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Annex 22: Delivery Strategy

This annex sets out further details on how we plan to deliver our RIIO-ED2 Business Plan, building on our current delivery approach and aligning with our Workforce resilience planning

December 2021

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1 Introduction

Our RIIO-ED2 Final Business Plan (BP) represents a significant increase in activity as we step up to the challenges of Net Zero, deliver a range of outcomes prioritised by customers and also comply with a range of new legal and other external requirements.

This annex outlines our strategy for delivery in terms of our plans for ensuring we have the right skilled and trained resources, equipped with the right technology and supplied with timely and quality materials to do their job.

The challenge will be spread across our supply chains and will be met through the development and expansion of our own labour force, new contracting arrangements with existing and new suppliers and the building of strategic partnerships with technology suppliers.

Our primary strategy in respect of resourcing is to upskill our internal workforce, ensuring security, productivity and flexibility.

Where our business plan contains a significant increase in a specific type of work, in areas such as network automation and telemetry, we will engage with suitable third parties through competitive tendering processes to enable peak workload management and for those areas where the market can offer a more efficient cost than internal resource.

In line with our workforce resilience strategy, we will continue to insource those activities defined as core competencies unless it is a service that is widely available in the market place (e.g. excavation and backfill for underground cable work), providing a more efficient cost option.

2 Summary

Our RIIO-ED2 Business plan forecast splits roughly in half into our Network Investment programme and all other costs.

Our investment programme has historically fluctuated from price control to price control, depending on the particular investment needs and requirements of the time. Our Final Business Plan sets out the overall level of increase in expenditure in RIIO-ED2 compared to RIIO-ED1 and that pattern is also evident in the Network Investment programme. RIIO-ED2 is also marked by significant uncertainties in terms of its scale due primarily to the speed of decarbonisation and the impact of Ofgem's proposed changes to connections charging through the Access SCR review.

Looking at core, 'continuing' activities, RIIO-ED2 activity levels largely return to those delivered in DPCR5 (2011-2015). This was enabled through a set of regional framework contracts supporting our own labour force;

