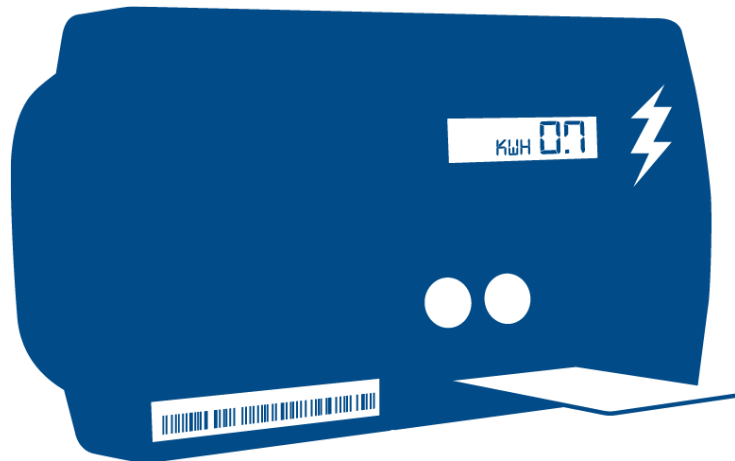


# Citizens Advice views on the electricity distribution network companies' draft business plans for RII0-ED2

Citizens Advice  
September 2021



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# Executive summary

Citizens Advice welcomes the opportunity to comment on these draft business plans as part of its statutory role to represent energy consumers in Great Britain (GB).

The electricity distribution network operators (DNOs) are currently part way through the Ofgem-driven RIIO-ED2 (ED2) price control process which sets the activities that the DNOs must do and the revenues that they receive for those activities. On 1 July 2021, the DNOs sent their draft plans to Ofgem and the Ofgem Challenge Group for their scrutiny. At the same time, the DNOs published information about their plans for public comment and we have taken this opportunity to review that information and provide comments. We hope that the network companies, Ofgem, the Challenge Group, the company Customer Engagement Groups (CEGs), and other stakeholders will find our comments helpful in the later stages of the development of the DNO business plans before submission of final plans in December 2021.

Given the volume of material to consider, we have primarily focussed upon the information presented within the draft business plans. One company did not make their business plan public and so we have reviewed their summary document only. We have considered information within the Vulnerability Strategies, where publicly available, given our special interest in this topic.

## Our key messages

### **The need for coherent, joined-up, and well-justified plans**

The business plans generally provide an overarching strategic view in the opening section, however, this strategic narrative does not appear to be reflected within the plan as a whole. The plans currently appear siloed with limited connections between main business plan proposals such as reliability or resilience, the various individual strategies (such as the DSO, community energy or vulnerability strategies), and the Environmental Action Plan. The DNOs need to demonstrate that the businesses are working to a coherent strategy to deliver Net Zero and to support consumers in the transition, particularly those in vulnerable circumstances. By providing joined-up proposals, it should be easier to provide a better value business plan for consumers and to be able to justify

the plans with clear, measurable benefits . **We recommend that DNOs review their plans, demonstrate a coherent and holistic approach, provide an appropriate 'golden thread' to justify proposals, and identify where additional value can be generated for consumers through linkages across the plan proposals and strategies.**

### **Justification for why DNOs are the most appropriate body, or well-placed, to undertake proposed activities**

We believe that there are 2 inter-related points to this aspect. Firstly, considerations concerning whether a DNO is the best-placed party to undertake an activity, and secondly, whether there is a need for an overarching national or coordinated approach to achieve the outcomes desired.

As the Net Zero energy transition develops, DNOs are being asked to undertake a different and more dynamic role in helping Great Britain respond to the changes needed in the energy system. Activities that DNOs traditionally may not have undertaken before are being considered for the first time, or previous activities are being extended. While many of the new roles and activities can be seen to be in line with DNO past responsibilities, in some cases the extension of activity raises concerns relating to competition, efficiency and consistency of delivery, or the structures to ensure proper customer engagement and accountability. Examples are provided further within the report, and include Customer Value Propositions that may enter areas where other organisations may wish to compete or provide services, in acting as the provider of last resort for EV recharging infrastructure, and in the funding and organisation of activities to meet Vulnerability Strategies.

With respect to the last point, it is welcome that DNOs support communities and customers in line with stakeholder engagement and their wider responsibilities as outlined by Ofgem in licence conditions and in the business plan guidance. However, there is a risk that the lack of a coordinated approach to energy advice provision, including in the newer areas of energy efficiency advice, flexibility resource provision, or smart and low carbon technologies, may result in a less cost-efficient, less effective, or piecemeal provision of advice. This issue has a wider scope than the DNOs and regulator can resolve in isolation.

**We recommend that DNOs review their plans to ensure that their proposals are well-justified and fully supported by stakeholders, especially in areas that may be new to a company. Consideration could include assessing whether other bodies are better placed to carry out the activity**

**and whether the activity is a standalone activity or whether it can be seen to underpin or link to core DNO/DSO functions.**

**We recommend that Ofgem and BEIS consider how the new licence condition relating to the EV recharge provider of last resort is to be implemented, and what guidance or revisions may be necessary to protect consumers.**

**We recommend that the government, BEIS, Ofgem, and DNOs look holistically at the provision of energy advice across GB and evaluate the best solutions for organising and funding that provision to gain best outcomes for consumers and for an effective, cost-efficient delivery. We refer to our recent joint letter sent to the Prime Minister on 25 August 2021 which gives our key asks for Net Zero consumer protections<sup>1</sup>.**

### **Clarity, consistency, and comparability of information**

We have found it problematic to understand some of the inputs and modeling which give rise to the information presented in the business plans. In particular, we highlight the inconsistency in bill impact calculations and the presentation of those impacts which means that stakeholders are not able to understand how the bill impact has been derived or be able to compare between DNOs. Issues include DNOs presenting alternative bill impacts with different financial parameters from Ofgem's, inconsistency in what is included in baseline allowances, forecast scenarios, and the likely or full impacts of take-up of uncertainty mechanisms, and bill impacts for individual licence areas being 'netted' to present a single DNO bill impact.

In addition to bill impact consistency, we have also identified difficulty in assessing:

- Worst Served Customer (WSC) schemes, which have variability in how they are described, whether they refer to ED1 or ED2 definitions, and the ways that improvements and other outcomes are described
- Business carbon footprint (BCF) or Net Zero emissions targets, which have different terminology and can include or exclude various types of emissions
- Vulnerability Strategies

**We recommend that Ofgem and the DNOs establish a transparent common methodology and revise the ED2 Business Plan Guidance for the December**

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<sup>1</sup> [Joint letter to the Prime Minister on Net Zero consumer protections](#), 25 August 2021, Citizens Advice, Which?, Federation of Master Builders, Aldersgate Group

final business plans submissions for 1) calculating and presenting bill impacts, 2) describing WSC scheme targets and outcomes, 3) BCF or Net Zero emissions targets and what those targets should include in terms of types of emissions, and 4) for Vulnerability Strategies:

- **Standardising submissions and the format of information to help streamline the process and support assessments to be as objective as possible**
- **Consistent presentation for costs, benefits, targets, stretch targets, timelines/target dates, ED1 record, and whether commitments meet or exceed Ofgem's baseline standard**
- **Commitments to clearly demonstrate outcomes, and that there should be greater provision and clarity on stakeholder support for those commitments**
- **Achieve a common methodology for describing Priority Services Register (PSR) targets and in calculating PSR needs codes gaps**

### **Customers in vulnerable circumstances**

ED2 presents a set of new challenges and opportunities for DNOs to support the needs of customers in vulnerable circumstances. By the end of ED1, DNOs will have a better understanding of their customers and how to support them, and will have reached many customers with services. This is particularly the case due to the prominence of reaching customers during the COVID-19 pandemic.

We welcome Ofgem's approach to ED2 by seeking to embed the best practices seen in ED1 across all DNOs and setting a new bar for what can be considered ambitious in ED2. **We expect Ofgem to approach business plans with these principles by seeking to make projects and metrics common where possible, and carefully scrutinising where targets and plans are, or are not, meeting and exceeding the baseline requirements they set out in the Sector Specific Methodology Decision (SSMD) and business plan guidance. Ofgem should then ensure that the strategy delivery incentive (SDI) is calibrated to only reward activity which is clearly measurable and attributable to the DNO and demonstrably beyond baseline.**

We are not convinced that many plans contain proposals which clearly demonstrate or justify how they exceed the baseline expectations. However, we do note a number of areas of best practice including a single point of contact partnership model and proposals which widen the data gathering and sharing practices beyond what we have seen in ED1. **We recommend that proposals relating to PSR are common across DNOs to ensure the necessary**

**groundwork is laid for a more coordinated PSR data sharing system.** This will require a review of needs codes as well as a consistent approach to measuring PSR eligibility. We welcome that, generally, proposals will create a more consistent service offering compared to ED1 services.

Fuel poverty-related proposals appear similar to those of ED1 but are significantly increased in scope. We note that for some fuel poverty proposals spending is 4 times that in ED1<sup>2</sup>. This is broadly in line with the overall increases in spending on Vulnerability Strategies which we have observed as being about 3 times higher than in ED1. It is also worth reflecting that the spending planned for ED2, while higher, is also over a shorter price control period of 5 years. Where spending is significantly higher, we understand that this has broadly attracted stakeholder and customer support through willingness to pay (WTP) research. However, we have not been able to easily identify justifications that proposals strike the right balance between costs and benefits to customers which we think DNOs and Ofgem should consider.

