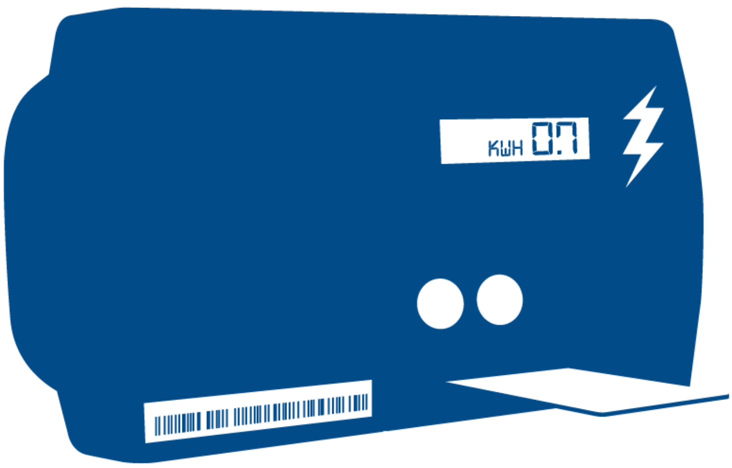
Citizens Advice response to the Ofgem RIIO-ED2 Draft Determinations Consultation - Overview and Core Methodology Questions

Citizens Advice
August 2022



Executive summary

This RIIO-ED2 (ED2) price control for the electricity distribution sector is set in an environment of a simultaneous cost of living crisis and a drive by the government to achieve its net zero goals. Ofgem needs to ensure that this price control delivers for consumers by ensuring that companies can meet people's requirements to connect their new electrically-powered technology while also keeping costs for consumers as low as possible. Ofgem must not repeat the errors of the past price control where companies were unduly rewarded.

While we can see progress in these Draft Determinations towards a more responsive price control aiming to deliver those two aims of meeting consumer demand needs and keeping costs low, we still think that there is more to do for consumers. The main areas where we believe improvements are required are:

- **Cost of capital is too high.** The overall approach to cost of equity over-estimates the level of returns required and detailed decisions favour the network companies. The clear evidence provided, including through the cross-checks performed, that the cost of equity is too high has not been acted on. Cross-checks indicate consumers could pay over £1.5 billion[1] more than needed across ED2. Ofgem should reflect this evidence when making judgements on elements of cost of equity.
- **Incentive targets are not challenging enough.** There are multiple occasions where incentive targets favour the network companies with outperformance and rewards too easy to achieve. These should be recalibrated to ensure only genuinely good performance is rewarded.
- **Baseline allowances for load-related expenditure may be too high.** The allowances may be overly generous given that electricity demand may not be at the levels that the companies expected when they put forward their plans. Factors suppressing demand could include people cutting back on usage due to the high cost of energy, people and businesses delaying purchases of electric vehicles or heat pumps due to affordability concerns, and people moving their demand so that peaks are not as high as expected. How baseline allowances have been set should be reviewed.
- **The value of flexibility is not fully reflected.** We are also concerned that the Draft Determinations will not provide the correct incentives for the use of flexibility services to better manage demand in the distribution energy system. The potential value of flexibility services does not seem to be reflected in either baseline allowances or the uncertainty mechanisms

[1] Comparing nominal revenues with MAR cross-check inferred cost of equity (using most recent transaction, NGGT, 3.2%)

to meet new load requirements. The checks and balances built into the price control which are supposed to encourage the use of these flexibility resources may not be sufficient.

- **The extent of regional variations is not justified.** The various strategies that underpin the Business Plans have, broadly speaking, been accepted in their entirety. This will lead to customers receiving very different outcomes depending on which DNO region they live in. We do not believe such significant variation is justified by differing consumer needs and preferences. Ofgem should identify the areas where best practice and common ambitions, revealed through the Business Plans, should be implemented across the networks.

The risks to consumers are clear, especially those least able to afford higher bills. Over-high cost of capital allocations could overpay companies as in the past. While too generous baseline allowances and a focus on traditional infrastructure could mean consumers are left paying for so-called 'stranded asset' investments that may not be needed for years to come or may never be needed.

Our key points for ED2 in detail

Cost of capital is too high

We are concerned that the overall approach to cost of equity over-estimates the level of returns required and that many detailed decisions work in favour of the network companies. There is clear evidence provided, through the cross-checks performed, that the cost of equity is too high and that this evidence has not been acted on. Specifically, we believe that:

- Outperformance has not been addressed
- The approach to the Capital Asset Pricing Model (CAPM) favours the network companies
- The stronger protections and lower risk in ED2 are not reflected
- There is a consistently generous approach to detailed decisions

These points are supported by Ofgem's cross-checks. We estimate that, if the evidence of the cross-checks is not acted upon and changes made, consumers could pay over £1.5 billion more than needed across ED2. This would increase when additional expenditure is included through the ED2 uncertainty mechanisms.

Recommendations: Ofgem should do the following:

- Review the approach to CAPM elements
- Remove generosity in detailed decisions
- Present Return on Regulated Equity (RoRE) ranges on a probability weighted basis. This should be used to provide a more plausible range for financeability checks

Incentive targets are not challenging enough

We believe that incentive mechanisms should hold to the principles that deteriorating or poor performance is penalised and that performance that is improving and good[2] is rewarded. At present, it is not clear to us that every incentive mechanism meets these principles. Incentive strengths should reflect the relative need to drive additional outperformance or prevent deterioration in each incentive area and in some areas we think incentive exposure could be lower. We are also concerned that the incentive mechanisms are often calibrated using average sector performance, giving too much weight to outlying scores, and fail to recognise both the upward trend in scores and the probability that DNOs will continue to improve year on year. Targets also appear to be set without taking account of the targets DNOs have set out in their Business Plans. This may not raise standards sufficiently and risks over rewarding companies.

The incentive mechanism parameters are of heightened importance to drive better performance in this price control given the acceptance by Ofgem of so many disparate DNO strategies with a wide range of activities, baselines, and targets. The incentive mechanisms will need to reflect up to date baseline information, encourage best practice with stretching targets, and raise poorer performers up to acceptable levels. We make a number of suggestions as to how targets could be better set to meet these principles in the detailed section of this consultation response. We believe that rolling targets would also address these issues in many cases.

We previously set out in our response to Final Business Plans a number of examples where we do not believe that variations are adequately explained by regional differences or customer preferences, and we cannot identify how Ofgem has addressed this in the Draft Determinations.

[2] Relative to other networks e.g. above average or upper quartile

Recommendations: Ofgem should review incentive mechanisms to ensure that they are appropriately calibrated to ensure that deteriorating or poor performance is penalised, and that rewards are only able to be achieved through performance that is improving and good. Ofgem should also set out clearly where it is, and is not, confident that levels of variation, particularly of targets, are justified by customer engagement and regional differences. Where confidence is not high, we recommend that incentive exposure is reduced to protect customers and equivalent adjustments are made to associated baseline allowances.

Baseline allowances for load-related expenditure (LRE) may be too high

The scenarios and forecasts put forward by companies were developed in a different environment from today. The National Grid Electricity System Operator (ESO) System Transformation scenario, which has been used to overlay the DNO forecasts to ensure a consistent position, may not incorporate potential implications for demand resulting from the current energy situation and cost of living crisis. Factors which may affect future electricity demand could include:

- Consumers (domestic and business) deferring the purchase of Low Carbon Technologies (LCTs), such as electric vehicles (EVs) and heat pumps, due to financial pressures
- Initiatives led by the government to reduce peak and overall demand through demand side response (DSR). For instance, National Grid ESO, in collaboration with suppliers and other partners, is working on a DSR programme which could decrease peak demand as soon as this coming winter
- Other DSR measures which may be used more in the coming years, such as Time of Use tariffs, could depress peak demand levels
- Consumers reducing overall demand due to the high cost of energy by cutting back on usage or by using other technologies such as solar generation

It was also not clear how Ofgem has considered demand diversity from the use of different LCTs as they add to the network, and how differing DNO utilisation rates may have been incorporated in baseline calculations. Effective demand management by consumers may mean that adding a particular LCT may not result in a 100 per cent additive effect on demand but only a smaller percentage demand.

Recommendations: Ofgem should review the baseline allowances that have been proposed for LRE to ensure that new factors which may affect future demand levels have been taken into account. Risks for consumers and companies from lower baseline allowances are mitigated through the uncertainty mechanisms built into the ED2 price control which release further LRE funding as required.

The value of flexibility is not fully reflected

Flexibility resources offer the possibility to defer or avoid traditional reinforcement (building of network assets) and save consumers money. The overall focus within the price control, including for LRE funding (for instance, the secondary Low Voltage (LV) volume driver), appears to be on traditional reinforcement measures. There are mitigating measures proposed within the price control to encourage and monitor flexibility service usage by DNOs. These measures include the DSO incentive, the use of the Common Evaluation Methodology and Costs and Benefits Analysis tools, and within the requirements of new Electricity Distribution Licence Condition 31E. However, we believe that the direct funding arrangements, particularly for LRE, need to ensure that a flexibility first solution is adequately encouraged.

Recommendations: Ofgem should consider how to better encourage the use of flexibility services within the price control, particularly for LRE.

The extent of regional variations is not justified

Many elements of the Business Plans, including Environmental Action Plans (EAPs) and the strategies for Vulnerability and Distribution System Operation (DSO), have been largely accepted without apparent critical assessment of best practice or their different levels of ambition. Customers will receive different levels of service in their areas as a result, and there does not appear to be clear justification for such regional variation evidenced from customer and stakeholder engagement. We are also concerned that novel or peripheral activities that could be viewed as ‘scope creep’ have been accepted for ED2 through this wide acceptance of plans and strategies. These peripheral activities could become the precedent for future Business as Usual activities when there may be limited current justification for such activities.

Recommendations: Ofgem should identify those plan activities and schemes which represent superior practice and ensure that all consumers in Great Britain receive a consistent and ambitious level of service.

Further important asks for ED2 and ED3

Insufficient ongoing expert and stakeholder input during ED2

The ED2 price control has continuing developmental elements that would benefit from ongoing input and challenge from appropriate expert stakeholder groups which are closer to understanding network performance. We believe that there would be value in having an overarching Network User Expert Advisory Group that would input to the reporting reforms that Ofgem is planning. The Group could also report on the effectiveness of the uncertainty mechanisms, comment upon the developing governance and guidance documents implementing many activities, and review changes proposed to Guaranteed Standards of Performance (GSoP) payments. It could also have a role in shaping and reflecting on the implication of innovation funding initiatives.

We also believe that there is a role to continue company specific expert groups for the ED2 period to replace the ED2 Customer Engagement Groups (CEGs). Some DNOs are proposing to retain a version of their CEGs while others are not. The remits for the proposed ongoing groups are also variable. It is likely that consumers will receive inconsistent challenge from expert stakeholders at the company level, with the risk that some companies will not be held to account or to a lesser degree.

Recommendations: Ofgem should establish an overarching new Network User Expert Advisory Group for the ED2 price control period to ensure that expert and consumer views are able to guide a dynamically-changing price control. Ofgem should also require that each company has a version of the funded CEGs during ED2. These challenge groups could be used to hold the companies to account for their Business Plan commitments, and ensure that the rapidly-evolving work of the DNOs is scrutinised. A formal requirement from Ofgem with guidance on remit would ensure consistency for consumers across GB.

Confidence needs to be raised in stakeholder engagement for important consumer areas for ED2 ongoing developments and for ED3

Ofgem needs to have confidence in the stakeholder engagement produced by companies including in the surveys that show the extent to which consumers are willing to pay for improvements in service or performance levels. It is not clear that Ofgem has full confidence in stakeholder engagement in areas such as network reliability.

Recommendations: Ofgem should consider using joint and/or prescribed stakeholder engagement for some important areas, such as consumer views on reliability improvements, and in how companies should conduct willingness to pay studies. This directed stakeholder engagement could be used for any important ongoing areas of engagement required during the ED2 price control period and in advance of the ED3 price control.

Confidence needs to be raised in Distribution Future Energy Scenarios (DFESs) and how associated network forecasts are developed

It appears that the DFESs, and the associated forecasts derived from them, have not proved robust enough for Ofgem to use alone in determining allowances.

Recommendations: Ofgem should prescribe more closely how DFESs and network forecasts are developed to ensure consistency and comparability, and to improve confidence in using DFESs and their forecasts to set allowances. DFESs could also be developed with, and verified by, an independent body such as the Future System Operator.

Future price control Business Plan development processes need to be improved

The disparate nature of ED2 Business Plans and strategies has meant that stakeholders, including us, have struggled to be able to compare plans, costs of proposals, and identify best practice. We also believe that more comparable and simpler plans and strategies would have enabled Ofgem to undertake closer scrutiny of individual elements to identify and encourage best practice. The largely wholesale acceptance of many DNO strategies within ED2 may reflect the variable nature of these plans as well as the resources that would be needed to scrutinise them to a highly detailed level.

We also identified inconsistency with the types of documents which were placed on DNO websites, such as strategies, engineering justification plans, stakeholder engagement and triangulation reports. Not all annexes or appendices referred to by DNOs in their Business Plans were available online.

The majority of DNOs shared their Draft Business Plans so that stakeholders could input at that crucial stage, however, one DNO did not do so.

Recommendations: Ofgem should outline prescriptive and simpler formats for Business Plans and strategies to enable comparison and ease of review for the regulator, stakeholders, and energy network companies. Ofgem should also lay down the types of documents required to be on DNO websites. Draft Business Plans should be required to be put to stakeholder engagement.

There is no minimum reliability standard for consumers with some consumers continuing to receive markedly worse service

All DNOs are undertaking schemes to improve reliability for Worst Served Customers (WSCs) during ED2 although not every household determined to be a WSC is included. Those customers excluded from a WSC scheme will continue to receive a markedly worse service for many years to come.

In addition, the mechanism to deliver funding for the WSC schemes is a Use it or Lose it (UIOLI) allowance which does not offer the protections of a minimum standard as companies could not deliver their proposed schemes. A minimum level of reliability would ensure that all customers receive the same service standard, especially in a more electrified world.

Any national minimum reliability standard should apply to both high voltage (HV) and low voltage (LV) levels as the current WSC scheme is only for HV level reliability. The increased monitoring at LV level during ED2 should help enable identification of those receiving a markedly worse service at lower voltages.

Recommendations: Ofgem should develop a minimum national standard for reliability to replace the current WSC scheme. The minimum standard should apply to both HV and LV levels.