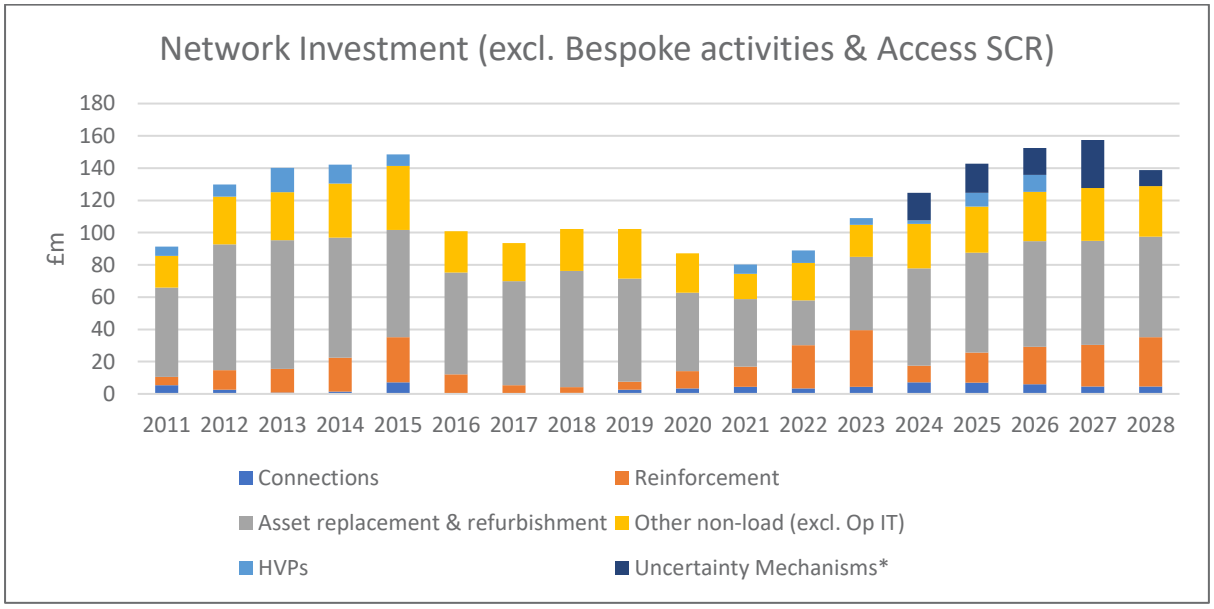

Figure 2-1 Network investment programme 2011-2028 – continuing activities (from Final Business Plan)

The costs of this programme have typically been split into 20% DLO, 50% Contractors, 30% materials & Other, where the Direct Labour Organisation (DLO) represents our own operational staff.

In RIIO-ED2 however, these continuing activities will be supplemented by additional work driven by frequently uncertain drivers. When we include the expected requirements from changes in the access and connections arrangements, together with our proposed innovation rollout programmes of Smart Street and LineSIGHT, we find a significant total increase over historic rates as shown in Figure 2-2.

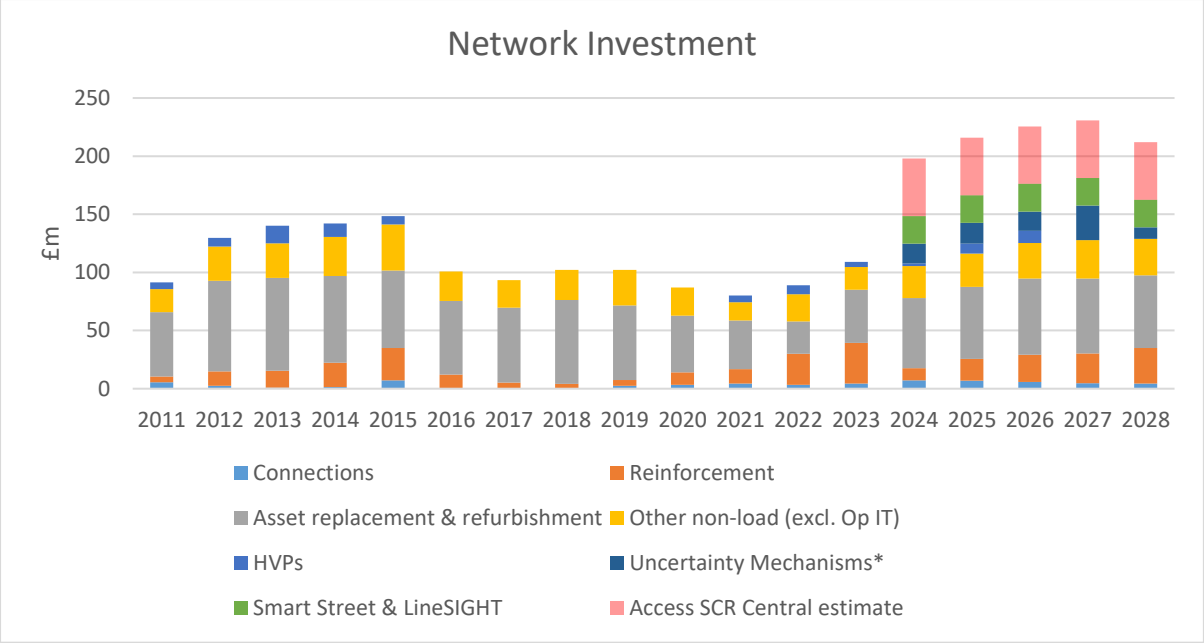

Figure 2-2 Network investment programme 2011-2028 – all activities (from Final Business Plan)

In our Draft BP, we assumed the increase in workload would be wholly picked up by contractors but we have reviewed this assumption and concluded that the increase would be best picked up by a proportionate scaling up of both our DLO and the contracting capacity such that we can better manage future uncertainties and ensure scalability. In part this is driven by the likely impacts of Access SCR etc.