Supporting customers in the energy transition is new for ED2 and we note that all DNOs have proposals to offer such services. The type, and scope of proposals differ widely, as do the costs and benefits. As with fuel poverty support we did not easily identify justifications that proposals either strike the right balance between costs and benefits to customers, or how and why DNOs are well placed to offer the particular service they propose. As highlighted earlier, **there has also been little demonstration that proposals have been joined-up in an effective way with other strategies, identifying where co-benefits and efficiencies can be achieved. We recommend that DNOs consider these principles when revising their plans and encourage Ofgem to employ these principles in their scrutiny.**

## **Importance of uncertainty mechanisms in ED2**

The electricity distribution sector faces challenges that are different from those in the transmission sector. There is a higher reliance on localised forecasting to accommodate the Net Zero or development ambitions of local authorities and devolved governments. There is also a need for the DNOs to make many smaller, lower value decisions to operate their networks effectively. As we have noted within our research on strategic investment<sup>3</sup>, there will be a requirement

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<sup>2</sup> Where costs have been clearly identifiable in publicly available plans.

<sup>3</sup> [‘Meeting net zero — getting the right strategic investment to support the energy transition’](#), Citizens Advice, March 2021



to provide baseline allowances to permit flexibility to meet network requirements while protecting consumers from companies being overpaid. The main methods to protect consumers will be assurance surrounding forecasts and in the translation of those forecasts into network plans, and the use of uncertainty mechanisms (UMs) to responsively allow for further investment when needed.

Within the report, we have highlighted our concerns regarding the robustness and consistency of forecasting methodologies, as well our research into the variability in local area energy plans that will have been used to help build the network plans. Changes in demand for connections due to the Access and Forward Looking Charges Significant Code Review raises additional issues in developing certain and robust baseline funding requests. We have also noted the inconsistency between companies in what is included within baseline allowances or to be funded within UMs.

We believe that Ofgem will need to scrutinise the different forecasting processes as well as the variability in the extent of funding which has been asked for within baseline allowances. Given these challenges, it is evident that UMs are likely to take on a higher importance than in the past to be able to deliver rapid but appropriate network investment, particularly for load-related investment. The UMs that will help to deliver strategic investment, and provide funding to increase capacity for higher volumes of electric vehicles (EVs) or heat pumps, or for unlooping of electricity services, will need to be responsive and carefully calibrated. One mechanism to allow 'automatic funding decisions', the volume driver, allows companies to make lots of fast decisions, and releases set funding when a trigger is reached. While this mechanism appears ideal for much of the non-baseline investment needed for ED2, we reiterate our views that these volume drivers will have to be carefully calibrated with respect to any triggers (such as reducing capacity) and for the costs associated with the funding mechanism to be worked out to ensure that they reflect what the networks need and no more.

There is a need to provide clarity on what should be within baseline funding and what should be in UMs. We note that the details of how the UMs will operate are still being worked on by Ofgem with the DNOs. These challenges have meant that there is difficulty in understanding likely bill impacts for the draft business plans.

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['Meeting net zero - Options for network company highly anticipatory investments in a post-COVID-19 environment'](#), Citizens Advice, August 2020

**We recommend that Ofgem provides further guidance on what elements of funding should be within baseline funding or should be within the UMs. The level of robustness of the forecasting processes used by the DNOs would be a suitable factor to assist in this evaluation and in determining baseline allowances. We also recommend that the details of the UMs are finalised as soon as possible to understand their operation and to ensure that they are appropriately responsive. The UMs will need to be carefully calibrated and valued to ensure that networks receive only what they need to avoid the risk of consumers over-paying.**

## **Distribution System Operation (DSO) functions vital to support the energy transition**

The DNOs have outlined within their draft plans and their DSO strategies how they will meet this important aspect of meeting Net Zero. DSO activities constitute a vital part of making the network operate at the highest cost-efficiency to meet all of the expected increased demand from the uptake of electric vehicles (EVs) and heat pumps. The DNOs are having to consider how to best meet the requirements of an effective DSO and have made proposals, some of which are similar, but others that are divergent.

### **Independent DSO**

DNOs have proposed a range of ideas to build confidence in their DSO operations to mitigate any actual or potential conflicts of interest. These proposals include independent auditing of decisions and providing independent DSO panels. One idea that goes further than the others is the proposal for an independent, separable DSO, echoing the operation of the Electricity System Operator. We believe that this proposal to separate DNO and DSO functions has merit to avoid many of the drawbacks to integrated DNO/DSO structures, even though this proposal does not go as far as proposing full legal separation. Integrated DNO/DSO bodies have the disadvantages of possible conflicts of interest in forecasting, or in flexibility contracting or dispatch. It is also difficult to adequately incentivise a small part of an organisation's work where other incentives may outbalance it. There are still aspects to such a proposal which would warrant further investigation such as the merits of full legal separation, the likely costs of any legal or functional separation within the same entity, the magnitude of benefits for separation, any disadvantages due to lack of a joined-up organisation, and the views of wider stakeholders.

**We welcome the forthcoming Ofgem DSO Governance Review which should consider the merits of having independent DSO separable functions or full legal separation given the potential advantages that DSO independence**

**could provide. These benefits could include increased confidence within the flexibility market, independence and assurance in forecasting, and being able to more effectively incentivise a DSO to achieve goals needed for Net Zero. We would welcome wide stakeholder consultation by Ofgem on the DSO separation issue as well as an impact assessment, and evaluation of likely costs and benefits.**

**We reiterate our previous asks for separation of DSO costs and allowances for ED2 in addition to an incentive mechanism, which we believe will permit cost-efficiency comparisons between companies, and facilitate any future separation of DNO and DSO activities.**

### **Full range of options for implementing DSO**

DNOs' plans for meeting their DSO requirements have a degree of variability in how they will use the range of solutions that are on offer to help provide a cost-efficient and flexible system. In most cases, plans have covered in depth their needs for increased reinforcement (building more network infrastructure), active management of their existing network through monitoring their capacity more effectively, as well as the use of flexible resources. However, not all DNOs appear to have taken on board the full range of options that include the promotion of energy efficiency to meet DSO requirements. This appears to be a missed opportunity to institute a solution that could increase capacity, be long-term and passive, and offer crossover social investment benefits for those in vulnerable circumstances.

**We recommend that DNOs consider the full range of options that can be used to deliver DSO management of the energy system, including ambitious proposals incorporating energy efficiency as a solution. We also recommend that DNOs consider past innovation projects on energy efficiency, which have already been paid for by consumers, before considering further innovation projects on the topic.**

**We recommend that the use of energy efficiency for DSO purposes is considered in connection with other strategies, such as the Vulnerability Strategy or community strategies, to show joined-up thinking in ensuring the greatest range of outcomes for each pound spent on this solution.**

### **Local area energy plans and input from devolved governments**

We have noted from our own research that there is a degree of variability in the development of underlying local energy plans and how the ambitions of local authorities may not always be backed with clearly costed proposals. There also appears to be a risk of a lack of consistency in how local government and

devolved government input has been used within DNO forecasting and formation of draft business plans. DNOs have also put forward a variety of proposals relating to how best to engage with these stakeholders in the future, including as a baseline activity or in ‘beyond business as usual’ proposals. Given the importance of these stakeholders to the development of the ED2 business plans, Net Zero achievement, and the DNOs’ plans for ongoing engagement during ED2 and beyond, **we recommend that Ofgem provides further guidance on how to conduct current engagement with local authorities and devolved governments, including what weight to give this engagement for forecasting and network planning to ensure consistency of approach and improve confidence in forecasts and network plans. We would recommend that Ofgem scrutinises the engagement and the critical processes used by DNOs to accept or reject local plan proposals to assure that forecasts used for final DNO business plans are robust.**

**We recommend that Ofgem considers how DNO business plans relate to the work currently underway by BEIS and Ofgem in considering the role and form of Local Area Energy Mapping and Planning<sup>4</sup>.**

**We also recommend that Ofgem considers the draft proposals put forward by DNOs for any ongoing engagement and support for these stakeholders to assess which proposals may be suitable to be considered for baseline expectations for all DNOs.**

## **Financial issues**

Evidence from recent transactions in regulated sectors, including the 60% premium paid for Western Power Distribution, support that claims for a higher cost of equity are not justified.

It is also not in the interests of consumers to increase the cost of equity to manage financeability. **We believe companies should be exploring all options that do not increase overall costs to consumers, including equity injections and depreciation.**

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<sup>4</sup> Local Area Energy Mapping and Planning, as discussed at the [Net Zero Advisory Board meeting](#), July 2021, BEIS, Ofgem

# 1. An open and transparent approach to business plans

At this stage in the ED2 process, the DNOs are not required by Ofgem to make public their draft business plans, however, 5 of the 6 companies have chosen to share their draft plans via their websites. Most companies have provided further data, such as annexes, which describe elements of the plans in more detail. **We commend Electricity North West (ENWL), Northern Powergrid (NPG), SP Energy Networks (SPEN), Scottish & Southern Electricity Networks (SSEN), and Western Power Distribution (WPD) for sharing their plans at this point in the process.** Some DNOs, ENWL and WPD, published even earlier versions of their plans, and NPG published a detailed emerging thinking paper, which has allowed for additional stakeholder scrutiny. We are disappointed that UK Power Networks (UKPN) did not share their full draft business plan although we have reviewed their summary document of commitments for ED2. SPEN did not make some of their annexes publicly available, including the consumer Vulnerability Strategy. As such the detail needed to fully understand the implications of some of the UKPN and SPEN commitments will be limited compared to other DNOs' plans.