Responses to detailed questions

Abbreviations

We have used the following abbreviations in this document.

- ENWL - Electricity North West Ltd
- NPG - Northern Powergrid
- SPEN - Scottish Power Energy Networks
- SSEN - Scottish and Southern Electricity Networks
- UKPN - UK Power Networks
- WPD - Western Power Distribution

Overview Questions

6. Adjusting allowances for uncertainty

Q1. Do you agree with our proposal to introduce a new funding mechanism for PoLR (EV Provider of Last Resort) activities?

We do not support the proposal for PoLR. While we understand the strategic aim of supporting EV charge points in uneconomic circumstances, we do not believe that DNOs are the right bodies to be owning and managing EV charge points.

We believe that there are risks for consumers in that:

- Consumers could end up paying for this infrastructure in perpetuity with no exit
- Funding for uneconomic charge points via consumers' bills is regressive and will hit consumers who are vulnerable or low income. Subsidising of EV charge points in rural or otherwise uneconomic charge infrastructure areas should be by other means, such as progressive taxation
- There is a lack of transparency for this subsidy mechanism. It will be added to people's bills and subsumed within the general costs of an energy bill

- Those DNOs that have large rural areas that are likely to have high numbers of these otherwise uneconomic charge points will have a burden placed on their consumers' bills which other DNO areas, with more urban demographics, will not. This means that those consumers in DNO areas with already high distribution bills will likely face a disproportionately higher cost to pay these subsidies than other DNO areas

We recommend that the licence condition is removed and another mechanism (such as government funding directly to Local Authorities) is used to socialise the cost of uneconomic charge points.

Q2. What are your views on our two proposed options, and do you agree with our preferred option of a DRS (Directly Remunerated Service for PoLR)?

If the PoLR mechanism proceeds, which we do not believe is appropriate, we believe that the DRS funding mechanism is preferable as it will be more transparent, and the charge point infrastructure will not become part of the regulated asset base.

However, there should be assessments by Ofgem on the costs to own and manage these points to ensure that they are as value for money as possible as there is no other mechanism to incentivise efficient costs within the DRS mechanism which merely adds or subtracts net profits or net costs to the allowed revenue. Given the likely uneconomic nature of the EV charge points, it would appear that net costs are more likely than profits.

Q3. Do you agree with our proposal to introduce a re-opener to deal with recommendations from the Storm Arwen review, our proposed trigger and re-opener window?

We agree with the proposal to introduce a re-opener relating to implementation of revised activities that may occur during ED2 in response to the Storm Arwen review. We welcome the use of the common 1% materiality threshold. This may protect, to some extent, additional costs being claimed for activity or services which should already be part of BAU for such events rather than any wholly new services that may arise from the review.

Q4. Do you agree with our proposal to maintain the RIIO-ED1 High Value Project mechanism and focus it on non-load related HVPs in RIIO-ED2?

We agree with the proposal to maintain the High Value Project mechanism as well as focus it on non-load related HVPs. As explained, the Load Related Expenditure (LRE) re-opener is available to manage uncertain load-related HVPs.

Q5. Do you agree with our proposal to remove the RIIO-ED1 smart meter volume driver?

We agree with the proposal to remove the smart meter volume driver. The use of historic costs and volumes from ED1 should be sufficient to assess future costs for ED2.

We do not think that energy suppliers should be relying on network companies providing callouts to consumer issues clearly attributable to smart meters. Networks and the '105' number operating as an option of last resort is not a good consumer experience and is unlikely to be an efficient service design. We think more can be done to require suppliers to manage the callouts relating to the equipment for which they are responsible. As a result, we support the DCUSA Issue 63 work 'Provision of a supplier 24/7 emergency metering service'. We hope that Ofgem will work with DCUSA and examine the historical and forecast RIIO-ED1 and RIIO-ED2 data that can be used to benchmark and assess costs. This should be used to assess the benefits of alternative options.

Q6. Do you agree with our proposed approach for a common materiality threshold being applied to RIIO-ED2?

We agree with the proposed approach for a common materiality threshold for re-openers applied in ED2. We note that the threshold will be met when the changes to allowances, multiplied by the TIM incentive rate applicable to that licensee, exceeds a threshold of 1% of annual average base revenues. The use of such a materiality threshold will avoid a regulatory burden on Ofgem for smaller and/or multiple re-opener applications.

9. Approach to the Totex and Business Plan Incentive Mechanisms

Q7. Do you agree with our view that all the DNOs have passed Stage 1 of the BPI?

We note the detail surrounding where DNOs had not met the Stage 1 requirements. We are not best placed to assess these requirements given the large amount of information that needs to be reviewed, and as some information is not available to us. We note that Ofgem did not feel that the DNO failures to meet minimum requirements were material and/or did not impede the ability of Ofgem to set the ED2 price control.

We did note that WPD's DSO Strategy did not meet the minimum requirements, which is of concern for consumers and stakeholders. The reason for failure was "*that WPD did not provide enough detail on the proposed performance measures that would enable stakeholders and Ofgem to evaluate progress in the delivery of its DSO strategy and associated outcomes*" (p73 Overview document). However, we note that Ofgem does not consider these lack of performance measures to be material in the ability to set the new DSO incentive framework (p74 Overview document). As WPD will be required to follow the DSO incentive framework performance measurements that Ofgem has set, we agree that this may not be as material as it may at first appear.

We have no additional evidence to disagree with Ofgem's view that all DNOs have passed Stage 1 of the BPI.

Q8. Do you agree with our overall approach regarding treatment of CVP proposals?

We support the overall approach regarding treatment of CVP proposals.

In our Call for Evidence submission, we outlined concerns that some activities appeared to be BAU activities, or were not fully justified. We also felt that some activities were justified or welcomed (such as shareholder-funded activities) but we could not support the justifications presented as to why they should receive a reward. We are therefore satisfied with the overall approach to reject those CVPs which appear to be BAU or are Corporate Social Responsibility, or to accept some CVPs where they are acceptable activities but where they should not be additionally rewarded beyond receiving baseline funding.

We support the use of clawback arrangements for partial or full non-delivery, and that this is undertaken on an ex-post and Ofgem-assessed individual basis. We support the clawback of only the proportion of reward to any CVP value that did not materialise.

We support the annual reporting requirements and the use of performance metrics.

We note that companies that do not receive a CVP reward but will receive baseline funding for their activity do not need to use the CVP reporting requirements. However, companies are still expected to deliver the activity. We would encourage DNOs to publicly report the baseline-funding activity that was previously submitted as a CVP given the substantial stakeholder engagement that was undertaken to submit a CVP proposal and the likelihood of continuing stakeholder interest in the activity.

We will address particular comments regarding individual CVPs in the Company Specific section.

10. Increasing competition

Q9. Do you agree with our proposed position on early and late competition?

We welcome consideration of how early and late competition can be utilised in the electricity distribution sector. The impact on the speed of network delivery needs to be carefully considered and in some cases competition may be a negative value proposition. We note that the size of suitable projects means that it is likely to see more use of competition in the transmission sector. However, we encourage Ofgem to consider the packaging of distribution projects to more regularly meet the proposed threshold to encourage design innovation that can benefit consumers through a range of potential providers. We note that projects that do meet the criteria during ED2 will be considered for late competition. We support that proposed position.

11. RIIO-ED2 in the round, post appeals review and pre-action correspondence

Q10. Do you have any views on the proposed scope of the Final Determinations Questions (FDQ) process and pre-action correspondence, including on the proposed timing for sending such to Ofgem?

We support the use of pre-action correspondence which is in consumers' interests to ensure that as many issues as possible are resolved without resorting to a costly appeals process.

The FDQ process should help to identify possible errors and areas of contention which could be resolved between DNOs and Ofgem as well as permit appropriate resourcing if appeals do go ahead.

The timing of the FDQ process (receipt of correspondence between early December 2022 to early February 2023) should allow issues to be identified following Final Determinations and prior to the publication of licence condition changes. We therefore support the timings as outlined.

Given our formal role as the representative of the consumer in the price control we would like to be copied in or notified of pre-action correspondence. Given the potential role of Citizens Advice as an appellant or intervener it makes sense to try and work collaboratively with companies and Ofgem where possible at an early stage to help present a balanced view of perceived errors and input into the implications of the price control in the round for consumers.

12. Access and Forward-looking Charges Significant Code Review

Q11. Do you agree with our proposal to not introduce a specific uncertainty mechanism to manage the impact of the Access SCR (and address it through the LRE mechanisms instead)? Please explain why.

We agree that a specific uncertainty mechanism may not be necessary given the use of the 2 volume drivers for secondary reinforcement and LV services, and the use of the LRE re-opener mechanism for primary reinforcement. We have noted, however, that the LRE re-opener may need to have an earlier window for applications than that currently proposed (April 2025) to allow for earlier action in the event of higher than expected demand as a result of Access SCR implementation (see our answer to Core-Q5 below).

Core Methodology Questions

2. Embedding the consumer voice in RIIO-ED2

Core-Q1. Do you agree with our proposals for the enduring role of the CEG?

We note the value of the CEGs and Challenge Group to the development of the ED2 Draft Determinations. We believe that the CEGs and CG greatly heightened the consumer view in the business planning process of the DNOs and will have led to improved outcomes for consumers.

We recommend that expert-led CEGs (or successor groups) have a continued role during the ED2 price control period given that this price control is a more dynamic and evolving process where it would benefit from ongoing expert and consumer representation. CEGs are independent and appropriately funded to have time to scrutinise large volumes of documents and attend frequent meetings. They are experts in their fields and have high familiarity with their respective companies' practices and regional differences. As such, CEGs have a greater ability to influence companies than an unfunded, occasionally-meeting stakeholder group, some of whom may be dependent upon the company for funding opportunities. **We recommend that CEGs are adequately funded by companies and endure during the ED2 time period to have maximum effectiveness for consumers. Such funding should be proportionate to the level of work during the ED2 period which may be less than that during the ED2 business planning process.**

We welcome the guidance that Ofgem has given to the DNOs regarding the types of focus and challenge activities that ongoing CEGs or successor groups could undertake. **We recommend that Ofgem is more prescriptive about the activities that a CEG should undertake given the ongoing and development nature of ED2.** In particular, we believe that CEGs could challenge and provide input to:

- Company reporting commitments
- Performance against Business Plan commitments, particularly those relating to vulnerability, and those commitments with high stakeholder support or impact (e.g. reliability, resilience, connections, DSO, etc.)
- Performance and effectiveness of bespoke uncertainty mechanisms and outputs
- Performance of CVPs
- Stakeholder engagement for the ongoing Stakeholder Engagement Plan and to support any requests for further funding (e.g. via re-openers), including willingness to pay, and Value of Lost Load (VOLL) change proposals

In addition to having company-specific groups, **we recommend that an overarching new Network User Expert Advisory Group is established for inputting to and providing challenge upon the ongoing developmental work within Ofgem for ED2.** This group could input to and provide evidence to guide the reporting reform that Ofgem is planning, including reporting on the effectiveness of the uncertainty mechanisms, and comment upon the developing governance and guidance documents implementing many activities.

Ongoing stakeholder engagement in ED2 and for ED3

Ofgem needs to have confidence in the stakeholder engagement produced by companies including in the surveys that show the extent to which consumers are willing to pay for improvements in service or performance levels. It is not clear that Ofgem has full confidence in stakeholder engagement in areas such as network reliability. **We recommend that Ofgem should consider using joint and/or prescribed stakeholder engagement for some important areas, such as consumer views on reliability improvements, and in how companies should conduct willingness to pay studies.** This directed stakeholder engagement could be used for any important ongoing areas of engagement required during the ED2 price control period and in advance of the ED3 price control.

Core-Q2. Do you see value in the CEGs working together to deliver more coordinated and comparative reporting on some of the DNOs' Business Plan commitments?

See our response to Core-Q1.

3. Networks for Net Zero

Core-Q3. Do you agree with our proposal to adjust allowances to £2.68bn to account for the concerns highlighted by our assessment?

We agree with the proposal to adjust allowances downwards given the insufficient justification for individual allowances. However, we have continuing concerns that the baseline allowances that have been proposed may be too generous. There may be a risk that DNOs will invest in assets that are under-utilised or never utilised if demand does not materialise as expected.

The scenarios and forecasts out forward by companies were developed in a different environment from today. The National Grid Electricity System Operator (ESO) System Transformation scenario, which has been used to overlay these forecasts to ensure a consistent position, may not incorporate potential implications for demand resulting from the current energy situation and cost of living crisis. Factors which may affect future electricity demand include:

- Consumers (domestic and business) deferring the purchase of Low Carbon Technologies (LCTs), such as electric vehicles (EVs) and heat pumps, due to financial pressures
- Initiatives led by the government to reduce peak and overall demand through demand side response (DSR). For instance, National Grid ESO, in collaboration with suppliers and other partners, is working on a DSR programme which could decrease peak demand as soon as this coming winter.
- Other DSR measures which may be used more in the coming years, such as Time of Use tariffs, which could depress peak demand levels
- Consumers reducing overall demand due to the high cost of energy by cutting back on usage or by using other technologies such as solar generation

It was also not clear how Ofgem had considered the demand diversity from the use of different LCTs as they add to the network, and how differing DNO utilisation rates may have been incorporated in baseline calculations. Effective demand management by consumers may mean that adding a particular LCT may not result in a 100 per cent additive effect on demand but only a smaller percentage demand.

The risks for consumers and companies from lower baseline allowances are mitigated through the uncertainty mechanisms built into the ED2 price control which release further LRE funding as required.

We recommend that Ofgem should review the baseline allowances that have been proposed for LRE to ensure that new factors outlined above which may affect future demand levels have been taken into account.

We note that Ofgem remains open to considering further evidence for strategic investment ahead of need from DNOs (p32). We support Ofgem's intention that any requests for such strategic investment would be subject to the same level of scrutiny to ensure that funding is only released when it is sufficiently well justified.

Confidence needs to be raised in Distribution Future Energy Scenarios (DFESs) and how associated network forecasts are developed. It appears that the DFESs, and the associated forecasts derived from them, have not proved robust enough for Ofgem to use alone in determining allowances. **We recommend that Ofgem should prescribe more closely how DFESs and network forecasts are developed to ensure consistency and comparability, and to improve confidence in using DFESs and their forecasts to set allowances. DFESs could also be developed with, and verified by, an independent body such as the Future System Operator.**

Core-Q4. Do you agree with our proposed secondary reinforcement volume driver and LV services volume driver and the associated controls?