Volumes of work are likely to be such that framework contractors are retained on multi-year contracts to deliver particular activities (eg overhead line work), predominantly on the lower voltage networks. These may be region-wide or retained on a sub-regional basis.

One-off contracts may also be used to deliver specific, time-bound programmes of work (eg PCD programme), or where particular specialist skills are required due to the technology involved.

For higher voltages, the current contracting arrangements are likely to be retained; however, it is noted that the volume of these contracts is likely to increase and may require additional resource to enable their timely procurement.

3 Modelling our future work requirements

3.1 Approach

In order to translate the financial forecasts within our Final Business Plan into work metrics, we have broken down each element of our Investment Plan into its core components. This allows us to identify the relevant voltage and equipment type, together with activities where a degree of specialism may be required.

To ensure we are modelling the most likely total resource requirement for Network Investment, we add together;

- Our baseline Network Investment forecast;
- Our baseline view of reinforcement consistent with our 'Central Outlook' scenario;
- Our 'best view' of the most likely scale of work from each of our proposed Uncertainty Mechanisms; and
- Our 'best view' of the likely impacts from Ofgem's Access SCR review.

We have then compared the total ED2 plan to an ED1 rollforward position reflecting current delivery capacity to identify the likely scale of any gaps, converting these into FTEs and then subsequently splitting between DLO and contractors in the ratios noted in section 2.

3.2 Conclusions

The plan contains an increase in labour expenditure; including DLO, support roles and contractors, of £159m versus the like-for-like ED1 expenditure. This is in the main driven by growth in Net Zero and smart grid technology deployment.

The increase in the baseline plan will be delivered in the main via the contractor market. The work mix within the growth is static by skill type and discussions with major partners shows that securing the additional resources required is readily achievable but is dependent on forward order visibility.

Much of the Net Zero growth is segmented into either equipment supplier contracted delivery; for example large power transformers or general contractor delivery eg cable installation and civil works. The former group is resourced by the equipment supplier via the Global supply procurement process whilst the latter group is dominated by non-sector specific utility general contractors who operate across water, waste water, gas, telecoms and electricity sectors. This market has a relatively lower skill level and is large in scale versus ENWL's regional requirements.

This market has been proven to be successful at flexing to meet annual variations similar to those between ED1 and ED2. The civil, excavation and cable lay activities are primarily contractor delivered due to the efficient nature of these comparatively lower skilled activities.

4 Investing in our internal labour resource

In RIIO-ED2, we will retain a significant, multi-disciplinary, regionally-focused internal labour force. Historically, this has been sized based on operational requirements, eg to fill standby (24/7) rotas and provide adequate depth for storm response.

The skill set within the DLO is managed to ensure ENWL is not exposed to the market price variability for scarce skills such as SAPs, protection engineers, jointing, design etc

This results in the DLO delivering all faults, the vast majority of Inspection & Maintenance (I&M) activities and 20% of the network investment programme. It is of note that fault and I&M volumes are generally stable year to year.

In RIIO-ED1, we have also established ENW Services (ENWS) as a complementary delivery arm, focused largely on specific work relating to the service position and involving significant direct customer interaction, eg service upgrades and unlooping. This has positioned us well ahead of the forecast increase in such work over RIIO-ED2, and we are planning to expand this resource further over the next couple of years.

The detail of our workforce development proposals is set out in Annex 27 – Workforce resilience Strategy. This section identifies the assumed impacts on DLO development following the resource modelling exercise described in section 3.

4.1 DLO resourcing impacts

In assessing the resources required to deliver this additional work, we have assumed that higher skilled work is delivered by up-scaling the DLO and lower skilled activities such as cable installation are delivered through the contractor market. Modelling indicates a requirement of 145 additional DLO staff and up to 580 contract staff. Discussions with contract partners indicate that the best view impact can be accommodated.

To ensure the training academy is sufficient to meet the above requirement, it is planned to increase the classroom and workshop training facilities by approximately 25% at a cost of £1m. We will also be investing in increasing the number of trainers that we have so that a programme of upskilling can be carried out in an efficient and flexible way.