## 1.1 Giving consumers a stronger voice

### 1.1.1 Stakeholder engagement

We value the Ofgem enhanced engagement requirements for the ED2 price control process. We have previously encouraged wider and deeper stakeholder engagement for price controls as detailed in our 2018 research report: [‘Strengthening the voice of consumers in energy networks’ business planning](#). We have also pointed to good practice within the enhanced engagement process in our more recent 2021 report: [‘RIIO-2 price control Enhanced Engagement process: Recommendations to Ofgem and energy network Customer Engagement Groups and User Groups](#)’.

CEGs have played, and continue to play, an important role in scrutinising and challenging DNOs' engagement activities and are able to review engagement processes in more depth than any external stakeholder. As such, the CEG reports are essential reading to understand the extent and comprehensiveness of companies' engagement and whether stakeholder ambitions have been met or exceeded. We acknowledge that many DNOs are still conducting further stakeholder engagement prior to the final submission of business plans in

December 2021 so that their plans may change between now and December. As such, we are not reviewing stakeholder engagement in depth at this stage but will look at stakeholder engagement in final business plans and associated CEG reports at the end of 2021.

## 1.1.2 Social contract

### Transparency and Accountability

We note the inclusion of social contracts in WPD's, and UKPN's proposals. The social contracts bring together commitments relating to governance, social responsibility, the environment, and local communities, and are intended to serve as mechanisms for collating, monitoring, and occasionally, evolving commitments in these areas. It appears that social contracts can offer additional ways to enact and report on environmental, social, and governance (ESG) measures, how companies can relate to their consumers, and communicate the outcomes of any commitments. The relationship between business, society, and local communities should be a central part of forming company strategy and operations, and plays a role in decisions around investment. In the energy transition and facing the societal challenges of Net Zero, it may be valuable for companies to consider whether their business plans offer the same level of social commitment, interaction, and reporting requirements that a social contract could provide. As social contracts are intended to last beyond a single price control period, there may also be advantages in having overarching or strategic long-term commitments separate from those within a shorter-term business plan document.

To ensure that social contracts add value for consumers, they need to offer more than communication of ESG goals. WPD's 'Social Contract' document presents key actions and associated metrics for reporting, however, they are not always consistently included within the business plan.

UKPN outlines a focus on using their social contract to demonstrate the companies' trustworthiness to their customers. It is unclear how UKPN plans to baseline trust measurements and to monitor the impact provided by the social contract. UKPN also provides limited information on the other commitments that constitute the social contract. **We would welcome receiving more detail on the intended key actions for UKPN's social contract, and to see metrics for reporting for social contracts included within DNO business plans, where relevant.**

Social contracts can increase transparency by acting as a "one-stop shop" publication for ESG commitments, however, the accountability relating to those

commitments was not clear in all cases. **We would welcome further information on how accountability to consumers is achieved. For example, this could be achieved by outlining processes where social contract commitments have not been met, and by detailing which person, group, or body is ultimately accountable for delivery of the whole social contract.**

### **Coherence**

In bringing together a range of ESG commitments into 1 document, it is possible that this may offer an easier mechanism for oversight by stakeholders and consumers. We would welcome further information outlining the benefits that can be gained from bringing different commitment areas together under a social contract. For example, there may be social benefits, savings or efficiencies that have been achieved. **We recommend that DNOs include an assessment of the social benefits or efficiencies made, or intended to be made, as a result of the social contract, and through its related stakeholder and consumer engagement process.**

### **Engagement**

The social contract process necessitates direct engagement with consumers, and local and regional authorities, including them in the social contract planning process through co-design. Companies were required to undertake additional stakeholder and consumer engagement in areas beyond the engagement for ED2 business planning. **There may be value in this additional engagement, particularly in consideration of long-term and strategic issues, and we recommend that DNOs assess the value of such engagement for their own longer-term business planning.**

## **2. Delivering value for money services for customers**

### **2.1 Proposals for bespoke outputs**

We have noted our views on the use of Price Control Deliverable (PCD) outputs at 2.3.1 Reliability - Use of PCDs further below. We have also discussed uncertainty mechanisms at 4.2, and Consumer Value Propositions (CVPs) at 6.1.

In this section, we are considering the use of bespoke Output Delivery Incentive (ODI) mechanisms proposed by some companies. ODIs come in 2 varieties:

ODI-F (with a financial reward/penalty mechanism), and ODI-R (with a reputation-only mechanism and no financial reward or penalty).

NPG (pages 26 and 27) has proposed 3 bespoke ODI-R measures for annual reporting of its DSO activities, vulnerable customer strategy delivery, and for its major connections delivery. Each of these proposed bespoke ODIs is in addition to the associated sector-wide Common ODI-F performance scorecard mechanism managed by Ofgem. WPD (pages 57-65) lists 38 commitments that have associated bespoke ODI-Rs, covering a wide range of issues such as flexibility procurement, community energy, efficiency savings, and the accessibility and use of data. SPEN is proposing 3 bespoke ODIs (page 10) including relating to a customer advice service in reducing customer or business costs (page 86). SSEN is proposing a bespoke ODI-R for whole systems (page 133) that will involve co-designing metrics and reporting with stakeholders. ENW (page 199) is proposing an ODI-F for rapid completion of streetworks.

As can be seen from the examples provided above, there is a large number of proposed ODIs covering many areas. **It may be valuable for Ofgem and the DNOs to review these ODIs to assess:**

- **Whether there is universal applicability across the sector for some of these ODIs which are beyond areas already covered by the ED2 SSMD, such as community energy or whole systems**
- **Stakeholder support, and the costs and benefits to consumers, in collecting the data necessary to report upon the ODI, and whether the ODI will achieve the appropriate behaviour, particularly if the ODI is reputational only**
- **The risk of duplication between the sector-wide Ofgem-required ODIs and the bespoke ODIs**
- **The merits of having a shorter-period bespoke ODI to supplement the Ofgem-required ODI. For instance, the Ofgem ODI-F may be at a longer interval for review than the annual reporting cycle of the proposed bespoke ODIs, such as the Ofgem DSO incentive which is only at mid- and the end of the ED2 period. Additional bespoke annual ODI-R measurement and reporting for DSO activities may offer opportunities for revealing issues for resolution, or best practice that may be valuable for the sector as a whole.**



## 2.2 Meeting the needs of consumers and network users

### 2.2.1 Vulnerability Strategy

Throughout ED1 the work that DNOs have undertaken to support customers in vulnerable circumstances has developed significantly. DNOs are delivering greater levels of support, working more closely with greater numbers of partners, and have a deeper understanding of vulnerability and their unique position in being able to support customers.

The understanding of the needs of customers in vulnerable circumstances has come to particular prominence recently when the services offered by DNOs and others during the COVID-19 pandemic has become increasingly important. The acceleration of policy supporting the UK government's Net Zero target and the energy system transition to support this also brings significant new challenges, including the risk that some customers are unable to access the benefits of new low carbon technologies and smart and flexible energy systems.

The landscape for DNOs in ED2 therefore presents a different set of challenges as well as opportunities:

- Embedding the best practice of the sector from ED1
- Enhancing existing services and processes to ensure that customers in vulnerable circumstances are offered effective services at the most efficient cost possible
- Finding new unique services and customer value propositions to offer customers and the communities they serve
- Responding to the highlighted need to identify and support customers who are made more vulnerable by losing their electricity supply
- Identifying where and how DNOs are best placed to support customers at greater risk of being left behind by the energy transition
- Balancing the requirements of stakeholders and the needs of customers in identifying and offering services related to fuel poverty and energy advice

## Overview

Ofgem in their Sector Specific Methodology Decision (SSMD)<sup>5</sup> and ED2 Business Plan Guidance established 4 principles and 13 baseline standards<sup>6</sup> to give direction to DNOs on the areas and minimum standards where commitments are expected in draft Customer Vulnerability Strategies. Here, we set out some principles which build on this. We think DNOs should employ these principles when revising their proposals ahead of submitting their final business plans and strategies, and Ofgem should assess plans against them.

We believe these principles are particularly important given the increased spending proposed to deliver consumer vulnerability strategies. We note that some companies propose to spend more than 3 times as much as they spent in ED1 and 1 company proposes to spend more than £44 million on delivering their strategy. Our thoughts set out below reflect only the business plans and consumer vulnerability strategies which have been made publicly available<sup>7</sup>.

### 2.2.1.1 Vulnerability to loss of supply and the Priority Services Register (PSR)

The ability for DNOs and others to support customers hinges on the quality and volume of data held to target that support. Through ED1, DNOs have increased the number of customers on the PSR and improved the processes of sharing that data. However, there are still gaps where customers in certain areas and of particular utilities are either not able to have their data shared with other essential services or that data still has to be shared manually. We believe the approach to data sharing in ED2 needs to be significantly more sophisticated and that this should be consistent for customers across all of GB. Ultimately **Citizens Advice recommends a centrally coordinated solution that delivers a modernised system that operates on a 'tell us once' basis<sup>8</sup>. In support of this we expect DNOs, who already play a key role in this system, to lay the groundwork in supporting this ambition by modernising their approach and ensuring full consistency across GB.** We therefore welcome WPD's commitment to explore extending their PSR data sharing to include telecoms and note that they are the only business to propose this. We also welcome the

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<sup>5</sup> Ofgem, [Sector Specific Methodology Decision](#), December 2020

<sup>6</sup> Ofgem, [RIIO-ED2 Draft Business Plan Guidance](#), August 2020

<sup>7</sup> We have not reviewed SPEN's vulnerability strategy which was not made publicly available and we have not been able to review UKPN's full business plan or strategy.