We support the proposed use of volume drivers subject to the concerns which we outline below. We welcome the use of the drivers to flex allowances upwards or downwards as demand information becomes clear. We support the use of a capacity-based driver for secondary reinforcement and a unit/volume-based driver for LV services.

Both the secondary reinforcement and the LV services volume drivers must be responsive to changes to the demand. If either of the volume drivers proves insufficiently agile in practice, Ofgem needs to be ready to amend the drivers' operation or substitute baseline funding based on new DNO information. We therefore welcome the mid period review of the mechanisms' parameters, including unit costs, the cap, and wider operation.

We have serious concerns regarding the treatment of flexibility services within the volume driver to release funding in response to demand changes. The secondary LV volume driver appears not to incorporate any flexibility services funding and only appears to provide a mechanism for traditional reinforcement. We note that Ofgem is concerned about the risks of gaming or windfall gains from having either a separate unit cost mechanism for flexibility or using the same unit cost for releasing capacity as for traditional reinforcement. We still believe that there is merit in exploring a mechanism that can release funding for flexibility at the secondary level beyond baseline allowances, if not at the outset of ED2 but during ED2 as more information on the costs of flexibility becomes available.

Ofgem are proposing measures to ensure a flexibility first strategy such as DNOs being evaluated within the DSO incentive framework against whether they provide evidence that each reinforcement decision has been subject to assessment against the ENA's Common Evaluation Methodology (CEM) and the Cost-Benefit Analysis (CBA) via the Distribution Network Options Assessment (DNOA). We also note the new Licence Condition 31E reporting requirements on flexibility, however, we believe that prevention is better than cure, and that the price control should have a flexibility first outlook built into the LRE secondary volume driver. **We recommend that the volume driver is continued to be developed, incorporating new cost information on secondary level flexibility services when available, so that funding for flexibility can be addressed directly to ensure that traditional reinforcement does not become the default response. We also recommend that a stronger tie between the options assessment and the drawdown of funds from the secondary reinforcement volume driver is established. We recommend that DNOs confirm at each drawdown of funds using the secondary reinforcement volume driver that the DNO has subjected the reinforcement decision to the DNOA process using the CEM and CBA tools. Any drawdown that does not provide evidence of such assessment should be disallowed for funding via the mechanism, and funded via existing baseline allowances**.

Core-Q5. Do you agree with our proposed LRE re-opener?

We agree with the proposed LRE re-opener which is designed to address demand increases for all LRE needs not covered by the 2 volume drivers and not already covered within baseline allowances. We agree that a re-opener is suitable to consider funding requirements and justifications for lower volume, higher value needs.

In contrast with the secondary LV volume driver, the in-depth scrutiny offered by a re-opener can consider the explanatory narrative to explain network options to ensure that flexibility services are appropriately considered.

We note that this re-opener is designed to accommodate further funding requests as a result of Access SCR implementation. We believe that this re-opener mechanism may be sufficient, however, the re-opener window is planned to be only available in April 2025 (year 3 of the price control). It may be necessary to accelerate the opening of this re-opener if demand changes from the Access SCR implementation prove higher than expected. A re-opener window in 2024 or earlier may be necessary.

Core-Q6. Do you agree with our proposed approach to the Net Zero re-opener?

We agree with the proposed approach to the Net Zero re-opener which mirrors the Net Zero re-opener for the RIIO-2 sector companies. We believe that the re-opener offers a sufficient mechanism to manage unexpected further large-scale net zero changes that could affect DNOs.

Core-Q7. Do you agree with our proposed approach to the value of the SIF?

We have been working with Innovate UK and the Energy Systems Catapult to ensure the SIF will focus on areas that both network users and networks see as offering benefit to consumers.

We have input to the development of the SIF guidance and development of the Round 2 challenges. We welcome the steps so far to enable a more representative voice of stakeholders in determining where innovation utilising energy networks will deliver benefits for consumers. We think that broadening the engagement of network users in the SIF will enable a better appreciation of the whole system benefits that can be delivered by better harnessing energy network assets.

We think this collaborative approach to framing challenges and delivery guidance will be vital to efficiently utilising the funding available. The codesign of innovation proposals that support better engagement with the energy transition will help support a just energy transition.

We want to see Final Determinations and between price control initiatives - ideally supported by the Expert Network User Group proposed above to provide a steer for innovation projects about how the challenges and deliverables from innovation can help address the next price control design and the objectives it will seek to achieve. This work should seek to utilise a broad view of network users that help provide a better view of whole system implications. Without this role and input into price control development, innovation funding may not be focused on issues that can best facilitate system transformation required to deliver an efficient settlement and therefore a fair transition to net zero. Areas such as guidance on the optimal role of networks in areas such as energy efficiency, meter services, load management and EV charging.

Core-Q8. Do you agree with our proposed approach to weighting SSMD criteria and benchmarking RIIO-ED2 NIA requests against RIIO-ED1?

We agree with the proposed approach.

Core-Q9. Do you agree with our proposed approach to setting NIA allowances?

See answers to Core-Q8.

Core-Q10. Do you agree with our proposal to allow DNOs to carry over any unspent NIA funds from the final year of RIIO-ED1 into the first year of RIIO-ED2?

We support the proposal.

Core-Q11. Do you agree with our proposed approach for the Annual Environmental Report ODI-R?

We welcome annual public reporting in this important area for consumers including the use of Key Performance Indicators. We note, however, that there is still much work to be done in terms of:

- Determining a common report format
- Setting mid-period targets and other features for the mid-period review

As part of our review of Business Plans, we commissioned Baringa Partners to review DNOs' EAPs. **We recommend that Ofgem reviews this report[3] to identify key areas to assist in setting targets, identifying best practice, and presenting information.** In particular, Baringa recommended requiring DNOs to have a summary table at the front of annual Environmental Reports with ED1/ED2 targets and actual performance over a rolling 7-year period, supported by graphs and summaries by subject area.

[3] Baringa Partners, Review of DNO Environmental Action Plans for the RIIO-ED2 price control, February 2022

There was difficulty in comparing EAPs due to how information was presented and measurements used. **We recommend that the Environmental Reporting Guidance should ensure consistency between DNOs in how information is gathered, measured, and reported for annual reporting and for the mid-period review.**

Core-Q12. What are your views on the proposed mid-period review on DNO environmental performance and their progress to targets?

See our response to Core-Q11.

Core-Q13. Do you agree with our consultation position for the DNOs' EAP proposals in RIIO-ED2 as set out in this document? (Further detail included in Appendix 1 of this document)

We note that Ofgem has largely accepted the EAPs with some exceptions.

On Business Carbon Footprint (BCF) (pp 375-376), we note that each DNO proposed differing solutions and addressed reductions for different scopes and types of BCF (e.g. some included scope 3 and/or losses while others did not). It is not clear that these proposals are comparable and it is not readily apparent which ones represent best practice. **It is recommended that the DNO BCF targets are standardised to identify and incentivise best practice (including which scopes and types of activity are included, and the baselines), compare proposals, and so that reporting can be undertaken on a standardised basis.**

On Sulphur hexafluoride (SF6) proposals which have been accepted without amendment, the same issues apply as per BCF with respect to being able to compare the different proposals and their baselines. For instance, is the maintenance of a leakage rate of no more than 0.3% of the total inventory on the network better than reducing SF6 leaks by a minimum of 35% by 2028 from 2019/20? **It is recommended that DNO SF6 targets and baselines are standardised to identify and incentivise best practice, compare proposals, and facilitate reporting. We further recommend that SF6 be subject to a financial incentive regime to encourage appropriate behaviours.**

On losses, we note that Ofgem has accepted the proposals without amendment. **We echo the points raised above with BCF and SF6 with respect to comparability and recommend that the losses strategies have standardised baselining and reporting practices. We note that a separate**

incentive regime was not proposed for ED2 for losses. However, we still believe that this important area would be better served for consumers if there was a financial incentive regime to focus activity on better managing losses, especially given that losses are forecast to increase during ED2, and the costs to consumers are increasing significantly due to rising wholesale prices.

On reducing emissions from building energy use, we repeat the same issues with trying to identify which of the varying DNO proposals represents better practice and the most cost-efficient use of consumers' funds. **We recommend that best practice is identified and incentivised in this area so that proposals can be more readily compared and the DNOs with less ambitious proposals can be encouraged to meet best practice.**

On reducing emissions from temporary generation, we note that Ofgem is accepting the proposals without amendment. It was not clear that proposals were comparable or have the same levels of ambition. For instance, one company was proposing to "investigate the use of lower emission biodiesel fuels…" whereas other companies were committing to set targets. **We recommend that best practice is identified in this area including the use of firm targets so that all DNOs can be brought up to the same standard.**

On embodied carbon, we note that this is an area of development. We welcome Ofgem's encouragement to collaborate and share best practice across the sector, however, **we recommend that firmer methods of measuring, targeting reductions, and reporting upon embodied carbon should be an ambition to be delivered within the ED2 period.**

On supply chain management, we note that Ofgem is intending to accept the proposals without amendment. As with other areas noted above, it was difficult to be able to compare the different proposals and to identify which DNO represented best practice. **We recommend that best practice is identified by Ofgem to ensure that all DNOs are brought up to the highest standards in this field. A standardised approach would also assist in comparing proposals, setting targets, and in reporting.**

On sustainable resource use and waste reduction, we note Ofgem's intention to accept all proposals without amendment. The proposals presented by DNOs had differing targets and deadlines with some including 'total waste' targets and some having other targets (e.g. excluding hazardous waste). **We recommend that it would be better to have comparable proposals and to set targets**

using those proposals which represent best practice to bring all DNOs up to the highest standard.

On biodiversity and natural capital, we note Ofgem's intention to accept all proposals without amendment (although there are some rejections or partial rejections of some bespoke outputs). We recognise that biodiversity efforts by companies will be different in their respective areas due to geographical and environmental differences. We would encourage Ofgem to ensure that the learnings from these consumer-funded activities are communicated widely to ensure that DNOs and other bodies can benefit from this information and make relevant changes.

On fluid-filled cables, we note that Ofgem is requesting further information from DNOs to form a position. We welcome the drive for further information given the variability in the proposals, including the differing targets and baselines. **We would recommend that a standardised approach is adopted to drive best practice, and to be able to readily compare DNOs' performance. We welcome the use of a PCD if DNOs fail to supply sufficient evidence to allow for baseline funding.**

On PCBs, we support the use of an uncertainty mechanism to address the uncertainty in the volume of PCB-contaminated pole-mounted equipment on the network. We support the use of baseline funding for oil testing and replacement of ground-mounted equipment as their volumes are more certain.

On noise reduction, we note that Ofgem intends to accept the proposals without amendment. **As with other areas above, we recommend that best practice is identified throughout ED2 and that this is shared with other DNOs to ensure that changes can be implemented to consumers' benefit.**

On carbon offsetting or removal, we note that Ofgem is intending to ask DNOs for additional information (for those DNOs that have made proposals in this area). We welcome the further information that is to be gathered including a joint willingness-to-pay study and identifying stakeholder engagement for offsetting activities. Stakeholder engagement will need to show support for such activities in preference to other measures (such as preventative options).

In summary, many elements of the Business Plans, including Environmental Action Plans (EAPs), have been largely accepted without apparent critical assessment of best practice or their different levels of ambition. Customers will receive different levels of service in their areas as a result, and there does not appear to be clear justification for such regional variation evidenced from customer and stakeholder engagement. **We recommend that Ofgem should**

identify those plan activities and schemes which represent superior practice and ensure that all consumers in Great Britain receive a consistent and ambitious level of service.

Core-Q14. Do you agree with our proposal to withdraw the Environmental Scorecard ODI-F for RIIO-ED2?

We note the intention to withdraw the proposal for the ODI-F Environmental Scorecard and recognise the reasons given such as the relatively small size of any reward or penalty to drive changes beyond an ODI-R, the possibility to drive perverse decisions, and DNOs potentially being rewarded for factors beyond their control. **We still believe that this is an important area for consumers and recommend that the ODI-F scorecard is implemented.** If the ODI-F scorecard is not used, it is of high importance that the issues raised in our response to Core-Q13 are addressed to ensure comparability, and that best practice is identified and encouraged where only a reputational incentive is used.

Core-Q15. Do you agree with our proposed approach to design of the Environmental Re-opener?

We agree with the proposed approach for the Environmental Re-opener which will provide an opportunity for DNOs to receive additional funding for policy-driven environmental impact changes.

Core-Q16. Do you agree with our proposal for addressing PCB contamination in PMTs through a volume driver in RIIO-ED2?

No response provided.

4. Supporting a smarter, more flexible, digitally enabled energy system

Core-Q17. Do you agree with our proposal for implementing a Digitalisation Licence Obligation?

No response provided

Core-Q18. Do you agree with our proposal to have staggered publications of Digitalisation Strategies between RIIO-ED2 and RIIO-2 licensees?

No response provided

Core-Q19. Do you agree with our proposed Digitalisation re-opener?

No response provided

Core-Q20. Do you agree with the proposed enhanced reporting framework associated with IT/OT Data and Digitalisation spend and DSAP investment proposals?

No response provided

Core-Q21. Do you agree with our proposal to adopt TBM as part of the RIGs/RRP?

No response provided

Core-Q22. Do you agree with our intention to modernise the regulatory reporting process?

We agree with this intention.

Core-Q23. Do you agree with the proposed timeline for implementation of this modernisation?

No response provided.

DSO Strategies

There are no consultation questions surrounding the DSO Strategies and therefore we are adding a section on this topic at this point. Many elements of the Business Plans, including the DSO Strategies, have been largely accepted without apparent critical assessment of best practice or their different levels of ambition. Customers will receive different levels of service in their areas as a result, and there does not appear to be clear justification for such regional variation evidenced from customer and stakeholder engagement. We are also concerned that novel or peripheral activities that could be viewed as ‘scope creep’ have been accepted for ED2 through this wide acceptance of plans and strategies. These peripheral activities could become the precedent for future Business as Usual activities when there may be limited current justification for such activities.

We recommend that Ofgem should identify those plan activities and schemes which represent superior practice and ensure that all consumers in Great Britain receive a consistent and ambitious level of service.

Core-Q24. Do you agree with our proposed design of the DSO incentive?