4.1.1 Resourcing DLO growth

During ED1 our resourcing model to meet attrition rates has been delivered by our apprenticeship programme. The need to grow our resource in ED2 has required us to carry out detailed analysis to understand how we will meet the resource gap. Our analysis of existing in flight upskill training indicates that some 134 additional skilled staff will be available by the end of ED1. To make this available to meet the forecast increase in expenditure, a corresponding number of non-skilled mates will need to be recruited to backfill roles.

Our attrition modelling tells us that during ED2, we are anticipating that around 131 DLO colleagues will retire from the business resulting in a total requirement of an additional 276 FTE in ED2.

To meet the remaining shortfall and provide a measure of contingency, the annual apprentice intake will be immediately increased from the planned 20 pa to 25 commencing 2022 and an additional 41

adult colleagues upskilled in FY23. The table below summarises the overall Full-Time Equivalent (FTE) requirements for ED2;

Resource Need	Number of FTE	Method to fill resource need	Number of FTE (ED2)
Attrition forecast for ED2	131	Annual apprentice intake of 20	100
New FTE requirement in ED2	145	Additional five apprentices per annum	25
		Upskilling and back fill with trainee mates	134
		Additional upskilling and trainee mates	41
Support function roles in the wider business	47	Recruitment via the general labour market	47
Total requirement	**323**	**Total**	**347**
		ENWS recruitment	20

Table 4-1 Calculated ENWL FTE recruitment impacts from work requirements modelling

The increase in workload will also require a proportionate scaling of 'closely associated' roles such as design & project management. These have been included in the figures above.

The assumed FTE growth figures outlined have also been included in the relevant FTE table of our data submission to Ofgem.

4.2 Recruitment & Retention

Our skilled workforce is replenished via apprentice programme and selective adult training. The latter is important to maintain staff development, progression and ensure that we have a diverse workforce able to deliver the demands of net zero.

Our apprentice base plan comprises recruitment of 20 pa (100) supplemented by adult trainees. Our current apprentice programme is oversubscribed by a factor of 15 with strong progress on diversification. Last year out of 19 apprentices, 26% were females and 21% were from a minority ethnic background. Hence, we remain confident of being able to attract high quality recruits in the face of an increased requirement.

We regularly review our remuneration package through using market benchmarking via Willis Towers Watson to that we are able to retain the best talent with competitive rewards packages. More detail can be found in Annex 27.

4.3 Support & DSO roles

Many roles such as Finance, People Services, Commercial and other back office functions are not directly proportional to the volume of work. These roles are readily available in the general market.

Specialist roles such as design are more proportional to the volume of work but can be filled within 12 months through our usual recruitment practices, including graduate recruitment.

DSO requirements create the need for a small number of new skills including data analytics. In addition, new roles in IT, marketing and commercial trading will be required.

Developing our existing relationships with universities in the North West and implementing agile and remote working practices allow us to recruit for these new specialisms from a wider talent pool.

These roles are generally classified as Closely Associated or Business Support Indirect Costs in the Ofgem costs categorisation.

5 Contracting strategy

5.1 Working with the supply chain to deliver value

In order to deliver the wide range of activities required to maintain and manage our network, we utilise a variety of different contracting routes as set out in table 5-1 below.

Route	Typical scope
Internal DLO	Carry out a range of activities, focused on lower voltage overhead and plant work; also majority of SAP functions
Termed framework contracts	Broad scopes of work, often geographically-based and fixed for a set term (eg three years) with extension options. Generally agreed with Tier 2 contractors
Individually-tendered contracts	Mainly used for higher value Transmission projects; enables best market value at time of tender
Contractor panels	Typically used for high volume, low cost work eg civils. Enables use of wider set of locally-based contractors
Specialist contracts	Usually related to innovative or specialist projects & programmes with limited or unique supply chain
ENWS	Established to provide specific delivery capability in defined areas, particularly at the service position, eg unlooping

Table 5-1 Current contracting routes

These enable us to put the appropriate arrangements in place for the activity being considered. For example, single, large and specific projects are frequently individually tendered so we can ensure we get the best current market price. However, the tendering process can be lengthy and comes at a cost so for higher volume, lower cost routine activities, it is usually more effective to use a termed framework, entering into agreement with a contractor for a defined range of services over a defined length of time within a specified area and typically against a fixed set of rates.