<sup>8</sup> Citizens Advice, [Getting support to those who need it](#), October 2020

intent behind ENWL's single portal for registering and accessing PSR data and UKPN's automated data links.

We note that no DNOs have acknowledged in their strategies or business plans the upcoming important changes to telecoms services. The changes will mean that the PSTN (Public Switched Telephone Network) will be upgraded from analogue to digital or IP (Internet Protocol). This means that in the future, voice telephone calls will be carried in the same way as data over a broadband connection. It will also mean that landline telephones will not work during electricity supply interruptions as they would with PSTN. We recognise that Ofcom has published guidance for organisations including where customers may need additional protection.

However, **we expect DNOs to be building protections for customers who rely on a telephone line into their business plans, as the current telephone network will close at the end of 2025.** In particular, **DNOs need to consider how they can support PSR customers who may rely on a telephone line for essential services** such as text relay equipment, care alarms, and security systems. Ofcom have indicated the importance that telecoms providers know which customers may be more vulnerable to an electricity interruption. This indicates a very clear cross-over between DNOs and telecoms providers' role in supporting customers in vulnerable circumstances and highlights the need for a coordinated approach to the PSR beyond energy utilities.

We note that in response to feedback, NPG refers to a Priority Services Membership (PSM) in their plans. While we welcome the intent to make terms relevant to customers, it's important that this is not done in isolation from the rest of the sector. This risks a fragmented and confusing proposition for customers, unless a coordinated approach is taken.

We also **recommend coordination to ensure standardisation of sign up processes, forms and up-front information where currently this varies across all DNOs, GDNs and water companies.** One area that should particularly be reviewed is the up-front presentation and processes to identify who is, or may be, eligible to be on the PSR. This information should ensure that the self identification and self declaration of conditions or other criteria do not act as a barrier to customers being able to sign up, especially where customers may not identify with the categories presented. More effective data sharing

would lead to better service delivery for customers and greater efficiency across all essential services.

To best support their customers, DNOs need to have PSR data which is up to date and as complete as can be economically achieved. We therefore expect DNOs to clearly justify how they will close up the gaps in their total data, as well the gaps which exist for each of the needs codes. **DNOs must clearly justify their approach to closing the gaps in their PSR data.** We note that business plans have a variety of approaches ranging from closing the gap of all needs codes to closing the gap for particular groups. However, across the board, there is a lack of clear justification on why any particular approach best balances the benefits for customers against the costs.

**The issue above also applies to commitments relating to the prioritisation of particular groups of PSR customers for particular services, including in response to a supply interruption. We note that business plans contain a range of approaches to prioritisation, however, there is a lack of clear justification for the approach that DNOs propose to take.** Ofgem should also consider that where DNOs propose different approaches this risks a postcode lottery in the service customers can expect to receive. However, taking a decision on any common approach or baseline standard requires DNOs to more clearly justify their approach.

DNOs are in a privileged position in the data that they hold, both about the energy system, but also about customers who require additional support. **We expect DNOs to maximise the use of PSR and other detailed vulnerability data they hold, while upholding high data protection standards. This includes identifying how work across the DNO business could benefit PSR customers and those in vulnerable circumstances, or how that data can better inform decision making. While some DNOs have identified such a golden thread in their plans, this is not consistent.**

What it means to be made vulnerable by a loss of supply and which groups are at particularly high risk could change during the energy transition. **The uptake of low carbon technology is likely to have increased by the end of ED2<sup>9</sup> and so DNOs should demonstrate an understanding of this in their business**

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<sup>9</sup> For example, the UK government commitment for 600,000 heat pumps a year to be installed by 2028.

**plans, including how different and new services might support existing and future PSR customers.** We note that some DNOs propose services such as battery back up generation, but this is not common across all DNOs. **DNOs should provide clear evidence where they have assessed new PSR service options and their decision making process.** This will better enable Ofgem to assess the reasons behind their service offering, especially where this differs from other DNOs or is comparable with their current service offer.

### **2.2.1.2 Need for coherent, joined-up, and well-justified plans**

As noted in the executive summary, the components and strategies within business plans currently appear siloed with limited connections between them. Ofgem in its SSMD set out the challenge to deliver business plans which enable an effective transition to Net Zero at lowest cost to existing and future consumers. Citizens Advice believes that part of this means that business plans should be joined-up in an effective way that identifies and realises both cost efficiencies and co-benefits across strategies. DNOs need to demonstrate that the businesses are working to a coherent strategy through joined-up proposals which are able to better justify the costs against measurable benefits and co-benefits.

In particular, we note that DNOs current proposals on the energy transition, low carbon technology, fuel poverty, energy advice, and in relation to smart meters do not effectively demonstrate a joined-up approach between the Vulnerability Strategy and other strategies such as for DSO and Environmental Action Plans (EAPs). Many proposals also do not demonstrate how and why the DNO is the most appropriate body to undertake the proposed activities.

Where these proposals could be at risk of duplicating the work of others and could be considered beyond DNOs' core functions, **we recommend that DNOs amend plans to ensure they:**

- **Improve the justification of how DNOs are best or well placed to undertake an activity**
- **Ensure these plans are joined up with other strategies with any co-benefits and efficiencies clearly demonstrated**
- **Demonstrate how their plans would effectively and fairly target support**

**We also recommend that Ofgem considers these factors in their scrutiny of business plans to ensure consumers' money is being spent as efficiently and effectively as possible within a coherent strategy.**

**We recommend that the government, BEIS, Ofgem, and DNOs look holistically at the provision of energy advice across GB and evaluate the best solutions for organising and funding that provision to gain best outcomes for consumers and for an effective, cost-efficient delivery. We refer to our recent joint letter sent to the Prime Minister on 25 August 2021 which gives our key asks for Net Zero consumer protections<sup>10</sup>.**

**We recommend that timelines for achieving targets are clear, contain trajectories and are well justified.** We note that in a majority of plans, commitments in the Vulnerability Strategy commit to achieving targets or outcomes by the end of ED2 (2028) and do not provide clear rationale for that timeline. We also note that NPG appears to have more consistently presented proposals with clear interim milestone targets. Citizens Advice is concerned that there is little evidence in many cases that companies have considered the earliest or most appropriate date that targets can be achieved, or considered whether earlier achievement in itself would be a stretch target. Where companies are indicating a commitment that is beyond Ofgem's baseline standard and could potentially be subject to the strategy delivery incentive, this requires particular scrutiny from Ofgem.

### **2.2.1.3 Clarity, consistency, and comparability of information**

**We recommend that, as far as possible, all commitments in the consumer Vulnerability Strategies should clearly demonstrate outcomes.** A number of commitments relating to internal processes, the establishment of new funds and increasing the number of social indicator mapping datasets do not clearly articulate the associated customer outcomes and therefore the value or benefits.

**We also recommend that individual commitments should also have clear costs and benefits associated with them, employing outputs from the common Social Return On Investment (SROI) tool where possible.** Draft plans contain a suite of bundled proposals for which total costs and benefits are attributed. However, this makes understanding and comparing information between plans very challenging and in some cases impossible. Particularly where bundled commitments contain SROI values, we assume that the individual components of these figures are known and can be demonstrated by

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<sup>10</sup> [Joint letter to the Prime Minister on Net Zero consumer protections](#), 25 August 2021, Citizens Advice, Which?, Federation of Master Builders, Aldersgate Group

companies to enable Ofgem and stakeholders to make comparative assessments. Information should also be presented in a consistent way across DNOs. We note that some plans include total costs of projects, while others indicate the incremental costs requested in ED2 compared to ED1. **We recommend that Ofgem amend the Business Plan Guidance to ensure that costs, benefits, targets, stretch targets, timelines/target dates, ED1 record, and whether commitments meet or exceed Ofgem’s baseline standard are presented consistently and in one place across all business plans.**

**We recommend that DNOs work with Ofgem and stakeholders to achieve a common methodology on calculating PSR needs code gaps.** We note that business plans contain a range of targets between 40% (WPD) and 80% (SPEN and ENWL) with different approaches to the prioritisation of different needs code groups for closing the gaps between those eligible to be on the PSR compared to the actual number on each PSR. However, we are also aware that DNOs do not currently have a consistent approach across all 6 companies on:

- The interpretation of needs codes
- The data sets used to calculate the total number of eligible customers for each needs code
- Factoring in potential overlaps between customers in data sets and corresponding needs codes

The targets presented in plans cannot therefore be compared on a like-for-like basis. Ultimately, the risks associated with an inconsistent approach impacts the ability of DNOs to accurately and efficiently target their actions to increase the reach of their PSR and the likelihood that customers receive support if they want it and are eligible.

**We recommend that DNOs provide greater clarity on stakeholder support of commitments in business plans. While we note that significant volumes of annexes have been produced by DNOs, greater effort should be made to summarise both the overall stakeholder support for commitments but also the support for the specific targets and timelines of commitments as well.**

We note that some DNOs have provided more information and clearer links between stakeholder support and proposals than others and would encourage best practice.