We note that Ofgem is proposing to accept the majority of DNOs’ DSO strategies without amendment, apart from those investments with weak justification in the Engineering Justification Papers. Ofgem is best placed to evaluate these strategies in detail, particularly the cost elements, given the information available to Ofgem that may not be available to other stakeholders. However, we feel that there is little detail of the scrutiny by Ofgem of these strategies within the Draft Determinations including the identification of best practice, and little evidence of how stakeholders views, including from the CEGs and the CG, were taken into account in reaching the decision that the DSO strategies were largely acceptable. **We recommend a much higher level of detail in the Final Determinations to describe how decisions were made and to evidence how Ofgem is determining and encouraging best practice and benchmarking.**

We welcome the following design elements of the DSO incentive mechanism:

- The percentage reward/penalty of +/- 0.2% measured against RORE. We believe that incentivising DNOs to be flexibility-first is important but it would not be appropriate to increase the exposure of an incentive which is new and untested at this stage.
- The reserved ability of Ofgem to adjust targets in period for the stakeholder survey as more data becomes available to avoid over or under performance
- The elements of the DSO performance panel assessment criteria (p92) except for our further comments directly below on the input of important stakeholders to the process

We have remaining concerns regarding the input of the FSO, Local Authorities, and Devolved Governments to the evaluation process. It is important that these bodies, particularly the FSO, are satisfied with the progress that the DNOs are making in providing DSO services. The FSO and DNOs must work effectively for the electricity system to deliver net zero effectively. At present, it appears that the satisfaction of these bodies is captured within the stakeholder satisfaction survey section of the DSO performance evaluation. It is not clear whether these important bodies have higher weighting compared to other bodies. Also, it does not appear that the qualitative assessment outlined at p92 addresses the issue of interaction with the FSO or other bodies. **We recommend strengthening the performance evaluation to include a higher focus on satisfaction and feedback from specific important stakeholders, such as Local Authorities, Devolved Governments, and particularly the FSO.** While this could be achieved by a higher weighting via the stakeholder satisfaction survey, we believe it would be preferable to have narrative and quantitative feedback to be part of the qualitative performance panel assessment.

We recommend publicising these scores in a league table so that every stakeholder can see at a glance how the DNOs are doing each year.

We also recommend that Ofgem continues focusing upon the ENA CEM and CBA development to ensure that these tools represent best practice. The CEM and CBA tools should include all options to defer or avoid reinforcement such as energy efficiency as well as flexibility.

Core-Q25. What are your views on the outturn performance metrics and Regularly Reported Evidence (RRE) we are proposing to include in the DSO incentive? If you do not support their inclusion, please outline which alternative outturn performance metric(s) or RRE you think should be included in the framework instead.

We welcome the use of outturn performance metrics to determine the extent of DNOs' commitment to a flexibility first strategy (flexibility market testing), to network visibility, and to curtailment efficiency (where DNOs are encouraged to limit curtailment on users with no firm commitment).

We would welcome that the flexibility market testing metric is penalty only given it is a Licence Obligation (SLC31E) that DNOs have to procure flexibility when it is economic to do so. We support the proposal that the curtailment efficiency metric may be reward only given the other financial obligations that DNOs may incur if curtailment is above agreed limits as detailed in the Ofgem Access SCR Final Decision.

We welcome the further consultation on the targets for each licence area planned to take place during Summer 2022 as well as consultation on the DSO incentive guidance document during Autumn 2022.

We support the requirement for Regularly Reported Evidence (RRE). Where possible, Ofgem should require appropriate disaggregation of the RRE items to ensure that there is transparency and visibility of decisions made by DSO functions. For example this could include breakdowns of RRE number 13 (DNOA decision outcomes) and 14 (investment decisions review) by the scale or volume of the project to enable scrutiny of any differences in approach.

We support the DSO stakeholder survey questions proposed in Annex 3 which cover the key DSO functions. However, **we recommend that each question is also followed with a qualitative open text question about why a stakeholder has provided their score for the metric.** While it is clearly already part of the incentive to ensure DNOs communicate, engage and take stakeholder views into consideration, the opportunity to survey stakeholders in a common way should be maximised by gaining qualitative insights as well as numerical scores to give DNOs every opportunity to understand and act on feedback.

Core-Q26. Do you agree with our proposal for the DSO re-opener?

We agree that a DSO re-opener is appropriate within the ED2 period to allow for changes to the price control, including relating to roles, funding allocation and costs, and incentive mechanisms. We note that Ofgem's evaluation of reform options for delivering DSO, including appropriate governance arrangements, will aim for conclusion in early 2023 which will be useful in determining the need for a re-opener and its funding parameters.

Energy efficiency

There is no question relating to the points raised at pp 99 to 100 of the Core Document relating to energy efficiency. However, we have the following comments and recommendations.

We are pleased to see Ofgem's focus upon energy efficiency as part of the suite of measures that DNOs can use to manage their energy systems more efficiently and cost-effectively. We note that Ofgem expects those DNOs that detailed specific energy efficiency flexibility products as part of their DSO strategies to implement them. We welcome this expectation.

We note the Ofgem comment that more work may be needed in the energy efficiency space, including working with other agencies that benefit from and/or fund energy efficiency measures to ensure costs are distributed appropriately. More work will be needed also to robustly assess the value that building insulation measures can have to the network in the context of heat decarbonisation. We welcome this additional effort to value energy efficiency and coordinate with other agencies, given the benefits of energy efficiency in savings to generation, reinforcement, flexibility costs, and to people's bills and comfort in their homes. Policies such as the Energy Company Obligation (ECO4) and the Local Area Delivery (LAD) are being increasingly delivered at a local authority level, potentially increasing opportunities for coordination.

We note that the SIF has a theme on energy efficiency including long-term demand reduction. This theme is intended to fill knowledge gaps and de-risk innovative propositions. **We would, however, recommend that DNOs are required to implement the learnings from the large number of concluded and ongoing innovation projects that have included energy efficiency as a theme rather than awaiting the SIF projects to conclude.** For instance, the ENA innovation 'Smarter Network' portal[4] lists 89 projects by electricity network companies (including DNOs, transmission and ESO) which include energy efficiency as a focus or includes elements relating to energy efficiency. These projects have cost the bill payer many millions of pounds[5] already and best value needs to be extracted from them.

We also recommend working closely with the ENA Open Networks project to ensure that energy efficiency is a high-focus theme. The ENA Common Evaluation Methodology and CBA tools that are used to value flexibility and other options when assessing reinforcement alternatives will need to include energy efficiency as a valid and appropriately valued alternative.

Core-Q27. Do you agree with our proposal to introduce a new whole system strategic planning Licence Obligation (LO)?

[4] Energy Networks Association, Innovation Portal

[5] For example, ENA Innovation Portal shows: 'Solent Achieving Value from Efficiency' completed in 2019 cost £10.338 million; 'Vulnerable customers and energy efficiency' project completed in 2017 cost £5.49 million; 'Boston Spa Energy Efficiency Trial' completed in 2021 cost £0.5m.

We agree with the proposal to introduce a whole system strategic planning LO with an annual planning and reporting cycle underpinned by accessible tools.

We note the variability in DNOs' approaches to whole systems as explained in the Core Methodology Document (pp 101-102) and the variation in approaches in working with and supporting Local Authorities. Certain DNOs appeared to have better whole systems thinking and planning than others, and incorporated the widest views beyond electricity systems, such as considering water, gas, telecoms, etc., as well as heat and transport.

We recommend that Ofgem identifies best practice on whole systems thinking from the DNOs' plans and that this best practice is implemented by all DNOs in ED2. In addition, DNOs should be upholding the practice in the most recent Energy Systems Catapult 'Guidance on creating a Local Area Energy Plan'[6].

We support the approach by Ofgem that working with and supporting Local Authorities is a Business as Usual function and should not be part of extra activities funded and rewarded via CVPs.

Core-Q28. What are your views on the digital tools that could be used to support this?

We support the use of digital tools to support the whole systems strategic planning LO. We believe that the accessibility and comprehensive nature of these tools will be useful to develop better energy and wider whole systems planning. We advocate for standardised tools to be used to ensure interoperability and ease of use for tool users.

5. Meet the needs of consumers and network users

Core-Q29. Do you agree with our proposed target and thresholds for the deadband, maximum reward and penalty? (CSAT)

We welcome the continuation of the customer satisfaction survey ODI-F. We also welcome the inclusion and reporting of the customer segments including PSR customers and those making enquiries about the low carbon transition and

[6] Energy Systems Catapult, Guidance on creating a Local Area Energy Plan, 2022

technology. Where reporting shows that performance for either of these groups is particularly poor, Ofgem should set targets for these customers within ED2.

As stated in our executive summary, we believe incentives should reward companies for improving and excellent performance with penalties penalising worsening or poor performance. We are therefore concerned that the target setting approach will result in small rewards being achieved for performance already achieved by half of licence areas in 2020/21 (6 out of 14) as Ofgem acknowledges in Draft Determinations. 90% of year on year changes in ED1 resulted in DNOs improving their performance. With such a high probability of improvement in the last 2 years of ED1, this target setting approach will be even more likely to reward companies for maintaining performance levels.

We do not therefore think it is justifiable to set targets, deadbands and thresholds in the way Ofgem proposes as this will reward DNOs for simply maintaining performance for activities for which they are baseline funded. Furthermore, 5 out the 6 DNOs have requested baseline funding associated with achieving targets between 9.2 and 9.4, well above where Ofgem proposes to set its target.

We recommend Ofgem uses the most up to date data possible, and where it is not possible to include 2022/23 data, considers using an improvement factor to set a target that better reflects the probability that performance will improve. We also believe the use of the 4 year average gives undue weight to outlying scores. We recommend setting the target based on a percentile approach. An alternative approach would be to look at rolling targets where the ability to set accurate targets as far out as 2028 is too challenging.

Taking an average of each company's 90th percentile performance results in a target of 9.089, marginally above the lowest ED2 CSAT target we could identify in business plans (9.0). We therefore think that this represents the minimum level of performance more accurately and should be the lowest target considered.

Deadbands should then be adjusted accordingly and set symmetrically ensuring that simply maintaining performance does not lead to rewards. **As performance is measured to 2 decimal points, Ofgem should consider setting all of the CSAT incentive parameters to 2 decimal points as well.** For example, setting the proposed upper deadband at 9.28 instead of 9.2 would result in only two licence areas being rewarded for maintaining performance instead of 6 as proposed, demonstrating how impactful using 2 decimal points can be.

We welcome the testing that has been conducted regarding the use of alternative survey channels beyond the use of just phone surveys. However, we are not convinced that the justification for not expanding survey channels in ED2 to include online methods is appropriate. While there is firstly a question of modernising to better reflect consumers' communication needs, we would also question the assumption proposed that responses being skewed more to the extreme ends of the score range are less of an accurate response. CSAT is an area where DNOs commonly compare their performance to that of other major customer service providers including performance measured by the UK Customer Satisfaction Index (UKCSI). We would like to highlight that not only is the use of online surveys common generally to the sectors DNOs benchmark against, the UKCSI also cite using online methods for their benchmarking.

We recommend this is looked at further. Where it is practical to do so, further survey channels should be introduced to ensure that methodologies remain appropriate and relevant not only for the start of the price control but also in 2028.

Core-Q30. Do you agree with our proposed approach to working with DNOs to implement Strom Arwen actions related to customer satisfaction? (CSAT)

We welcome Ofgem's proposed approach. **We also believe there should be a set of new common standards and recommend Ofgem uses the following two Business Plan commitments as a starting point in setting common activities and minimum expectations to ensure customers are effectively supported during interruptions, and particularly where these are prolonged.**

A number of DNOs proposed satisfaction metrics for digital communication channels indicating some existing planned approaches to how this would be captured and measured. We believe these can be built upon to take the best practice and make it common.

At least one DNO (NPG) committed to delivering particular services to customers during particular points in time during an interruption with different levels of support for different customers including those on the PSR. The commitments were based on customer research of the points in time when customers, if unsupported, would result in greater risks of harm and inconvenience. Beyond GSOPs we believe this represents best practice in setting out a clearer contract with customers of exactly what services a customer should expect to receive and should provide the basis for a set of new common standards.

Core-Q31. Do you agree with our proposed target and maximum penalty score? (Complaints metric)

We do not believe the proposed target and maximum penalty score accurately reflects actual performance or the probability that DNOs achieve year on year performance.

Ofgem notes that the approach is based on 6 year average performance in ED1 in recognition of the skew of improvements made towards the most recent years compared to the earlier years of ED1. As we have noted elsewhere, the use of targets based on average performance provides disproportionate weight to these lower scores despite the fact that in 81% of year on year changes in ED1 DNOs have improved their performance.

Ofgem also notes that *"in 2020/21, some DNOs have scored near our proposed target* [2.8] *and we think that setting it at this level will be sufficient enough to drive performance improvements".* However, our interpretation of the 2020-21 RIIO-ED1 Annual Report Data suggests that in 2020/21 all but one licence area had performance better than 2.8, in the most recent 4 years of ED1, 85% of scores have been better than 2.8, and 8 out of 14 licence areas scored better than 2.8 in each of the 4 years. It is therefore unclear how this target represents a level that would drive performance improvements. Conversely it appears to allow nearly all DNOs performance to worsen without penalty.

Similarly, we note that the maximum penalty score proposed at 8.0 is a statistical outlier of all scores so far in ED1. In fact a score of 6.10 is also a statistical outlier indicating that this is set too low. If Ofgem is seeking to drive performance improvements this must be set higher.

We recommend Ofgem takes or considers the following actions:

- Consider setting rolling targets to reflect changing performance and to better reflect the performance level where performance is no longer able to improve
- Set the target at a minimum of the 35th percentile of the most recent 6 years of data. Based on data so far this would result in a score of 1.94. While this is a more stretching target, nearly half (46%) of all scores have equalled or been better than this in the last 4 years. Given the probability

of year on year improvement we believe this represents a more accurate target of where the majority of scores may be by the end of ED1
- Set the maximum penalty at the 90th percentile of scores in the most recent 6 years. On current scores this would result in a maximum penalty for a score of 5.26 which has not been observed in the last 4 years.
- In setting targets, these should be given to 2 decimal places as this is how the metrics are calculated.

Some DNOs (UKPN and SSEN) have committed to reporting on volume-based complaints metrics revealing the volume of complaints made, rather than just the speed of response. This should be made common across all DNOs. While it may not be appropriate to incentivise it in ED2, collecting data across the price control would give Ofgem a more accurate picture of whether this is an area requiring action in ED3, especially given the increasing level of touchpoint consumers may have with DNOs.