During ED1 we put in place new competitive frameworks agreements for underground cable laying. The agreements will take us deep into ED2 by utilising an extension to 2028. This has provided the pricing and resource structure which allow us to continue developing visibility of upcoming work for our contractors to ensure a suitable overall resource level and price stability. Other elements of our current contracts extend into ED2 and these provide a key component of our ED2 delivery capacity. Through the modelling discussed in section 3, we have identified the priority areas to initiate fresh contract tenders which we will be presenting to the market soon.

5.2 Our approach

The way we procure services and materials plays a key role in supporting the delivery of the ED2 business plan and we put customers, value and corporate responsibility at the heart of all our procurement activity. We use the power of competition to secure the best value for our customers.

Our approach is category-focused, allowing our teams to specialise in particular areas to develop expertise and relationships with the market, helping deliver excellent results. We set high standards for our suppliers, particularly concerning compliance around health and safety, quality, environmental capabilities and corporate social responsibility. We also expect our suppliers to adhere to our publicly-available 'Supply Chain Charter'. This Charter covers: ethical standards; health and safety; performance and reporting; real living wage; modern slavery; environment; and our purpose and principles.

We also expect our supply chain to be aligned with our drive for Diversity & Inclusion (D&I) so that we can help to influence the wider sector to be more representative of our communities. For further details on our D&I approach, see Annex 27 to our RIIO-ED2 Business Plan – Workforce resilience.

We recognise our role as a public service utility and want to use our position to help raise awareness amongst our suppliers and other stakeholders of key environmental and corporate and social responsibility issues and how they might be addressed. We will continue to follow "The Utilities Contracts Regulations 2016 (UCR)" for all procurement activity above the applicable thresholds. The principles we follow are:

- equal treatment;
- proportionality;
- transparency; and
- non-discrimination.

To further increase our performance both commercially and operationally, we are transitioning to a more dynamic and value-focussed procurement process for ED2, while retaining the fundamentals of the regulated approach.

We aim to develop a strategic planning phase at the start of every procurement exercise which establishes the most appropriate approach to take. By understanding through collaboration with incumbent and potential suppliers, we will develop detailed scopes clearly outlining our requirements both from a technical and value perspective.

All procurement activity is developed in partnership with our internal stakeholders to create scopes of work that are written in an unbiased way, ensuring we do not specify any brands or outputs that would restrict competition. Our specifications ensure compliance with our procurement policy whilst supporting innovative solutions to meet our requirements.

We aim to improve our delivery of fit-for-purpose suppliers who have been selected for their key attributes and capability to work collaboratively. Given the huge changes in how we use IT and data including, but not limited to, our increasing work on distribution system operation, we are focusing on our approach in the IT sector with suppliers whose scale of business facilitates dynamic and tailored solutions to support our objectives to optimise our hardware and software solutions.

During ED1 we have improved our strategic planning and collaboration with our supply chain by developing our requirements throughout the lifecycle of agreements aligning them to the changes in our environment and service requirements. By taking this approach we will maintain and improve our capacity to keep up with developments in technology and advancements in asset and resource optimisation throughout ED2.