### 2.2.1.4 Proposals that meet the needs of customers in vulnerable circumstances

We welcome proposals from DNOs which seek to:

- Increase the levels of data sharing with other utilities
- Move towards a more seamless 'tell us once' process including the involvement of non-utility partners
- Explore the widening of data sharing with the telecoms sector
- Widen the gathering of vulnerability data beyond the PSR needs codes

Where DNOs have proposed these commitments it demonstrates a longer term view of the need for data sharing and gathering to look beyond the immediate utility sector and the status quo. **We encourage other DNOs to consider this action and recommend that Ofgem encourages a levelling up across all DNOs. However, DNOs must also provide clearer timelines for achieving these commitments in business plans to ensure that progress is made without delay and DNOs can be held to account.**

We welcome proposals to establish or enhance shareholder-funded funds to support local communities. **The proposals demonstrate clear value to consumers and effective corporate social responsibility (CSR) and we would encourage those DNOs who have not made these proposals to do so.** However, **we would encourage clearer information to be provided in plans about the exact nature of this funding relationship** to ensure that the availability of funds is not contingent on incentive revenues or other revenue sources as this diminishes the potential consumer value, ability for multi-year awards to be made, and diminishes the strength of the CSR. Although some DNOs have stated clearly the benefits they intend to achieve through their funds, this is not consistent across all DNOs. **Companies should ensure that even where funds are provided by shareholders that there are outcomes and effective targeting are still demonstrated in business plans.**

We welcome commitments to improve resilience planning for particular types of premises, such as care homes, however **given existing resilience planning actions already carried out by DNOs in ED1, companies should make it clearer how their actions go beyond their current level of service.**



We note that all DNOs commit to not only refreshing their PSR data by contacting all PSR customers at least every 2 years but that some stretch targets have been proposed, most notably by ENWL who proposed contacting all medically dependent customers every 12 months. Some DNOs have also proposed targets or reporting how accurate they deem the data to be. We note that SPEN has set a 60% target while SSEN commits to reporting the values. **We recommend that:**

- **DNOs set out more clearly how the accuracy of their data could be assessed**
- **Ofgem considers the applicability of this measure across the sector and how this could be measured consistently**

We welcome the approach by DNOs to ensure that high quality evidence of the effectiveness of partnerships is reported upon on a more consistent basis in ED2, learning from best practice in ED1. **We also recognise that some proposals would have merit in being considered by other DNOs:**

- **NPG proposes customer satisfaction surveys as part of the assessment of how effective their partnership work is**
- **SSEN proposes that their partnership reporting document would identify the role the DNO has played in the partnership**

We also welcome the approach SPEN has taken in its commitment to achieve a 'single point of contact partnership model' which we consider could be effective in delivering a simple customer journey, ensuring customers can get the support they need with as few barriers as possible. We note that WPD developed and employed a successful 'hub' model like this throughout ED1 and has been demonstrated as best practice. **We recommend all DNOs consider this model of working.**

ENWL set a target and stretch target for increasing the SROI value associated with their partnership working. We welcome the intent to drive greater and more efficient value through partnerships and recognise the benefits of now having an SROI tool which allows for consistent measurement. **However, we recommend that where DNOs set such targets that clear justification is provided including how the DNO intends to achieve this.** It is important that where greater value is achieved, there is clarity on whether changes to proxy values or direct DNO-influenced actions have driven this.

We note that SSEN and ENWL commit to either reporting or improving the prioritisation of calls from PSR customers. We welcome these proposals to ensure effective prioritisation. Different targets have been proposed but we would encourage all DNOs to consider setting such targets. **We recommend DNOs consider targets based on the speed of answer as proposed by WPD or based on the answer rate as ENWL has proposed.** Any targets that are based on the % of calls prioritised would be influenced simply by which customers make phone calls, and not the service that is provided to PSR customers.

We welcome the commitment from SPEN to capture wider information about customers' circumstances to help SPEN understand how customers could be made vulnerable both by an interruption of supply, as well as by the energy transition. This action recognises that PSR needs codes do not necessarily capture the information that DNOs may require to support their customers. While we would encourage all DNOs to adopt a similar approach, there are risks associated with each DNO taking a slightly different approach. Instead, **we recommend that DNOs and Ofgem consider how PSR needs codes can better capture the range of circumstances that could make a customer more vulnerable, and review the needs codes to ensure a consistent and coordinated system for essential services utilities and energy suppliers.** Otherwise this could lead to a fragmented approach and a postcode lottery for consumers.

NPG proposes a number of commitments relating to communicating with PSR customers and providing enhanced support during interruptions. NPG demonstrates a good link between research with customers and these commitments. **We would encourage all DNOs to consider how enhanced commitments like this can be proposed either as voluntary Guaranteed Standards of Performance (GSOPs) or built into the licenced GSOPs for ED2.**

We welcome the proposal from ENWL to measure customer satisfaction scores for PSR customers who do and do not experience power cuts. This recognises that the PSR has significant potential value to enable other services to be offered to customers even if they do not experience a power cut. We note that WPD was the first DNO to do this in ED1 and shared their best practice via the SECV incentive. **We recommend all DNOs consider measuring this performance**

**and that this metric is considered as part of the strategy delivery incentive given it could measure outcomes for a range of DNO commitments.**

ENWL proposes a number of actions to minimise the risk of supply interruptions in areas where customers may face greater vulnerability as a result. We welcome these proposals and the details provided which demonstrate how different strategies can be joined-up. **We would, however, welcome further details on whether the proposal is foremost a vulnerability or engineering project and the benefits to customers.**

We welcome UKPN's commitment to achieve higher rates of digital GSOP compensation payments. **Ensuring customers can be paid compensation in a way that best suits them is important and we encourage other DNOs to consider making similar commitments.**

#### **2.2.1.5 Areas for development**

A number of DNOs propose commitments relating to commissioning research during ED2, especially in the area of vulnerability, data and the energy transition. While we welcome DNOs' intent to continually improve their understanding and ability to support their customers, **DNOs should consider where clear cost efficiencies can be achieved through coordinated research involving multiple or all DNOs.** While there may be regional research requirements, this should not be seen as an ultimate barrier to better-coordinated research where this has a net-benefit to customers. As the use of data clearly aligns with Ofgem's principles and baseline standards, **DNOs and Ofgem should consider if and how this area of work can be demonstrated as exceeding the baseline standard as is the case in some business plans.**

Some DNOs propose innovation funds related to fuel poverty. While we support new and innovative approaches, **Ofgem should ensure there are protections for consumers around the effective use of innovation funds which are provided to DNOs via baseline funding.**

We welcome the intent to support PSR customers in a personalised way as shown in SSEN's Consumer Value Proposition (CVP), however, the way in which this differs from existing support could be better demonstrated alongside the associated costs for ED2.

DNOs have set out targets for PSR customer satisfaction scores which are newly captured alongside the Broad Measure of Customer Service (BMCS) with targets around 9.3 or 9.4 out of 10. We welcome these as targets which should ensure a high level of service to PSR customers where there has been direct contact.

However, **we suggest a number of recommendations:**

- **Clear justification should be provided where timelines for these targets have been set no sooner than the end of the price control.** We note that for many DNOs a target of 9.3 or 9.4 is not significantly above current performance and so the timeline is an important factor in assessing the commitment
- **Consideration should be given to the proposal from UKPN to offer customers the chance to provide feedback and rate services following every interaction with the company.** This could be a valuable complementary metric and target to employ across industry.

We note that SSEN proposes to train their staff in City and Guilds energy efficiency training. While we welcome the intent to equip their staff with such skills, we think **consideration should be given to whether this overlaps or efficiently complements the other energy efficiency referral work that is proposed.** If the proposal is expected to enhance the referral process and enhance the targets for direct referrals, further information should be provided.

A number of DNOs propose education activities related to low carbon technologies. However, we note that in many cases there is a lack of justification for why the DNO is best-placed to do it. There is also a lack of detail of the service offered, the intended outcomes, or the timeline of delivery. **More detail should be provided by companies where possible and Ofgem should ensure that the strategy delivery incentive can monitor the effective and efficient delivery of these commitments where baseline funding is provided.**

We welcome DNOs' commitment to ensuring their staff are well trained in recognising a wide range of potential vulnerable circumstances and being able to act to support their customers. We note that some DNOs are proposing training commitments that significantly increase the costs to consumers compared to ED1. Where costs have been provided, plans indicate spending on training ranging from a total spend in ED2 from £500,000 (WPD) to at least £2.25 million 'incremental cost' (ENWL). **This represents a significant variation and**

**it is important that these costs and the benefits to consumers are well justified.**

While we support the work DNOs do to listen to their customers and embed this engagement in their businesses, we do note that ENWL proposes to develop new customer advisory panels at an incremental cost of £2.5 million. While this is 1 particular example, **we would encourage Ofgem to closely scrutinise the costs associated with these activities among all DNOs to ensure the right balance is struck between costs and benefits.**

SPEN proposes a CVP in their plan with 1 element directly funding innovative technological solutions to reduce energy bills. We note that the intention is to target this to 40,000 of the most disadvantaged customers who would expect to achieve £100 per year savings for each customer. **We recommend further detail is provided by SPEN on the technological solutions they are proposing.** The second element of the CVP relates to increasing the uptake of smart meters across harder to reach groups. Citizens Advice is concerned about the extent to which this may duplicate the work of others who are tasked by government or through regulation to perform this duty. **We recommend that SPEN clearly explains how this would be achieved, the extent to which the work would be separate from the existing touchpoints they would expect to have with harder to reach groups and what partnership or joint-working they anticipate being involved.**

Some DNOs have proposed commitments to use preferred contact methods and language during interactions with their customers, especially where this is with customers potentially at risk of being in vulnerable circumstances. Where this has been proposed as a new service, **we recommend DNOs set out more clearly how this differs from their ED1 service offering and that of other companies where this might be expected to already be part of a DNO's service.**

We note that some DNOs propose apps to allow DNO staff to sign up and amend the details of PSR customers, as well as others which allow customers to self-serve by communicating with the DNO and accessing information and services. We are aware that to some extent apps of this nature are already in use by some DNOs in ED1. **We recommend that where DNOs propose apps**

**which they consider exceed the baseline expectation set by Ofgem that clear justification is provided in plans.**

### **2.2.1.6 Development of Metrics**

DNOs have proposed a range of metrics against which they think they can be assessed for the delivery of their plans. While proposals like measuring PSR reach are quantifiable and can potentially be compared on a like-for-like basis, many of the metrics are not and will have to be evidenced qualitatively or through a regulatory reported evidence (RRE) type format. In turn, an independent assessment is likely to be necessary under the strategy delivery incentive.