Core-Q32. Do you agree with our proposal to remove the activities proposed from DNOs' baseline allowances?

We agree with Ofgem's decisions to remove the proposed activities. However, further clarity is needed from Ofgem where the removal of in-house training proposals is linked to schemes and services. **Ofgem should specify if these activities and associated costs have also been removed which we consider to be Ofgem's intent in most cases, such as activities providing digital skills training.**

In other areas where training is needed, for example to deliver LCT advice, Ofgem should also set out clearly whether associated activities are also being removed where this might be considered to be extending the direct role that a DNO plays in providing such advice. There are activities, for example, which provide LCT advice where it is not clear if the DNO or partners are delivering it, including where this involves advising businesses as well as vulnerable customers. **Ofgem should set out more clearly how it has considered whether activities align with DNOs' competence and opportunity for customer interaction which puts them in the best placed position to deliver support.**

Vulnerability Strategies

There is no specific consultation question regarding the Vulnerability Strategies as a whole and we are therefore adding a section at this point to reflect our concerns regarding the approach taken by Ofgem. Many elements of the Business Plans, including the Vulnerability Strategies, have been largely accepted without apparent critical assessment of best practice or their different levels of ambition. Customers will receive different levels of service in their areas as a result, and there does not appear to be clear justification for such regional variation evidenced from customer and stakeholder engagement. We are also concerned that novel or peripheral activities that could be viewed as 'scope creep' have been accepted for ED2 through this wide acceptance of plans and strategies. These peripheral activities could become the precedent for future Business as Usual activities when there may be limited current justification for such activities. **We recommend that Ofgem should identify those plan activities and schemes which represent superior practice and ensure that all consumers in Great Britain receive a consistent and ambitious level of service.**

Core-Q33. Do you agree with our proposals for the Consumer Vulnerability ODI-F?

We agree in principle with setting an incentive in this area with the use of common methodologies to assess delivery on a comparable and consistent basis. However, we note that for the most part, Ofgem accepts vulnerability strategies as they are. In doing so we believe there are a number of issues that we identified at Final Business Plans, which have not been addressed.

There are some significant instances of variation in the costs, benefits and scope of activities between the DNOs, in addition to some activities being funded by customers in some areas and by shareholders in others. We provide examples of these below. It is not clear that Ofgem has addressed these variations or the DNOs' evidence to support these proposals in order to ensure best value for consumers and prevent a postcode lottery.

We welcome Ofgem's requirement, as discussed in working groups, to have the figures independently assured before Final Determinations to ensure that the inputs and targets are set on a common basis. However, we also recognise that this process, alongside efforts to ensure DNOs are using the SROI methodology consistently, may not be able to resolve the extent of these variations.

Based on Draft Determinations, we do not think Ofgem can have enough confidence to permit the incentive exposure for customers to be as high as 0.2% RoRE which we estimate is equivalent to a total of over £120 million across all companies for the price control.

We also believe that the strength of the incentive is unnecessarily high for the area of activity. This incentive is of similar strength to the Stakeholder Engagement and Consumer Vulnerability (SECV) incentive in ED1 and the same as the DSO incentive for ED2. This is an area which has become increasingly part of ED1 BAU, is familiar to the DNOs and has a strong reputational incentive element. The targets put forward by DNOs are also significantly higher than the volumes delivered in ED1 and it is not clear whether delivering even higher volumes of activity is necessarily appropriate for DNOs We are therefore unconvinced that DNOs need an incentive as strong as in ED1.

We therefore recommend that this incentive is symmetrically worth 0.10% of RoRE.

We highlighted at Final Business Plans that we did not consider that the level of variation in strategies can be explained by geographical differences and are concerned that they have not been addressed at Draft Determinations. The following are examples of this but are by no means exhaustive.

ENWL reports the highest NPV value for fuel poverty services at £60.8 million to deliver primarily to 250,000 customers by 2028. WPD however, proposes to deliver £50.9 million NPV while delivering to 113,000 customers, less than half the volumes of ENWL.

UKPN aims to reach the largest number of customers, delivering to either 400,000 customers or 500,000 customers (depending on CVP acceptance). Despite these volumes UKPN has the lowest NPV target of all DNOs at £9.28 million which is 15% of what ENWL proposes. There does not therefore appear to be any correlation between the size of the DNO, the volumes delivered, or the NPVs for services.

On costs, ENWL proposes to deliver its fuel poverty services to 250,000 customers at a customer-funded cost of £10 million, WPD will provide services to 113,000 at a cost of around £10 million to customers, and UKPN proposes to deliver services to 100,000 customers but at a shareholder funded cost of £9 million. This will result in customers paying for services in some areas but not others. **Ofgem should acknowledge where it believes companies have extended their corporate social responsibility in the interests of consumers and highlight best practice, and where it considers companies could do more in ED2.**

There is also a significant difference on the NPV values for LCT services which have also been accepted in strategies as they are proposed. NPG's strategy aims to deliver LCT services which in year 2 has a negative NPV of -£600,000 but a positive NPV of £380,000 by year 5. By comparison, SSEN has a comparable number of customers to NPG and aims to deliver £1.7 million of NPV in year 2 and £6.4 million in year 5.

We recommend that Ofgem undertakes further analysis of all the proposed values by DNOs for the delivery of services to ensure they are on a like for like basis. Where confidence in targets, costs, NPV or the metrics to track these are not high we believe the vulnerability incentive exposure should be reduced to 0.10% of RoRE. Ofgem should also consider any interaction between efficiencies under the NPV metrics and the Totex Incentive Mechanism (TIM) and prevent double rewarding where there is a risk of this occurring.

Where any DNO aims to deliver value that is less than the cost of the activity (negative NPV) **we recommend that Ofgem reconsiders the acceptance of these strategies in their current form and does not permit rewards to be paid under the incentive where outturn NPV values are negative.**

We agree with Ofgem in setting minimum requirements that enable entry to the incentive to ensure that any values assessed by the metrics are appropriately accurate and have correctly followed the methodology. However, while there is a protection for customers in preventing rewards for inaccurate values, this also protects DNOs from being subject to penalties for this failure. **We recommend that Ofgem introduces some form of penalty where minimum requirements have not been met.**

Core-Q34. Do you agree with the performance metrics we are proposing to include in the incentive and the approach to setting targets and associated deadbands, performance caps and penalty collars? If not, please explain why and give details of your preferred alternative.

We broadly agree with Ofgem that the performance metrics proposed for the incentive are useful in tracking performance and the delivery of strategies. We also agree that the weighting given to the metrics is appropriate, with greater weight being given to the PSR reach metric where confidence in the measurement is higher, and lower weight given to new metrics where confidence is not as high due to the variation issues we have highlighted. There are, however, a number of areas where we think adjustments need to be made to deliver better value for money for customers.

PSR reach metric

We agree that assessing DNOs' PSR reach on a common basis is important given the core role the PSR plays in DNOs' Vulnerability Strategies. However, the approach to target setting should be improved. Our views reflect the targets in Business Plans and those set out by Ofgem in Draft Determinations. We understand that adjustments may be made to the exact numbers as a result of ensuring that targets and current performance are set on a consistent basis. However, the principles we set out should still be applied to these new targets.

Ofgem sets out clearly that it is concerned by the wide variation in targets where half of eligible customers would be missing from the PSR and not receiving associated services in one area, while two thirds would be getting these benefits in other regions. We are not convinced that the incentive parameters would provide adequate incentive to deliver convergence towards a good performance. The average target is around 70% PSR reach by 2028, while two DNOs sit significantly behind this at 55% and 60% and the remaining four sit above this. As 70% sits within the wide deadband it is unclear beyond reputational incentive, what would drive these DNOs to reach this level and in doing so level out the postcode lottery?

Ofgem also sets out that 50%, the lowest target as proposed by NPG in final business plans, should be embedded as a minimum level expected in RIIO-2. We do not believe that setting the lower deadband at 50% with a penalty collar/floor at 35% achieves this. This would mean a DNO would only reach maximum penalty when 65% of eligible customers are not on the PSR which is unacceptably poor for a core DNO responsibility. Setting the penalty floor at this level also provides too great a recognition of particularly low current PSR reach performance relative to other DNOs. For example one DNO's current performance is around 37% while others appear to range between 50% and 68.5% (subject to calibration with the new common methodology). A 50% lower deadband also means that for most companies, their performance could remain flat or even reduce without any penalty. **We therefore recommend the following options which we think would better meet Ofgem's aim to "standardise DNO performance":**

1. Ofgem should reject the targets proposed by DNOs where these are considered too low or too high and set new, more appropriate targets. This would need to be coupled with a recalibration of the deadband and penalty floor to reflect this change or;

2. Ofgem should set bespoke targets, deadbands and reward/penalty caps/floors for companies in recognition of the variation in proposals in order to drive convergence

Of these two options we favour option 1 which would allow a common incentive to be retained. Under option 2 bespoke targets could also be an effective way of driving convergence. However, these would have to be set in such a way that prevents rewards being paid to trailing companies for achieving a PSR reach that is still below the baseline target of another DNO given this is a core role of DNOs. Setting an asymmetric incentive with a larger downside may be an effective tool to achieve this.

If Ofgem does not implement option 1 or 2 and retains a common incentive in line with current proposals, we recommend that, as a minimum, Ofgem increases the penalty floor to 50% to provide a strong incentive to prevent any declining performance, and sets the lower deadband closer to the average or median target for example 60% or 65%. This would mean penalties would start at a performance level that is below average performance and maximum penalties would apply at a level that prevents declining performance which would have a particularly detrimental impact on consumers. This would also provide a stronger incentive to converge closer to a standardised performance though would still likely fall short of full convergence in ED2.

Ofgem should also set out in Final Determinations the actual finalised targets that DNOs have set given these will have changed since Final Business Plans. This should also include the targets for year 2 performance. As all targets were set to be achieved by 2028 it is reasonable to set a proportionate glidepath towards this.

Greater progress is now being made in pursuit of one single national PSR data sharing system by Northumbrian Water with support from Ofwat, Ofgem, water companies and gas and electricity networks. **Ofgem should therefore ensure there are adequate protections if, during ED2, it becomes easier for DNOs to reach and exceed their PSR reach targets as a result of this innovation which is being funded primarily from the water sector.**

Value of Services delivered - fuel poverty and LCT

As noted above, we welcome that these two metrics are weighted at 15% each in recognition that they are new metrics and the metric for low carbon transition

(LCT) services is itself a new area for DNOs. We largely agree with the proposed deadbands and reward cap and floors as these seem proportionate.

However, as we have noted elsewhere, we have concerns about the significant variation in the costs, targets, scope and benefits of these activities put forward by DNOs and as accepted by Ofgem currently. We believe Ofgem needs to seek further assurance on these input values to increase the rigour of the metric. Where confidence in all of these aspects is not high then the incentive and this metric should be recalibrated to provide increased protection to consumers. **We suggested earlier that the overall incentive should be reduced to 0.1% RoRE. Ofgem could also consider wider deadbands where confidence is not high.**

Some improvements could also be made to the metrics. It is possible that outturn NPV values could vary from those targeted. While this may represent delivery representing better or worse value for money for consumers or delivering a different level in volumes, it is also possible that the proxy values are simply updated, corrected or additional proxies added. As part of the minimum requirements or independent assurance process, **Ofgem should also require an attribution check on values that outturn differently.** Where DNOs have actively taken decisions that result in these changes then the attribution would be 100%. Where the attribution is less than this adjustments should be made. This protects DNOs from values outturning out of their control as well as protecting consumers from windfall gains.

We also recommend that Ofgem requires the independent assurance process to not only assess DNOs individually but to also assess them comparatively to ensure that where one DNO has differing outturn values a check across all DNOs takes place to ensure that this is appropriate and if so whether it also applies to others to ensure consistency and comparability.

We recommend that shareholder funded activities are excluded from the metric. Ofgem has taken a decision, that we agree with, to not reward CVPs where funding is provided by shareholders. To ensure consistency, it would also not be appropriate to reward companies for shareholder funded activities under this metric. In particular, there would be an advantage in achieving substantially higher NPV values where there is no cost to consumers and so the NPV would be the same as GPV and deadbands more easily exceeded.

We also recommend that a process will need to be established to ensure that where proxy values are updated, targets are recalibrated to prevent

windfall gains and losses. Many observable benefits are changing due to the energy price crisis. For example, energy efficiency will deliver greater savings than previously, while tariff switching is unlikely to deliver savings. As this may also change during ED2 there needs to be a process by which values can be recalibrated for the protection of both customers and DNOs.

Customer satisfaction - fuel poverty and LCT

We welcome the introduction of a check that the services customers receive are both of high quality and of use to customers and that average scores of the preceding years would be used for the year 2 and year 5 assessments. We also welcome the use of common targets as this drives more consistent performance.

However, we note that there is no deadband proposed for this metric unlike all other metrics in this area. We are not convinced that a strong incentive is required for customer satisfaction here and that the impact of marginal improvements or underperformance justifies the marginal increases in rewards or penalties. We also note that as this is a new metric there is a risk associated with the target being set in relation to PSR customer satisfaction. We're also not convinced that, in contrast to the BMCS, customer satisfaction here is entirely attributable to DNOs.

We therefore recommend Ofgem considers setting this metric as reputational only. As a minimum a deadband should be introduced around the target of 9 to provide protection and bring the metric more in line with other satisfaction incentives.

We note that development of the surveys will take place in working groups and will be consulted on as part of the guidance document. Ofgem should carefully consider whether this metric is intended to assess overall satisfaction or aims to assess quality and usefulness of the service. While a killer question methodology may be appropriate for the former, **we would recommend that an average score is used where the metric is trying to assess satisfaction based on specific experiences.**

Core-Q35. Do you agree with our proposal for the Annual Vulnerability Report ODI-R?

We support the introduction of the annual vulnerability report ODI-R.

Core-Q36. Do you agree with the proposed content of the annual report? If not, please explain why and give details of your preferred alternative.

We agree with Ofgem's requirement that reports include the volume of services delivered as one way to check NPV values against volumes.

We recommend that Ofgem also requires a narrative to be provided to complement NPV values. This would enable some additional qualitative information in the report which would otherwise be lost from the SECV incentive. As one element of an attribution test, this would also enable DNOs to explain and justify why NPV values outturn different to those proposed in Business Plans and, where appropriate, explain how they have adjusted delivery in response to arising issues.