We frequently review our use of competition and contracting strategies, and continue to develop different routes to market. We have summarised these strategies and their benefits in the table below:

Strategy	Benefits
Strategic relationship	Collaboration with our supply chain partners aids our capability to be front and centre in the pursuit of increased network reliability.
Framework agreements (FAs)	By engaging with key suppliers in agreements over several years, we reduce the overall time spent on supplier selection, so we can focus more time on matching suppliers to solutions.
Mini-tenders	By the selection of suppliers who operate within our locality, we take advantage of supply and demand whilst fostering competition in each award. This works particularly well with small projects and suppliers who have less than 30 employees. We aim to support and develop these suppliers under contract periods longer than two years.
Spot-buys	With improvements in our forecasting capability, we have taken advantage of commodity fluctuations and we will continue to monitor areas of opportunity to increase the benefit we can extract from this approach and ultimately deliver value to our customers.
Dynamic purchasing systems (DPS)	In ED2, we aim to take advantage of the flexibility provided through the use of DPS which creates healthy competition between pre-approved suppliers. The capability to add suppliers throughout the term of the agreement will improve our options for supplier selection and reduce the sourcing time, thereby freeing-up resources to focus on optimising the supply chain.

Table 5-2 Current contract strategies

We have developed category plans detailing our strategy in the following areas: IT; support services; plant and materials (including innovation); and construction. Each category develops the procurement strategy and process and breaks it down into tiers of supplier spend and impact on the business. Key tender activity is planned out to focus resources on the high impact and risk services and materials.

We remain flexible in our approach to benefit from working with suppliers on creative solutions to our everchanging market. At all times we maintain our focus on our key stakeholders from across our business and ensure we consider:

- the interests of current and future customers;
- the environment;
- health and safety;
- data protection; and
- cyber security.

We use targeted key performance indicators throughout the tender process and awarded contracts to gauge the health of our suppliers, maintain performance standards and provide evidence for future supplier selection.

5.3 Corporate social responsibility in procurement

As we work with our local communities to transition to a low carbon business model, it is vital that we behave responsibly, acknowledging the impact and the transformative role that we and our suppliers have in our local communities. This is articulated in our approach to CSR through our 'transforming

our communities' purpose-led responsibility framework. This incorporates our approach to working with our suppliers.

We are an accredited Real Living Wage employer and we encourage all our suppliers to attain this standard. All our tenders request this commitment and it makes up part of our supplier selection criteria. Mapping our supply chain provides a clear insight to the makeup of our suppliers across the UK, Europe and other continents.

Understanding the conditions people are employed in when manufacturing our materials is key to ensuring that we adhere to the commitments we make to our customers in our Environmental Action Plan (see Annex 13).

Our impact on the environment is a key focus area and single use plastics are predominantly part of our supply chain in the form of primary and secondary packaging. We are working with our suppliers to highlight areas that can be focussed on for removal to alternative packaging or changes in storage and distribution processes. In ED2 we will be working with other utilities to pool our demand to drive the agenda with common suppliers. As an example of simple innovation being deployed to remove packaging, we are working with suppliers using tubs to act as a storage and transportation products.

As part of our tender process we also work with suppliers to reduce the delivery miles to Electricity North West depots for finished goods and services. Our logistics requirements in the reduction of CO_2 will continue to be supported by our logistics provider. This approach requires detailed forecasting of demand and we will be implementing a new planning system to make this easier to manage (see 'Key agreements' below).

Here are some of the organisations we work with to deliver responsible procurement:
Slave Free Alliance and Hope for Justice: We are founding members of the Slave Free Alliance36, a social enterprise and membership initiative launched by Hope for Justice, we will continue to work with and support the Utilities Modern Slavery Working Group (UMSWG) which is now well-established and meets monthly to discuss modern slavery developments and best practice with 20 utility companies currently involved.

Examples of supply chain initiatives we have worked on include setting a standard across the utilities sector for pre-qualification questionnaires, which are used by procurement teams to assess the suitability of potential suppliers prior to issuing an invitation to tender. Work will continue with this group to promote awareness and best practice amongst utilities and our suppliers.

Supply Chain Sustainability School: During 2021 we became members of the Supply Chain Sustainability School which will help support us with our environmental reporting. As we develop our sustainable procurement plans, we will work with other utilities and companies outside of our industry to implement new information gathering systems. By embedding the strategies through monitoring of key performance indicators and supplier codes, we will understand the percentages of suppliers meeting our targets. Through this group we will gain the support to develop and report against key metrics for our industry.