**We recommend that Ofgem sets out a clear and defined structure and format for any qualitative or RRE submissions as part of the SDI including:**

- Length
- The use of annexes
- The order of information
- The requirement for information presented in tables
- The use of quantifiable costs, benefits and SROI
- Historical and present performance
- The bundling/separation of information
- The appropriate use and necessity of narrative for areas such as binary outcomes
- The use of milestone targets

The scale and scope of customer vulnerability plans has increased significantly since ED1 and risks that submissions could be longer and cover a wider range of topics than in ED1. **Strict standardising of submissions and the format of information can help streamline the process and support assessments to be as objective as possible.**

As we note earlier, few business plans contain metrics and targets with associated milestones. **We recommend that DNOs provide milestone targets for their actions, especially where these can be quantified.** Otherwise there is a risk that any assessment of progress within the price control period will not be possible against any clear milestone targets.

We note that some proposed metrics such as those relating to the numbers of partners trained, number of partnerships and number of datasets used by a DNO do not reveal outcomes. While these can be assessed in a qualitative process to ensure strategies are delivered, we would question where DNOs have proposed these as exceeding baseline expectations. **We would encourage Ofgem to particularly scrutinise stretch targets which have been proposed in these areas.**

We note the significantly increased scope of work to support many more customers in or at risk of fuel poverty. Many DNOs propose metrics based on targets to “support” or “engage” a particular number of customers, or to “offer” a particular service. **We recommend that Ofgem ensures that such targets are clear in what they are measuring and that, where possible, are measured in tandem with the value and benefit received by those customers to ensure efficient and effective delivery.** Similarly, we note that ENWL proposes a metric to measure the awareness reach of fuel poverty services. We would encourage such a metric to be clear about what this is measuring and how it is captured.

**Where DNOs have proposed metrics to measure the number of PSR records shared with other utilities, clarity needs to be provided on whether this applies only to new PSR customers and why this number or percentage would be any less than 100% of all new or amended records.** We would otherwise assume that all other data sharing flows include all PSR records where there is more up to date information to ensure all parties have the latest information about customers.

We welcome metrics which both capture and drive DNOs’ staff to maximise touchpoints with customers by registering eligible customers to the PSR. **We would encourage DNOs to also extend this metric or supplement it with metrics which capture direct registrations via partnerships.**

We note that metrics related to the accuracy of PSR data do not provide clarity on how this would be calculated. **We recommend that this is explored in both business plans and with Ofgem to ensure that this is reliable and consistent across DNOs.**

## 2.2.2 Customer services

We welcome the various initiatives to improve customer satisfaction (CSAT) scores during ED2. For instance we have noted the proposals for increased ability to self-serve, wider access channels, and more responsive complaints resolution services. These will all be important elements for the coming years as the interactions between DNOs, third parties, and customers (including those in vulnerable circumstances) increase. Improvements to existing CSAT measures including the use of higher minimum CSAT scores, and for targeted customer segments, such as those on the PSR, will be valuable to track satisfaction, and maintain high quality services.

Companies have also proposed measures to monitor CSAT scores for new areas, such as data service users (NPG page 124), or in DSO relationships. As the energy transition continues to develop, it will be necessary to collect feedback from these users to ensure that their views are taken on board and help to refine DNO services. **We recommend that DNOs and Ofgem review the various CSAT measures being proposed and consider whether the best of these measures, including those extending into novel areas, would be appropriate for introduction across the sector.**

## 2.2.3 EV recharging infrastructure provider of last resort

A new Electricity Distribution licence condition (31.F) has permitted DNOs to act as the EV charge infrastructure owner and manager of last resort. This can occur “where the Authority [GEMA] is satisfied that no person other than the licensee is able to own, develop, manage or operate an Electric Vehicle Recharging Point or could not do so at a reasonable cost and in a timely manner”. The licence condition was introduced in early 2021 as part of a range of EU Clean Energy Package measures.

There are required procedures to act as safeguards to ensure that the DNO does not impact competitors. For example, DNOs are required to undertake open tendering to allow others to bid to own and manage the EV charging infrastructure, and must review the situation every 5 years to see whether the circumstances have changed where the DNO is owner of the infrastructure.

One DNO, SPEN (page 63), appears to be actively considering this activity. We understand that Ofgem is working upon guidelines to support the licence condition.



We have a number of concerns regarding the proposed activity. The DNO describes the lack of bidding by competitors as ‘failed market tendering’ (SPEN, page 63). In reality, this could be seen as appropriate market responses to, presumably, uneconomic EV charging sites. As such, any DNO taking on the ownership and management of the infrastructure is likely to have an ongoing loss-making position for these charge points. Bill-payers for a whole licence area will be picking up the cost for, perhaps, only a small number of EV owners to benefit. The 5 year periodic check on whether the situation has changed offers no automatic protections for customers that there would be any resolution to picking up the bill for the loss-making on this infrastructure. While the Authority has the right to revoke the DNO’s ability to own and manage the infrastructure, it appears that the revocation can only be called upon where the original requirements (i.e. no other person will step in) are met. It is possible that the EV charging sites would need to be managed and retained in perpetuity if no other company or body takes on the responsibility.

**We recommend that Ofgem, the CEG, and the Challenge Group look closely at the stakeholder support for the DNO proposal to become an EV charging infrastructure owner and manager. Stakeholder engagement should ensure that bill-paying customers were appropriately consulted on the full implications (as outlined above) of a DNO owning and managing potentially loss-making infrastructure for a considerable period of time.**

**We also recommend that Ofgem considers carefully the guidelines necessary to ensure that bill-payers are protected, competition encouraged, and whether this licence condition should be reconsidered. For example, it may be more appropriate for a local authority or devolved government, with their processes for accountability, budget scrutiny, and a democratic mandate, to take on the responsibility of ownership and management of EV charging infrastructure for their communities in preference to privately-owned, monopoly utility providers.**

## **2.3 Maintaining a safe and resilient network**

### **2.3.1 Reliability**

#### **2.3.1.1 Use of flexibility resources in solving reliability issues**

Flexibility resources could offer effective, and possibly cheaper solutions when considering network reliability. Not all DNOs appear to have considered their

use when considering maintenance or improvements to reliability in their networks. The focus has tended to be upon traditional methods, such as installing fault identification equipment, upgrading equipment, or using additional teams of fault restorers. **We recommend that DNOs consider all options for maintaining and increasing reliability including alternatives such as flexibility resources used alone or in combination with traditional infrastructure solutions to ensure best value for consumers.**

### **2.3.1.2 Interruptions Incentive Scheme**

There appears to be universally strong support from stakeholders for maintaining high levels of reliability and a recognition that increased reliance on electricity for working from home, for heat, or for transport will mean that even higher levels of reliability may be needed. We welcome the DNOs' responses in addressing these stakeholder concerns as we have noted a general move to improve reliability standards in ED2. **It will be important for Ofgem to ensure that the Interruptions Incentive Scheme (IIS) is well calibrated to ensure that DNOs are not overly rewarded for any incremental improvements.**

Some DNOs have stated an estimated IIS reward/penalty range for ED2 (for example, SPEN on page 157 of their plan). Other DNOs have simply stated that the consumer cost for IIS improvements is under the IIS as these improvements are not funded under an allowance (for example, ENWL on page 74/75). **We would welcome clarity from DNOs and guidance from Ofgem on presenting likely consumer cost impacts of IIS improvements and the range of an estimated reward/penalty.**

### **2.3.1.3 Use of Price Control Deliverables**

We welcome the use of Price Control Deliverables (PCDs) where a project is separable and sizeable to ensure that customers only pay for what is delivered. We note that NPG is proposing a bespoke PCD (page 95 of its plan) for its HV Automation programme, and ENWL are proposing 3 PCDs (page 198) for specific reliability programmes and for its Smart Street project. **We ask DNOs and Ofgem to identify similar sizeable discrete projects where PCDs may be applicable.**

### 2.3.1.4 Worst Served Customers (WSCs)

In our response to the ED2 Sector Specific Methodology Consultation, we advocated for a revision of the definition of WSCs as well as the support mechanism for WSCs given the poor uptake of the scheme in ED1. We were pleased to see a revised definition that would capture more people in poorly-served areas. We welcomed the change to the WSC mechanism which required DNOs to engage with stakeholders and propose schemes to meet stakeholder views to address the needs of WSCs.