We also welcome the required inclusion of progress updates on bespoke Vulnerability Strategy commitments and the inclusion of DNOs' winter preparedness plans as directed by the Storm Arwen Review. **We recommend that annual reports include both a forward view of how DNOs will better prepare customers for interruptions as a result of severe weather, as well as a backward looking review of how successful plans were in the previous year at mitigating issues and how learnings inform plans.** It may also be appropriate to extend the concept of winter preparedness to severe weather preparedness as potentially more frequent and more extreme weather events may affect how customers use electricity.

Core-Q37. Do you agree with setting the maximum reward and penalty limit at +/- 50% of the target?

We agree that there should be strong incentives on DNOs to ensure that the time it takes for new connections to be made meets customers' expectations and needs. As we progress through the net zero transition and DNOs potentially experience significantly higher levels of connection requests it is particularly important that the incentive prevents performance from deteriorating relative to ED1 performance.

We would also note the recent Electricity Networks Strategic Framework[7] published by BEIS and Ofgem which specifically cites the need to speed up the

[7] BEIS and Ofgem, Electricity Networks Strategic Framework: Enabling a secure, net zero energy system, August 2022

connections process. In addition to reviewing minimum standards Ofgem should ensure that this incentive is calibrated correctly to drive this behaviour.

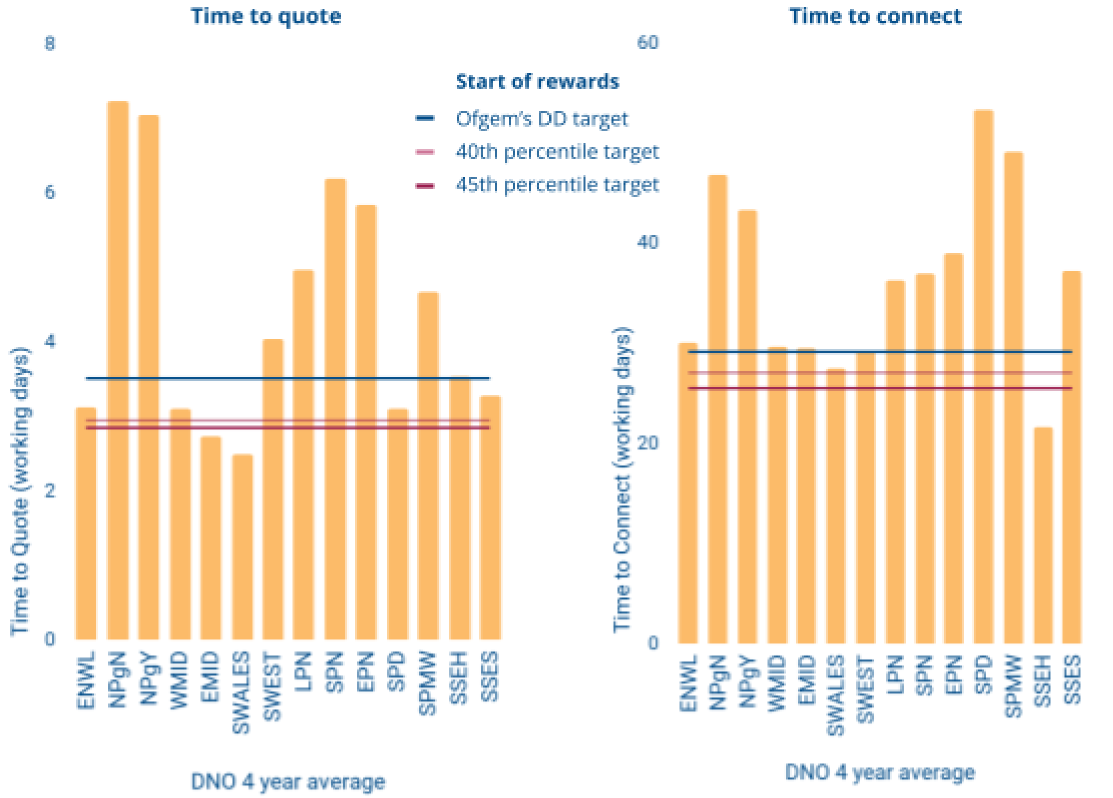
Ofgem states they want to ensure frontier performers will be driven to continue to improve the service to their customers which will drive up the industry average and lead to better performance through baseline funding over time. However, we are concerned that improving the industry average through improvements by frontier companies only exacerbates the postcode lottery in current performance which Ofgem does not consider there to be justifiable reasons for.

We think a more effective solution is setting common targets at a percentile level of performance, rather than based on an average.

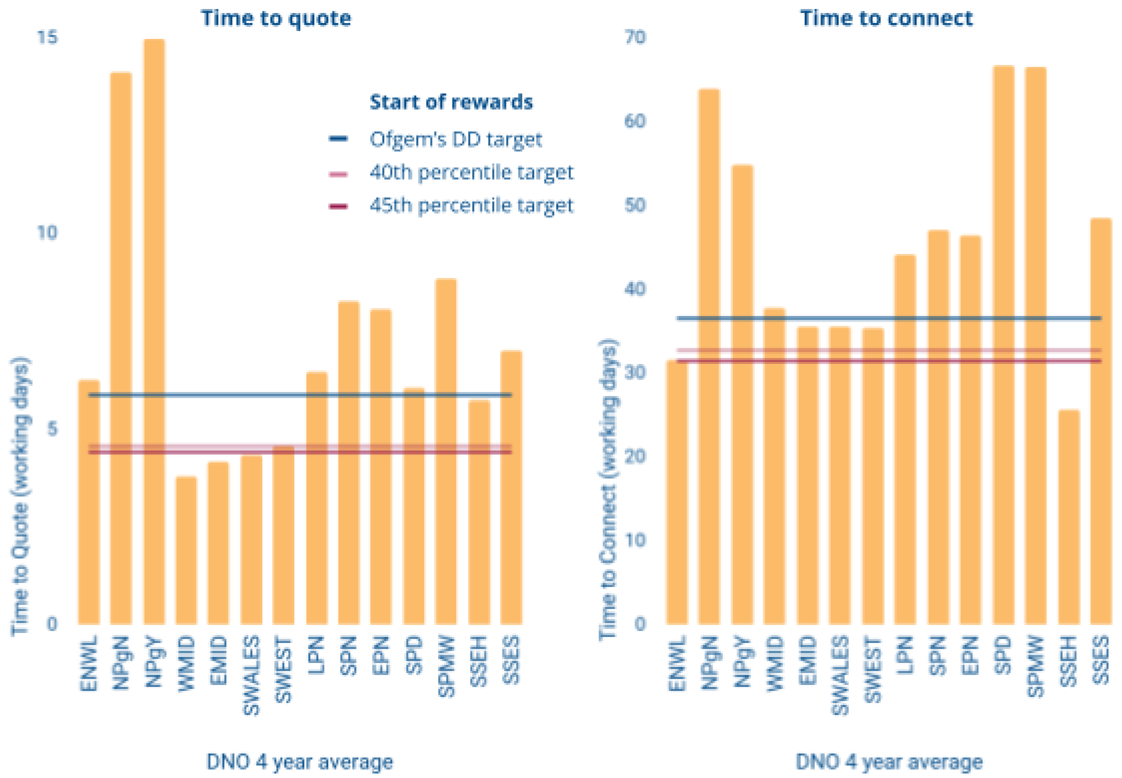
The following four graphs show the 4 year average performance of the DNO licence areas for each of the minor connection metrics alongside the start of the reward territory under Ofgem's proposed targets and under a target set at the 45th or 40th percentile target of the last 4 years of industry performance.

Each graph shows that based on Ofgem's proposals for static targets, out of the 14 licence areas between 6 and 8 are likely to be in, or very close to, the start of reward territory for performance which represents no improvement on their 4 year average. By contrast, using a 45th or 40th percentile target reduces the number to between 2 and 4. As Ofgem accepts that generally DNOs have been improving on these metrics through ED1 we expect that, in practice, this will mean more DNOs will start ED2 in reward territory than this indicates.

LVSSA TTQ and TTC - ED1 scores and start of ED2 reward territory



LVSSB TTQ and TTC - ED1 scores and start of ED2 reward territory



While we believe setting a target based on 4 year average performance does provide a useful incentive to those whose performance lags significantly behind others, we believe that it concedes more ground than is necessary to these DNOs while also providing rewards too easily for those who only maintain their performance compared to their 4 year average.

We recommend that Ofgem sets targets based on industry percentile performance and suggest a minimum of 45th or 40th percentile. This provides an even stronger incentive to those whose performance is deemed unjustified by Ofgem, and to prevent windfall gains for performance which is not materially improving. Rolling targets may also be useful here where anticipating future performance is challenging. **We also recommend that as a minimum, Ofgem uses the most up to date performance data to set targets and use improvement factors to build in assumptions for performance improvement in 2022/23 if scores from this year cannot be used.**

We also recommend Ofgem looks at whether company-specific targets would be a more appropriate methodology. Given the extent to which frontier and worst performers differ, it may be challenging to calibrate the incentive in a way that recognises such differences. Even under a percentile target it may be necessary to go much lower than the 40th percentile to prevent maintained performance from being rewarded for some companies. Bespoke targets would better enable Ofgem to establish a consistent standard of performance, preventing frontiers from declining and driving poorer performers to meet the standard.

This issue with a common target is highlighted by the proposed maximum reward of 50% of the target despite the fact that some DNOs are already close to achieving this as highlighted by Ofgem.

Core-Q38. Do you agree with setting a deadband of +/-20% of the target?

We note that Ofgem has set a wide deadband at 20% to protect DNOs from potentially larger volumes of connections arising from the Access and Forward-looking Charges Significant Code Review which makes connections cheaper. However, a 20% deadband appears in contradiction to the ambition in the Electricity Networks Strategic Framework to speed up connections processes.

As we suggest above in response to Core-Q37, we think percentile or bespoke targets better serve the outcomes Ofgem is seeking to achieve. Where targets better reflect achievable and good performance, smaller deadbands could be used.

Core-Q39. Do you agree with our proposed design of the Major Connections incentive?

We agree with Ofgem on the proposed design of the Major Connections incentive and the intent to support standardisation and drive consistent levels of service. The recent Electricity Networks Strategic Framework[8] sets out clearly the desire to speed up connections processes. As the customer satisfaction element of the incentive identifies the key service areas as 'pre-application', 'application process' and 'delivery phase', we believe the incentive would drive connections processes to meet major connection customers' needs.

We agree with setting equal incentive exposure across each relevant market segments (RMS) to ensure fairness.

We also welcome that the incentive and survey is applicable to RMSs where there is no effective competition as well as non-contestable services provided to third parties in RMSs where DNOs have demonstrated effective competition. We understand that providing services to third parties in areas where there is competition makes up a significant proportion of major connections services. As DNOs are monopoly companies and can only perform this role it is appropriate for this to be within scope of the incentive as this would be consistent with where Ofgem uses regulation and incentives.

We agree with the introduction of the annual report and the level of granular detail required here to ensure that different market segments receive similar levels of service.

We also agree with the incentive being penalty only for the reasons set out by Ofgem.

Core-Q40. Do you agree with our proposed approach to target setting and applying the penalty?

We agree that this incentive is strong in driving DNOs to meet the needs of major connections customers.

[8] BEIS and Ofgem, Electricity Networks Strategic Framework: Enabling a secure, net zero energy system, August 2022

We do not think it is clear why Ofgem proposes to set a target of 8.9 when 83% of the targets set were for 9.0. This appears to unnecessarily concede ground to the vast majority of DNOs to the benefit of only one DNO. **We recommend setting the more ambitious target of 9.0 on a common basis if Ofgem is striving to set a consistent and ambitious standard across GB.**

We support the approach taken by Ofgem in how it intends to apply penalties. We assume that DNOs have requested and will receive baseline funding in order to meet the targets they have set themselves and so should be expected to meet them.

We also support the approach taken to effectively provide a decreasing deadband throughout ED2 in recognition that meeting the end of period targets in the early years would be very challenging.

Core-Q41. Do you agree with our proposal to require reputational reporting of timeliness metrics for all RMS?

We support the proposal to require TTQ and TTC reporting for major connections in the Major Connections Annual Report. We also agree with requiring this across all RMSs. As well as giving visibility to connections customers, these metrics will enable consideration of any new incentives in this area for future price controls.

Core-Q42. Do you agree with our proposal to launch a wider review of the Connections GSoP (that is, beyond updating the payment amounts for inflation and incorporating standards for DG customers)?

We agree with launching a wider review of the Connections GSoP for all connections customers. In reflection of the Electricity Networks Strategic Framework[9] published by BEIS and Ofgem which specifically cites the need to speed up the connections process, it is right to explore how the minimum standards could be improved, particularly to ensure they remain relevant to customers expectations at the end of the price control in 2028.

While we agree in principle with avoiding any complication by introducing changes to connection GSoPs for the start of ED2 followed by further changes, **we recommend that Ofgem uprates GSoPs in line with inflation for the the**

[9] BEIS and Ofgem, Electricity Networks Strategic Framework: Enabling a secure, net zero energy system, August 2022

start of ED2. This would better recognise the particularly high inflation which means those connecting customers which do not receive adequate service receive compensation that is commensurate with inflation.

We would also encourage Ofgem to ensure that all connections incentives are also playing their important role in driving high standards. As we state in response to Q37 and Q38, we believe Ofgem could set targets which better reflect improving and achievable performance in the industry.

Core-Q43. Do you have any views on what else could be done to help speed up connections to the distribution network and or develop a standard for the overall (ie, end to end) time to connect?

As noted in response to Core Q-42, 37 and 38 Ofgem should ensure they are maximising the connections incentives that are proposed for ED2 and that DNOs are already familiar with. For minor connections, for example, we set out how Ofgem could set targets which better reflect improving performance and which do not give undue weight to poor performance. If Ofgem can identify the right level of performance from existing ED1 scores, then targets should be set to converge DNOs towards this as a common standard to deliver consistent connection speeds across GB.

We are also aware that ESO plans to conduct a review of connections around the start of ED2 which DNOs should play an important role in to drive up processes and standards.

6. Maintain a safe, resilient and reliable network

Core-Q44. Do you have evidence that customers would be willing to face an increase in their bills to also receive an increase in their reliability, including that they understand the actual cost and how this translates into average power cuts?