Recycling Lives – Operational waste management: Part of the ethos of Electricity North West's purpose-led responsibility framework is to be a responsible employer, working with our communities to offer 'fresh starts' to talented individuals. In 2020, we awarded part of our operational contract to Recycling Lives who are a company that rehabilitates ex-offenders by working with HMPS to provide future employment and security on release from prison. They work with offenders during their sentence and select those who show desire to rehabilitate and work in the community. They are based

in Preston and their submission in the recent tender created the opportunity to reduce cost due to their location to service our Blackburn depot and two satellite depots based on our substation sites.

Their unique business model for resource has helped us work closely with members of our community who require support to move them into full-time employment. Throughout ED2 we aim to work with organisations such as Recycling Lives strategically and look at other opportunities where we can work together to improve our waste management and our communities.

Living Wage Foundation: We are an accredited Living Wage employer and we have built into our supplier selection process the expectation to pay the real Living Wage. During ED2 we will widen this to our secondary suppliers as well as our contracted suppliers. We will continue to promote the importance of paying the real Living Wage throughout ED2.

Anthesis (develop our approach to capturing Scope 3 emissions): We are currently working with Anthesis to develop Science Based Targets via the Science-Based Targets Initiative. Adoption of a suitable approach will provide insight into the Scope 3 value chain emissions beyond those currently calculated. Scope 3 emissions are indirect greenhouse gas emissions resulting from an organisation's operations. They also can be described in value chain terms as upstream (purchasing) and downstream (customer) activities.

Achilles: We work with Achilles who administer our selection database and primary supplier pre-qualification. As part of the service they also run a Utility group to develop their system against the needs of this community. It is important for us to create a complete picture of our supply chain not just in terms of performance, but also in relation to ethical and environmental standards. For the start of ED2, the group will be creating a new template for the audit service provided which we use to assist our pre-qualification of suppliers during tender but also to build up our understanding of our end to end supply chain. Over 80% of our supplier base is registered on Achilles which provides us with an excellent, up to date data source.

5.4 Key agreements

In addition to the framework agreements for underground cable laying previously referred to, which have the potential to run until 2028, we will award our new logistics agreement in April 2022 and it will potentially run for eight years covering all ED2 requirements. This avoids any impact from mobilising the new contract and associated potential material supply interruptions.

As part of our efforts to improve efficiency in logistics, we are also launching a new system to allow our teams out on site to access their material and equipment provisions via their mobile devices. This will save time and reduce mileage between site and depot stores by locating parts remotely and arranging delivery without the need to return to the stores.

Our generator framework agreement, which will run deep into ED2, was awarded to a new supplier in April 2021 deploying new equipment which is more efficient than previous models. The communication between our teams ordering the service and the generator provider has also been improved to take advantage of an app-based ordering capability. The added benefit of locating the generator provider at a site within the centre of our geographical catchment area enables delivery within three hours from order to site and this in turn will reduce the time our customers are without electricity.

5.5 Using data

Recent events such as Covid-19 and Brexit have highlighted the need to understand at a granular level supplier capability and risks residing in the supply chain. We have developed our sourcing portal to include all our contracts and created detailed reports to support our understanding of demand/spend per agreement, expiry dates for renewal or tendering, supply chain map for locations, and adherence to our policies such as modern slavery and real living wage. The outputs facilitate greater analysis and understanding of our Procurement KPIs while making the whole process more efficient.

To support the breadth of change required for our IT procurement we have implemented a dynamic team who can provide the depth of knowledge of the suppliers and services required to match our aspirations to enhance our systems and software. We will utilise all the available sourcing strategies and processes at our disposal to create a supplier portfolio to support of customer's requirements.
An example of this is with Chime our supplier for a new asset planning and resource/material planning system. The new system creates an item level forecast for planned work which will interface to our materials planning system, generating a material forecast for our suppliers.

The forecast will also be used to support our tendering activity with accurate material and resource demand.