DNOs have proposed a range of schemes in their areas and have reported high stakeholder support for improving the service levels of WSCs. However, it has proved difficult to compare the different schemes and the type or level of improvement. For instance, it is not always clear whether DNOs have used the revised ED2 definition of WSCs and some refer to ED1 definitions to describe numbers of affected consumers. In addition, DNOs have described their proposed improvements in different ways but often as a percentage 'improvement' or for WSCs 'addressed'. It was not always clear what the percentage improvement was referring to (for example, whether it was duration of cuts, number of cuts in a certain period, or reduction in numbers of people who are affected or are defined as WSCs, some other measure, or some combination of these measures). **We would recommend that Ofgem and the DNOs work together to clarify how to describe the WSC schemes under this common PCD before submission of final business plans in December 2021. Factors that could be used include the exact nature of the improvement proposed, the measurable outputs (e.g. the numbers affected or improved by the activity, numbers removed as WSCs, numbers remaining, percentage or number changes to duration of cuts, numbers of cuts, numbers of WSCs at the start and end of ED2, etc.), and to use ED2 definitions to calculate affected WSCs.**

DNOs may have scaled back their initial WSC proposals in light of stakeholder input that appeared to show existing customer resilience as well as cost/benefit analysis. For example, SSEN notes that they were originally considering improvements for 100% of WSCs but reduced this to 75% following stakeholder engagement and also considering cost/benefit analysis. SSEN found that their affected customers were highly resilient and "many didn't feel that there was a problem with their service as they didn't remember all of the power cuts they had experienced adding short duration cuts were only minor inconveniences. They would like a more reliable service but not at any cost" (page 38).

Stakeholder engagement with affected customers is good practice. **We recommend that Ofgem (and CEGs if they have not already looked at this aspect closely) reviews the engagement to ascertain whether affected stakeholders fully understood the increasing likelihood of reliance on electricity for transport, working from home, and for heating, the implications of continued higher levels of outages, and whether stakeholders supported the cost/benefit analysis and final decisions on WSCs.**

### **2.3.1.5 Short interruptions (SIs)**

We have noted UKPN's proposal to reduce the number of SIs (those under 3 minutes) experienced per customer by 10% (page 13). UKPN is also proposing to pay compensation to those experiencing a high number of SIs. Some DNOs have noted that they intend to increase the monitoring and reporting of SIs during ED2 (for example, ENWL) but may not have similar proposals relating to the reduction of SIs or compensation. While the differences in proposals between companies may reflect revealed stakeholder engagement, it is not clear why UKPN's stakeholders would have a different approach to SIs compared to other areas. **We ask DNOs and Ofgem to consider the proposals for SIs and their supporting stakeholder engagement to identify whether a more consistent approach, perhaps looking to UKPN's proposals, would be appropriate given the increasing reliance on electricity in the future.**

## **2.4 Delivering an environmentally sustainable network**

We are aware that many DNOs are still developing and refining their Environmental Action Plans (EAPs) in advance of the December final business plan submission. We will therefore undertake a more in-depth review of the EAPs at the Call for Evidence stage of the ED2 price control process.

A feature to note at this draft business plan stage is the variety of different target dates (and terminology) that DNOs have proposed for their business carbon footprint (BCF) to become Net Zero:

- WPD (page 94) has stated an aim to "reduce our BCF to become net zero by 2028"
- ENWL (page 94) notes that they aim to "become a carbon neutral business by 2038"
- NPG (page 82) notes a target of "net neutral by 2040"

- SPEN (Page 111) has a target of 2040 to “achieve Net Zero Carbon” with an interim goal to achieve of 80% of the target by 2030
- SSEN (page 135) states that their ambition to meet net zero by 2045 will require “at least a 35% reduction in our combined Scope 1 and 2 emissions by 2028, 55% reduction by 2033”
- UKPN (page 17) notes that they have a commitment to “reduce our directly controllable emissions (scope 1 and 2 emissions, excluding losses) to Net Zero by 2028”.

It is acknowledged that these targets will have been developed with many considerations in mind, including input from customers and stakeholders, however, it is not apparent why stakeholders in different areas would have supported such different ambitions. In addition, the terminology or qualifications to the goal of achieving Net Zero (for example, by defining the target in terms of particular types of emission or excluding other causes of emissions such as losses) creates difficulty in assessing the goals.

**We recommend that Ofgem provides further guidance to DNOs in how to describe their BCF ambitions to achieve a consistency of terminology and to make clear which types of emissions are included or excluded. It would also be valuable for DNOs to assess why stakeholders in different areas may have greater ambition for their DNO in achieving Net Zero emissions, and whether any further engagement or refinement of BCF ambitions would be appropriate to justify their final December business plan targets. It will also be valuable to have staged targets for achieving Net Zero emissions presented within business plans.**

## 3. A smart, flexible energy system

### 3.1 DSO transition

Effective Distribution System Operation (DSO) functions will be vital to deliver Net Zero in GB. Enabling higher levels of low carbon technologies such as Electric Vehicles (EVs), distributed generation, and other flexibility resources will demand from DNOs different strategies, activities, skills and processes. It will also require a robust incentive mechanism from Ofgem to drive the right behaviours and in the needed time frame.

Confidence in DSO activities is required to encourage flexibility providers to contract with DNOs and to engender strong secondary markets in flexibility. The

risks of actual or apparent conflict positions of DNOs in their DSO role have been raised as a potential blocker to an effective Net Zero progression.

### **3.1.1 Independent, separable DSO body and other assurance proposals**

DNOs have proposed a range of solutions to raise confidence in the DSO role, ensure stakeholder input, and input a measure of accountability. These solutions include the use of stakeholder satisfaction surveys for flexibility providers and third party DSO function users, auditing of decisions taken between reinforcement and flexibility, and the use of DSO stakeholder panels. However, the UKPN proposal for a separable, independent DSO offers a solution that may more appropriately meet the concerns of stakeholders with respect to any apparent DNO conflict position in forecasting, flexibility contracting, and dispatch. A move to an independent DSO would mirror the transition of the National Grid Electricity System Operator (ESO) into an independent body.

Separability may also alleviate concerns regarding the effectiveness of any DSO incentive framework, given that any likely reward or penalty under the current ED2 system for DSO activities could be outbalanced by the other DNO incentives (such as the Totex Incentive Mechanism (TIM) or IIS) and therefore lead to poor DSO incentivisation. Separate DSO functions may enable a more targeted incentive rate to be applied and therefore act to incentivise appropriate DSO behaviours.

We note that many DNOs have stated a desire to retain the DSO functions within the DNO company and point out that ED2 could be a testing ground or evolutionary period for DSO functions. DNOs also highlight the local nature, disparate, and higher volume activities that are needed at distribution level that may necessitate a different approach from that taken with the ESO. There may also be difficulties in easily separating the cost boundaries between DNO and DSO functions. The risks, advantages, costs and benefits of any separation of DNO/DSO roles (and whether within 1 legal entity or in 2 legal entities) are currently unclear and the conflicting arguments for and against separate DSO functions require exploration. **We welcome the forthcoming Ofgem DSO Governance Review and ask that this considers the value of more independent DSOs for ED2. There may be potential advantages of a more independent DSO which could provide higher confidence for the flexibility market, independence and assurance in forecasting, and the ability to more effectively incentivise a DSO to achieve goals needed for Net Zero. We would welcome wide stakeholder consultation by Ofgem on this issue**

as well as an impact assessment and evaluation of likely costs and benefits for all potential separation options.

### 3.1.2 Full range of options for delivering DSO need to be considered

An efficient and successful DSO will need to ensure that all options have been considered for managing the capacity of the energy system, including the use of flexibility resources, making better use of the network via active network management, energy efficiency, as well as traditional reinforcement. The requirements for considering all options are laid down within the ED2 Business Plan Guidance 'DSO roles and activities', which makes it clear that options must be fairly compared against 1 another and that promoting energy efficiency should be 1 of the considerations. In fact, the requirement to consider energy efficiency is an ED1 requirement (licence condition 31.E.1). The draft business plans show a variety of approaches to optioneering with some DNOs appearing to have fully incorporated all options for consideration while others barely mention the use of energy efficiency, for instance. UKPN (page 14) notes its intention to run energy efficiency flexibility tenders, and to have a 'flexibility and energy efficiency first' approach for ED2 with market testing for all network needs before considering reinforcement. Some other plans do note the use of energy efficiency but are not as ambitious as these proposals. In other business plans, it appears that the use of energy efficiency is primarily reserved to a consideration for the Vulnerability Strategy or as an innovation exercise rather than in active consideration for actively managing a network for DSO purposes.

Energy efficiency could offer a win-win-win scenario in addressing DSO needs, reducing carbon emissions due to reduced need for generation, and in keeping homes warmer and more affordable. We point to prior innovation projects that appear to show proven outcomes (for example, the [SSEN SAVE](#) project). **We recommend that DNOs consider fully the range of options that can be used to deliver DSO management of the energy system, including ambitious proposals incorporating energy efficiency as a solution. We also recommend that DNOs consider past innovation projects on energy efficiency, which have already been paid for by consumers, before considering further innovation projects.**

**We recommend that the use of energy efficiency for DSO purposes is considered in connection with other strategies, such as the Vulnerability Strategy or Community Energy Strategies, to show joined-up thinking in ensuring the greatest range of outcomes for each pound spent on this solution. We note further at 4.5 below that plans appear to currently show**

**a lack of coherence and strategic thought across plan areas and strategies with a risk that the plans will fail to offer best value for consumers.**

### **3.1.3 A DNO's role in supporting local authorities, devolved governments, and others in the drive to Net Zero**

DNOs need to have a clear, strategic approach to working with the important stakeholder grouping of local authorities and devolved governments. These bodies hold a democratic mandate and have a critical role in Net Zero through setting of local Net Zero targets, making legally-enforceable plans, and funding change. Matters such as forecasting, network planning, providing advice and optioneering of solutions are all elements that have high relevance for DNOs in working with these governmental bodies.

