create a conflict of interest, the supplier should disclose this to SGN.

Reporting

SGN's suppliers who believe that an SGN employee, or anyone acting on behalf of SGN, has engaged in wrongdoing, should report the matter to SGN. Suppliers similarly should report any potential violation of this Charter.

A supplier's relationship with SGN will not be affected by an honest report of potential misconduct.

Annex A.2 Developing our Supplier Code of Conduct

Please see attached document: 'Developing our Supplier Code of Conduct' dated November 2019.

Annex B: Repex in GD1

Annex Redacted