In our review of DNO Business Plans, some Plans (often within the annexes) did provide detail on the stakeholder engagement on this topic and show the presented costs and benefits including Willingness to Pay (WTP) for reliability improvements. However, in other cases it was not clear to what extent such a process had been undertaken to reach conclusions on reliability proposals. In addition, within the Business Plans, the costs of reliability improvements were not often explicitly stated.

Reliability was clearly important to customers as revealed from the rankings of customer priorities within stakeholder engagement. However, Ofgem needs to ensure that customers fully understand the costs versus the benefits of reliability improvements, especially given high affordability concerns due to the cost of living crisis. If DNOs have further evidence to support their plans in this area, this should be presented to Ofgem to further evaluate whether customers are willing to pay for any further improvements in reliability, and to what extent, and for what cost. It would also be valuable to ascertain if customers believe that there should be a minimal reliability level that all customers across GB should be provided with, which would act as a floor to the reliability levels of all DNOs.

It may be valuable for Ofgem to conduct independent stakeholder research, or prescribe joint DNO engagement, to gain consistent and up to date views on customer views on reliability improvements and associated WTP. Reliability is of high importance to people's lives, especially those most vulnerable who are more heavily impacted by outages. However, the costs and affordability of improving reliability need to be clear before supporting improvements on existing levels. It is not clear that customer views are adequately connected to the IIS and target-setting methodologies which rely on VOLL as the value driver which determines the level of reliability customers want. Data collected independently by Ofgem could help to better determine levels of ambition for the IIS rewards and penalties structure, and CI and CML targets. We note that a VOLL review will be undertaken for implementation for ED3, however, it would be valuable to conduct analysis as to whether customer views as revealed through stakeholder engagement is a better or worse method for understanding the improvements in reliability that customers want and at what cost.

Core-Q45. Do you have evidence of the cost of reliability improvements and the impact that lowering the revenue cap will have on them being achieved?

No response provided.

Core-Q46. What are your views on moving to an asymmetric cap and collar?

The IIS has proved to be an effective mechanism to improve reliability for DNO customers. It has also proved to be a mechanism that has led to excess returns for DNOs (as detailed in the CEPA report mentioned at p160). It is therefore important that Ofgem ensures that the IIS is well calibrated to ensure that further reliability improvements are not at the risk of over-rewarding DNOs. We believe the current Draft Determinations proposals will over-reward DNOs and we set out further detail in response to Core-Q48. It is also important that the mechanism will ensure that reliability improvements that have already been 'banked' and paid for by customers will not be lost.

We note that Ofgem has concerns on two key areas: whether customers are adequately informed to assess the incremental costs to achieve incremental improvements to reliability, and whether the impact on consumers from small deteriorations in reliability is disproportionately higher than the benefit from an equivalent level of improvement. Given both these concerns we support the move to an asymmetric cap and floor with a cap of 100BPs of RoRE and a floor of 250BPS of RoRE. A lower revenue cap should prevent over-rewarding on the scale seen in ED1 in absolute terms. However, as we believe that the CML methodology has resulted in targets which are set too low, there is still a significant risk that DNOs will continue being over-rewarded in ED2 despite the lower cap. We support the greater downside risk for DNOs from the asymmetric floor in the IIS which should serve to prevent any worsening of existing reliability levels.

Core-Q47. Are there alternatives to reducing the revenue cap that you think would better balance increases in reliability and the cost to consumers than reducing the revenue cap?

No response provided.

Core-Q48. Do you agree with how we have characterised the operation of the current CML methodology and our reasons for changing to setting targets in line with our CI methodology?

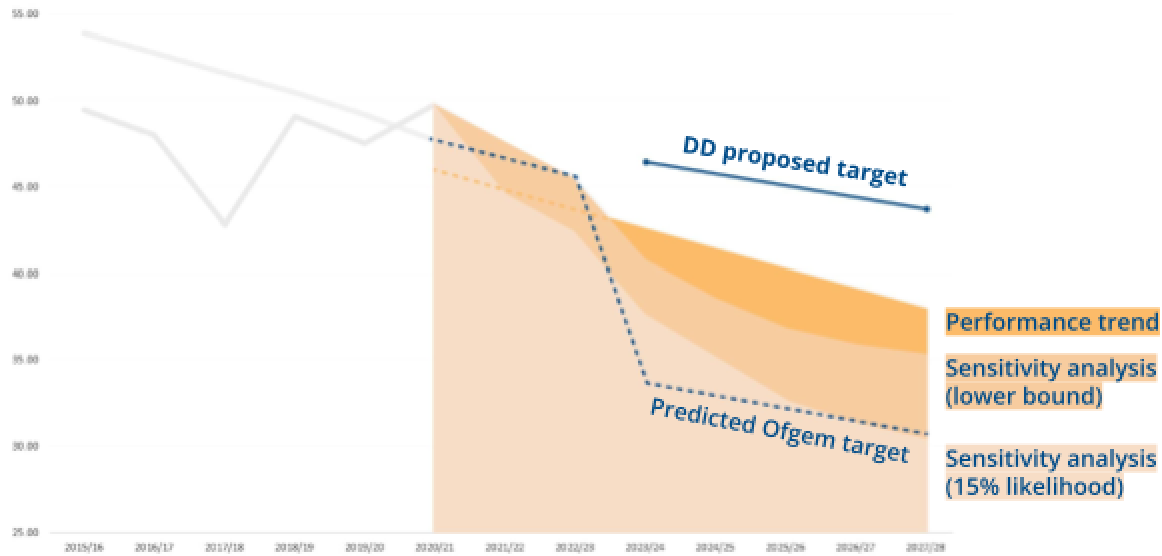
As stated previously, the IIS has served to drive reliability improvements in ED1, albeit at the cost of excess returns for DNOs. The aims of the CI and CML target setting should therefore be to support the levels of reliability already achieved for customers, and support improvements and convergence in reliability levels where this is both economic to do so and supported by customers. As stated above in our answer to Core-Q46, it is not clear that the IIS proposals will deliver this.

A set of assumptions underpin the approach taken in Draft Determinations:

1. Lower annual improvements and greater volatility mean DNOs' ability to make consistent improvements has begun to taper off
2. Ofgem notes an argument made by DNOs that further reductions will become more challenging to achieve
3. That customers may not understand the costs associated with additional reliability improvements either through baseline or through rewards

For the first two factors, we believe that DNO Business Plans and reliability strategies, where provided, demonstrate that there are improvements to reliability that can be made by companies as can be shown by examples in Figures 1-3. While the planned performance in ED2 may have relied upon requested baseline QoS funding which has been rejected, we believe this demonstrates that DNOs do have improvements they can make and would therefore be rewarded too easily for meeting targets which could have been more stretching.

Figure 1 - SHEPD unplanned CML plans compared with Ofgem DD target [10]



[10] Based on Draft Determinations and extract from SSEN, Reliability Strategy, RIIO- ED2 Business Plan Annex 7.2

Figure 2 - NPgN unplanned CML plans compared with Ofgem DD target[11]

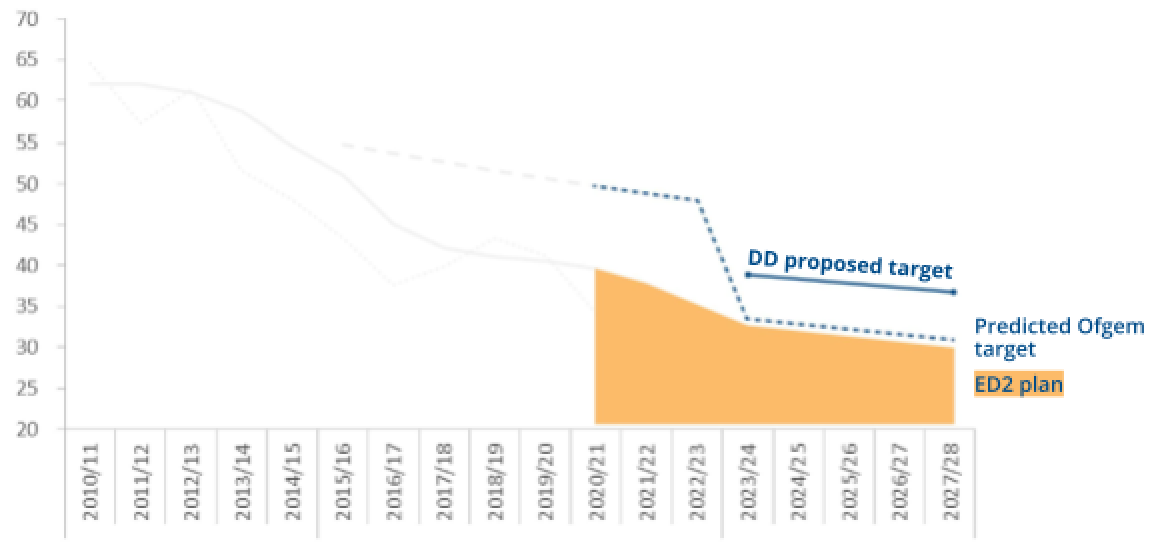
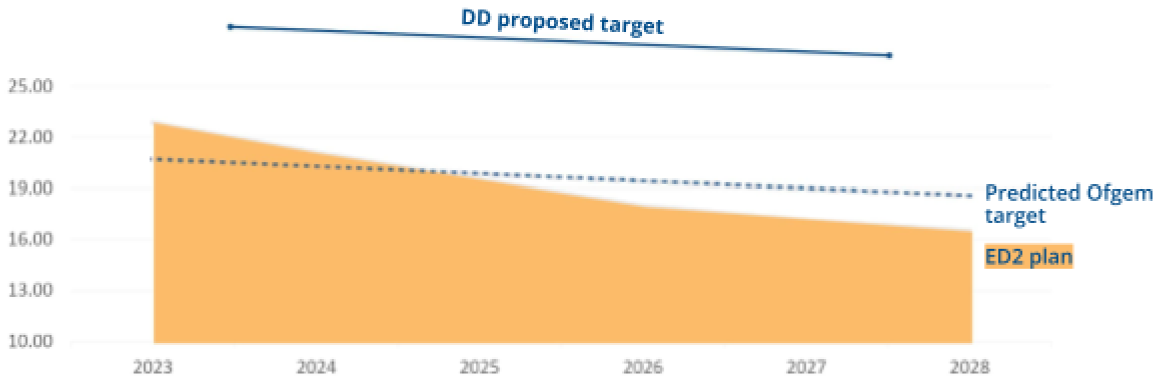


Figure 3 - SPMW unplanned CML plans compared with Ofgem DD target[12]



For the third factor, while we agree with excluding spend on QoS as a way to prevent double counting, we nevertheless believe that this will remain a risk as asset health spending will also contribute towards reliability.

Key to ensuring that costs to improve performance are justified is related to the incentive rates applied to each DNO which do not appear to have been provided in Draft Determinations. Ofgem notes that Quality of Service (QoS) data demonstrates that the costs to achieve reductions in CIs and CMLs has been far lower than the rewards that have been earned and have not seen evidence that

[11] Based on Draft Determinations and extract from NPG, Reliability and Availability Improvement plan, ED2 Business Plan Annex 4.9
[12] Based on Draft Determinations and extract from SPEN, Network Performance Strategy, ED2 Business Plan Annex 4A.5

improvements will become more expensive to deliver. **Ofgem should therefore show clearly how the IIS incentive rates[13] can be set lower to address this issue and strike better value for money for customers.** Where incentive rates could be lower and reward companies less for the same level of improvement, incentive rates should be set lower. Where these remain too high, Ofgem will experience a similar issue with DNOs being over rewarded relative to the improvements they make and will reach the reward cap faster and easier.

We do not believe it is appropriate to unduly reward companies whose performance is improving yet significantly behind that of others. Key to this is ensuring the targets are stretching.

Using 4 year average data gives undue weight to outlying performance and appears to set unnecessarily low targets. The improvement factors also play a key role and we are concerned that a factor of only 1.5% does not appear to set the right incentive to poorer performers when targets have been exceeded under a 3% improvement factor in ED1. At SSMD an improvement factor for these companies was proposed at 2%. We believe 1.5% is not well justified and is too low to drive poorer performing DNOs to find the 'right' economic level of convergence without over-rewarding. Instead, it risks DNOs maximising the revenue cap at a performance level lower than could have been achieved, causing a slower rate of convergence in performance for those customers. It is also concerning that DNOs could maximise their revenue cap, preventing any further incentive to improve when that performance remains far below that of others.

Using the most up to date data in the methodology also impacts the accuracy of the targets and therefore Ofgem's ability to deliver best value for money for consumers.

We recommend Ofgem considers four options to improve the target setting methodology which are not mutually exclusive:

1. Either revert back to the quartile performance and benchmarking methodology from ED1 or consider using an alternative 4 year percentile target (such as 40th or 35th) in order to set company specific targets
2. Use stretching and bespoke improvement factors, particularly for the poorer performers. These should be set at a rate which leads each company towards convergence at a future point in time. Where 100% convergence is not possible, either technically or within the revenue cap, then DNOs should nevertheless reach the best and most economically

[13] IIS incentive rates are the incremental rewards or penalties per unit of improvement. Indicative rates were provided at SSMD but do not appear to have been provided in Draft Determinations.

viable performance level at which point rewards would no longer be earned. This would also mean customers will experience greater reliability improvements and at a faster rate than under the current proposals. To converge towards upper quartile performance by 2028 would require targets based on improvement factors at 13.9% for the worst performer and a median improvement factor of 5% for all DNOs below upper quartile performance. Setting the convergence point further in the future would reduce these whilst still setting a more stretching incentive overall.

3. Use the most up to date data for target setting, including the last year of ED1 (2022/23)
4. Use rolling targets. Where evidence is lacking to set accurate targets for the entirety of ED2, rolling targets would enable Ofgem to de-risk the methodology and provide protection to both consumers and DNOs. It would ensure targets remain appropriate where economically efficient improvements can still be made, and where they cannot

Core-Q49. Do you agree with our rationale for retaining our RIIO-ED1 position on QoS funding? Can you provide any evidence that an alternative approach would not result in double rewarding alongside the IIS?

We agree with your approach for not providing Quality of Supply (QoS) funding separately. We agree that there is a risk of double rewarding DNOs via any QoS funding and the IIS mechanism.

Core-Q50. Do you have any examples of situations where fault-related interruptions could be genuinely "exceptional" and how these could be separately identified from those that occur during planned works?

No response provided.

Core-Q51. Do you agree with our assessment of the OEE thresholds and the financial impact on each DNO?

[Please note - we also comment on the SWEE, Short Interruptions, and GSoPs within the response to this question as there are no separate questions on these topics.]

On the SWEE mechanism, we note that the SWEE thresholds are to be updated once the GSoPs have been reviewed which appears to be a reasonable approach. **We recommend that GSoPs for longer outages provide better compensation than they currently do, given the high impacts that long outages have on customers.** We await further consultation on GSoPs.

On the Short Interruptions (SI) proposals, we recommend that further work is undertaken to understand customer detriment from SIs and how compensation could be determined. Requesting customer complaints/general enquiries data regarding SIs may be one way of understanding consumer awareness and detriment. We believe that in-period SI targets and compensation mechanisms should be introduced in ED2 if there is evidence of significant customer detriment.

On GSoPs, we note that the planned inflation uplifts will be considered as part of a wider review in the light of the Storm Arwen and other severe storm events. We agree that a thorough and separate review of the levels of GSoPs and their transparency is welcome. While making multiple amendments may add administrative burden to Ofgem and the DNOs, the rate of inflation is currently high and **we recommend uprating the GSoPs for inflation for the start of ED2 and before the review is concluded, otherwise consumers who receive poor performance early in the price control will receive considerably less in real terms than in the past.**

Core-Q52. Do you agree with our proposal not to have an end-of-period adjustment mechanism? If not, what criteria should we use to determine whether a DNO has used its allowance for WSC, without it creating uncertainty?

On the proposals for Worst Served Customers (WSCs) with the aim to alleviate supply reliability for those receiving markedly worse performance, we have the following comments.

We strongly support the continuation of a separate WSC mechanism to ensure that those customers with very poor service are provided with improvements during ED2, especially given the increasing reliance by customers on electricity. The IIS alone will not drive improvements for this group of customers.

We note the change from the SSMD proposals from the use of baseline allowances with a PCD mechanism to a UIOLI allowance with a governance and reporting framework to ensure delivery. While the proposed new scheme (UIOLI with governance document) could offer greater flexibility, we believe that the drawbacks of the ED1 UIOLI may continue into ED2. The ED1 UIOLI was little used with the result that those customers with a markedly worse service continued in this state. Without strong targets within the governance document, it is possible that the ED2 UIOLI may have the same outcome.

The reason for an upfront UIOLI allowance is stated to be so that if DNOs do not spend their allowance, it will be returned to customers. However, at para 6.123, it states that there will be no adjustment process to clawback funds at the end of the price control that were not used as initially intended. It is argued that a clawback mechanism may restrict the DNOs' abilities to flex upwards or use the funds to respond to new WSC relief opportunities. To protect customers, it is proposed to use a governance document to ensure that funds are used for the intended purposes, however, this document is not yet developed. The governance document is intended to address the risks that DNOs will not spend their allowances, or spend them in ways that do not benefit WSC customers, as the governance document will require reporting on schemes and benefits. As this is an untried means of ensuring progress to address WSCs, it is of concern that there could be a repeat of ED1 where that UIOLI scheme failed to be used to deliver improvements to WSCs. The ED2 UIOLI scheme must be more effective than in ED1 to improve the service for these customers, many of whom are in remote or rural areas and may increasingly rely on electricity for heat and transport. While we welcome the design that the revised scheme offers DNOs to flex the schemes, the lack of a clawback mechanism appears not to be justified when it is a common element of UIOLI allowances, such as the RIIO-GD2 UIOLI Vulnerability and Carbon Monoxide Allowance which is also supported by guidance and reporting as a safeguard. **We therefore recommend that there should be a final clawback adjustment mechanism.**

Many DNOs proposed WSC schemes that would eliminate WSCs on their networks (WSCs identified at the time of the Business Planning process). We noted in our response to the Call for Evidence (pp 59-61) that SSEN had proposed only to resolve 75% of its WSCs. It is not explained within the Draft Determinations how Ofgem viewed the stakeholder engagement for any of the schemes or how Ofgem viewed the justification provided by SSEN to resolve only 75% of WSCs. SSEN's costs for the WSC schemes have been outlined as £21 million (p193). This is less than UKPN's cost calculation of £26 million and not much above ENWL's smaller licence area costs of £18 million for their WSCs. **We recommend that Ofgem determines whether the ambition of SSEN for its WSC customers is sufficient and whether a higher allowance should be used to deliver higher customer benefits by relieving more or all WSCs in their area.**

We recommend that for ED3, Ofgem removes the WSC scheme and replaces it with a minimum national standard for reliability. All DNOs are undertaking schemes to improve reliability for Worst Served Customers for ED2, however, the UIOLI scheme does not offer the protections of a minimum standard. Moving to a minimum standard would ensure that all customers receive the same service standard which may not result from the ED2 WSC schemes.

We further recommend for ED3 that the minimum standard or WSC schemes apply to LV levels rather than purely HV. The increased installation of monitoring at LV levels during ED2 should facilitate the ability to better identify those receiving a markedly worse service.

Core-Q53. Are there any other areas or metrics that we should include in our governance framework?

It was not clear that the metrics proposed directly incorporated the WSC schemes that were outlined in the Business Plans and supported by stakeholders. **We recommend that the schemes described in the Business Plans should be directly referenced within the governance document for each DNO along with any newly-identified schemes to track costs, benefits, and progress.**

We recommend that there is a requirement for public annual reporting of progress, costs, and upcoming future plans for WSCs to hold companies accountable to stakeholders and customers. This could be an appendix to the vulnerability reporting process.

Core-Q54. Do you agree with our proposed approach on NARM?

No response provided.

Core-Q55. Do you agree with our proposal to pass through Severe Weather (SW) 1-in-20 costs as a variant totex allowance rather than a fixed allowance in RIIO-ED2?

No response provided.

Core-Q56. Do you agree with our proposal to not set a cap for the amount that DNOs can adjust their allowance by, in the event they experience a SW 1-in-20 storm?

We agree to not set a cap for the amount that DNOs can receive given the historically low costs to date under the prior mechanism, and that the frequency and impact of severe weather is not expected to significantly increase during the ED2 period.

Core-Q57. Do you agree with our proposed approach to the physical site security re-opener?

No response provided.

Core-Q58. Do you agree with our proposed approach to the Electricity System Restoration (ESR) re-opener?

No response provided.

Core-Q59. Do you agree with our approach to fund DNO telecoms resilience activities through baseline allowances?

We agree with the approach to fund DNO telecoms resilience activities through baseline allowances. We note that new requirements to migrate from the public switched telephone network (PSTN) to newer technology by 2025 is ongoing and that Ofcom is yet to allocate a proportion of radio spectrum to DNOs. However, we do have two concerns.

Firstly, Ofgem acknowledges that Ofcom are unlikely to make a decision on radio spectrum within ED2 and secondly, it is not clear from the documentation that this technology is intended to have any prospective use for communicating with customers as Ofgem suggests.

As we stated in response to Ofgem's Call for Evidence, more needs to be done by DNOs, Ofgem, and Ofcom to understand and mitigate the impacts of the PSTN switch off in 2025 where this will impact communication between customers and DNOs in an interruption. It is of particular concern that some areas suffer from both poorer mobile signal coverage and higher instances of interruptions which mean that without mitigation, these customers may have no means of reporting an outage, and DNOs may have no means to communicate with customers on the PSR who may suffer particularly higher levels of detriment from the interruption.

In Final Determinations, Ofgem should set out much clearer expectations of what, if any, impact Ofcom's radio spectrum developments would have on DNO communication with customers and, where this will not address our concerns, set out a process in the early years of ED2 to develop a solution that will protect customers from 2025.

Core-Q60. Do you agree with our proposal to assess the cyber resilience IT and OT plans against our BPG and RIIO-2 re-opener guidance?

No response provided.

Core-Q61. Do you agree with our proposed re-opener windows for cyber resilience OT and IT?

No response provided.

Core-Q62. Do you agree with our proposal to apply a UIOLI allowance to cyber resilience OT to manage the uncertainty around costs?

No response provided.

7. Delivering at lowest cost to energy consumers

Core-Q63. Do you agree with our proposed approach to pre-modelling normalisations and adjustments?

No response provided.

Core-Q64. Do you agree with our approach to totex benchmarking?

No response provided.

Core-Q65. Do you agree with our proposed assessment approach for primary reinforcement?

No response provided.

Core-Q66. Do you agree with the application of a volume adjustment based on the industry average ratio of forecast capacity added relative to the forecast demand growth above firm capacity? If not, what do you consider to be a better approach to assessing the efficiency of a DNO's proposed workload for primary network reinforcement?

No response provided.

Core-Q67. Do you agree with our proposed assessment approach for secondary reinforcement?

See our responses to Core-Q3 and Core-Q4.

Core-Q68. Do you agree with the level of disaggregation and period of data used to calculate the unit costs listed in the table above for transformer reinforcement, circuit reinforcement and proactive service reinforcement?

No response provided.

Core-Q69. Do you agree with our proposed assessment approach for fault level reinforcement?

No response provided.

Core-Q70. Do you agree with our proposed adjustments to account for outlier volumes data for ENWL and SSES?

No response provided.

Core-Q71. Do you agree with our proposed assessment approach for connections?

No response provided.

Core-Q72. Do you agree with our proposed assessment approach for NTTC expenditure?

No response provided.

Core-Q73. Do you agree with our proposed assessment approach on asset replacement?

No response provided.

Core-Q74. Do you agree with our assessment approach to refurbishment?

No response provided.

Core-Q75. Do you agree with our proposed assessment approach for asset replacement driven civil works?

No response provided.

Core-Q76. Do you agree with our proposed assessment approach for Condition Based Civil Works?

No response provided.

Core-Q77. Do you agree with our proposed assessment approach for diversions?

No response provided.

Core-Q78. Do you agree with our proposed approach for Rail Diversions?

No response provided.

Core-Q79. Do you agree with our proposed approach to assessing Non-Operational, Operational and Business Support IT&T costs?

No response provided.

Core-Q80. Do you agree with our proposed assessment approach for Legal and Safety?

No response provided.

Core-Q81. Do you agree with our approach to assessing Overhead Line Clearance costs?

No response provided.

Core-Q82. Do you agree with our proposed approach to assessing ESR costs?

No response provided.

Core-Q83. Do you agree with our proposed approach to assessing QoS and NoSR costs?

No response provided.

Core-Q84. Do you agree with our proposed assessment approach for Physical Security?

No response provided.

Core-Q85. Do you agree with our proposed assessment approach for Flood Mitigation?

No response provided.

Core-Q86. Do you agree with the proposed approach to assessing Rising and Lateral Mains costs?

No response provided.

Core-Q87. Do you agree with our approach to assessing WSCs?

No response provided.

Core-Q88. Do you agree with our proposed assessment approach for Losses?

No response provided.

Core-Q89. Do you agree with our proposed assessment approach for environmental reporting?

No response provided.

Core-Q90. Do you agree with our proposed assessment approach for PCBs?

No response provided.

Core-Q91. Do you agree with our proposed assessment approach for Property?

No response provided.

Core-Q92. Do you agree with our proposed assessment approach for STEPM?

No response provided.

Core-Q93. Do you agree with our proposed assessment approach for Vehicles and Transport?

No response provided.

Core-Q94. Do you agree with our proposed assessment approach for HVPs?

We agree with the proposed approach for High Value Projects where the HVP uncertainty mechanism for non-load projects from ED1 will be respecified for the purpose of HVPs in ED2. We note the few projects submitted to Ofgem as HVPs and agree with Ofgem's approach including waiting for further information for some of the projects.

Core-Q95. Do you see any merit in setting a HVP threshold for RIIO-ED2, and if so should it be based on the RIIO-ED1 threshold?

It may be valuable to set a threshold for HVPs to give clarity to DNOs as to when to apply for funding under the scheme. The ED2 threshold of £25 million or more (in 2012-13 prices) appears to be a suitable threshold, however, DNOs may have a better perspective on the threshold amount to be used.

Core-Q96. Do you agree with our proposed assessment approach for faults and ONIs?

No response provided.

Core-Q97. Do you agree with our proposed assessment approach for Tree Cutting?

No response provided.

Core-Q98. Do you agree with our proposed assessment approach for Severe Weather 1-in-20 Events?

No response provided.

Core-Q99. Do you agree with our proposed approach to assessing Inspections and Repair & Maintenance costs?

No response provided

Core-Q100. Do you agree with our proposed assessment approach for NOCs other?

No response provided.

Core-Q101. Do you agree with our proposed assessment approach for Smart Metering Rollout?

No response provided.

Core-Q102. Do you agree with our approach to assessing CAI costs?

No response provided.

Core-Q103. Do you agree with the proposed assessment approach for Business Support costs?

No response provided.

Core-Q104. Do you agree with our approach to assessing streetworks costs?

No response provided.

Core-Q105. Do you agree with our proposal to carry out a demand driven postmodelling adjustment?

No response provided.

Core-Q106. Do you agree with our proposal to not carry out any Quality of Service based adjustments?

No response provided.

Core-Q107. Do you agree with our approach to combining our totex and disaggregated benchmarking models?

No response provided.

Core-Q108. Do you agree with our approach to setting and applying the efficiency challenge using a glide path between the 75th and 85th percentile over a 3-year period?

We agree with the approach to set and apply the efficiency challenge using a glide path between the 75th and 85th percentile over a three year period. This method would be consistent with the RIIO-GD2 efficiency challenge and will act to raise less efficient DNOs to a higher efficiency level.

Core-Q109. Do you agree with our proposed RPEs allowances? Please specifically consider our proposed notional cost structure, assessment of materiality, and choice of indices in your answer.

No response provided.

Core-Q110. Do you agree with our proposed approach to setting the ongoing efficiency challenge and the level of challenge applied?

We agree with the level of challenge (1.2% per annum) applied to DNOs as an ongoing efficiency challenge. We note that a number of DNOs had indicated efficiency challenges at 1%. The 1.2% per annum challenge will represent better value for money for consumers especially given the substantial amounts of previous innovation funding that the sector has received and will continue to receive during ED2.

Core-Q111. Do you agree with our proposed disaggregation methodology?

No response provided.

Free, confidential advice.
Whoever you are.

We help people overcome their problems and campaign on big issues when their voices need to be heard.

We value diversity, champion equality, and challenge discrimination and harassment.

We're here for everyone.

citizensadvice.org.uk

Published August 2022

Citizens Advice is an operating name of The National Association of Citizens Advice Bureaux.

Registered charity number 279057.