In our recent research report on the topic of Local Area Energy Plans, [Look before you LAEP](#), we found the following:

- There is no agreed definition for 'local area energy'. Plans, strategies, commitments and approaches vary greatly across England and Wales
- There is a limited amount of publicly available information about governance, decision making, engagement or finding the funding required when it comes to local area energy
- Local government plans are often driven by a vision or a goal to reach Net Zero as quickly as possible. This ambition is not always accompanied with detailed costings
- Local area approaches to energy offer potential benefits for consumers but there is an urgent need for national coordination and support
- The economic impact of the COVID-19 pandemic has meant some local authorities have had to change their approach to Net Zero. For some local areas there is a desire to ensure that plans for economic recovery are developed alongside environmental priorities
- Without a national framework to help and support local stakeholders to agree and develop local area approaches to energy, there is a risk of further exacerbating inequalities across the country

The ED2 Business Plan Guidance lays down baseline expectations for DSO roles and activities (Appendix 4) covering network planning, as well as directions regarding forecasting and scenarios (page 38 onwards). This guidance notes (page 40) that DNOs should engage with local stakeholders to understand what trajectory for decarbonisation is likely to be followed in that licence area, including input from democratically accountable bodies. There appear to have



been different approaches and levels of engagement by DNOs with respect to these important bodies in the development of the business plans, as well as the ongoing engagement to be undertaken during ED2 and beyond. It is not always clear, for instance, the extent to which DNOs have undertaken a critical assessment of the Net Zero aspirations of a local authority to assure that the aims are likely to be achievable. This point ties to our research that found local plans may not have detailed costs to support Net Zero ambitions and the degree of variability in local plans.

In addition, some DNOs have proposed ongoing engagement with these bodies within CVPs as being beyond business as usual (for example, WPD have 2 CVPs (page 66) relating to proactively partnering with every local authority in their region, and to create a National Energy Plan for Wales; SSEN is proposing a CVP for providing embedded collaborative support to local authorities and community groups on whole systems (page 14)). Other DNOs have proposed engagement with local authorities as part of their baseline-funded DSO strategies (for example, NPG (page 69) has noted its intention to recruit LAEP advisers to work with local authorities). These schemes may offer models for standardising ongoing engagement and support by DNOs especially as there is still a lack of a national framework to help and support local stakeholders to agree and develop local area approaches to energy.

We believe (as stated in the [Look before you LAEP](#) report (page 12)) that “Energy network companies (particularly Gas Distribution Networks and Electricity Distribution Network Operators) may be well-placed to support local authorities and communities in developing local energy plans given their expertise and knowledge. These network companies could play an important role in assisting and supporting approaches to local area energy.” However, there does appear to be a current inconsistency in approach which may impact the accuracy of forecasts and network planning, and may impact the provision of such energy network support to these local governmental stakeholders.

Given the importance of these stakeholders to the development of the ED2 business plans, load-related investment, Net Zero achievement, and the DNOs’ plans for ongoing engagement during ED2 and beyond, **we recommend that Ofgem provides further guidance on how to conduct engagement with local authorities and devolved governments, including what weight to give this engagement for forecasting and network planning to ensure consistency of approach and improve confidence in forecasts and network plans. If there is insufficient time to provide such guidance, we would recommend that Ofgem scrutinises the engagement and the critical**

processes that have been used by DNOs to accept or reject local plan proposals to assure that forecasts used for DNO network plans are robust.

We recommend that Ofgem considers how DNO business plans relate to the work currently underway by BEIS and Ofgem in considering the role and form of Local Area Energy Mapping and Planning<sup>11</sup>.

We also recommend that Ofgem considers the draft proposals put forward by DNOs for ongoing engagement and support for these stakeholders to assess which proposals may be suitable to be considered for baseline expectations and funding.

## 3.2 Innovation

DNOs have generally referenced and described innovations that their DNO has initiated and developed into business as usual. While some companies have noted active review and incorporation of other DNOs' or other sectors' innovation projects (for example SPEN page 32), in other cases, there are only a few references to implementations of innovations beyond their own activities. Consumers have contributed to the funding for these past innovation projects and it is essential that best value is obtained from these investments by all DNOs. **We recommend that DNOs explain in their business plans how they have identified and implemented (or intend to implement) innovations from beyond their own company or industry sector. DNOs should clearly demonstrate how their plans provide best value for consumers through implementing past successful innovations as well as innovating for the future.**

# 4. Keeping consumers' bills low

## 4.1 Access and Forward Looking Charges Significant Code Review (Access SCR)

The Access SCR may have considerable impacts, both within the ED1 price control period and for ED2 business planning. The Ofgem minded-to position<sup>12</sup>, if taken forward, will have the effect of encouraging connections for both

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<sup>11</sup> Local Area Energy Mapping and Planning, as discussed at the [Net Zero Advisory Board meeting](#), July 2021, BEIS, Ofgem

<sup>12</sup> [Access and Forward Looking Charges Significant Code Review - Consultation on minded-to position](#), Ofgem, June 2021

demand and generation at the distribution level, as the direct costs to those seeking to connect become cheaper. This may result in both an up-turn in connections during ED2, as well as potential deferral of some connections that were planned for the ED1 period. We note that there may be a reopener mechanism within ED2 to accommodate changes to funding necessitated by the Access SCR. The Access SCR impacts could also be implemented through the use of other UMs, such as the load-related capacity volume driver.

At present, the draft business plans have been developed (in accordance with Ofgem guidance) to not consider changes anticipated from the Access SCR. The final business plans, we understand, will require revision to accommodate the minded-to position. Our discussions with DNOs have revealed that they believe that the extent of demand for new connections in ED2 could be considerable and that it is currently proving difficult to forecast. There may also be implications for those larger customers that are connected via a flexible connection that may be subject to curtailment under Active Network Management (ANM). It is possible that these customers may opt to have a firm connection if Access SCR charging changes make it cheaper to do so. This may have impacts on managing the distribution system for DSO purposes and require higher levels of flexibility contracts or other solutions.

Ofgem assessment is that the change in distribution connection charging proposed as part of the Access SCR will increase reinforcement costs by around £380 million by 2040. If DNOs' modelling for ED2 reveals cost increase significantly higher than this, this will change the Cost-Benefit analysis and so the SCR decision will require reviewing. For further information, please see our consultation response<sup>13</sup>.

**We recommend that Ofgem:**

- **Ensures that funding which is no longer needed due to deferral of ED1 connections into ED2 can be appropriately recovered. Close-out mechanisms, for example, could be used to ensure that DNOs do not obtain windfall gains from regulatory policy change.**
- **Considers the implications of Access SCR for increased uncertainty in DNO business planning and forecasting. There may be a need for higher scrutiny of baseline funding and/or more reliance upon UMs or other mechanisms. These UMs would ensure that funding is released rapidly to DNOs as the extent of new demand for connections emerges, but provide only as much funding as is needed**

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<sup>13</sup> Citizens Advice, [Response to the Access and Forward-looking Charges Significant Code Review - Consultation on Minded to Positions](#), August 2021

- Any UMs will need to be carefully calibrated to ensure costs are appropriately calculated
- Ofgem should revise the Access SCR Impact Assessment in light of changes in proposed ED2 expenditure and review the minded-to position
- DNOs and Ofgem should consider the implications of Access SCR on the possible cancellation of flexible connections and whether there are potential impacts for DSO operation and costs in ED2

## 4.2 Managing uncertainty

### 4.2.1 Forecasting risk

As we have noted elsewhere, there is a lack of consistency between business plans in presenting information relating to forecasts. Those forecasts lead to plans for investments in totex in baseline allowances and for strategic or less certain investment via uncertainty mechanisms (UMs). The lack of consistency in presentation has meant that it is difficult for stakeholders to fully understand the impacts on bills for consumers. **We recommend that Ofgem provides guidance to DNOs in how to present information in business plans on forecasts, baseline allowances, and extent and utilisation of UMs to ensure consistency, to clarify impacts on bills, and to ease comparability.**

DNOs have described some of the factors which may make forecasting difficult for ED2 and beyond. For example, NPG (page 58) has noted the potential use of hydrogen in providing heating which may reduce forecast electricity demand, and the unknown take-up of price-driven flexibility such as time of use tariffs which would shift demand and reduce the need for higher investment to provide for overall or peak demand. We also note that there were underspends in load related expenditure in ED1 due to actual demand being different from forecast demand. Forecasting the demand for new connections relating to Access SCR take-up may provide further problems in accurately calculating the need for baseline allowances. Given past and current concerns regarding forecasting, **we believe that care is needed in allocating baseline allowances for ED2 in case forecasts prove to be different from outturn. There will be a higher reliance for responsive and accurately drawn UMs to ensure delivery for Net Zero while protecting consumers' money.**

### 4.2.2 Design of Uncertainty Mechanisms (UMs)

Some DNOs have noted the impact that the UMs, if fully utilised, will have on bills. For example, SSEN (page 13) has described their calculation, using Ofgem financial parameters, for base cost proposals for each licence area (decreases of

£5.80 and £5.30 for SEPD and SHEPD licence areas respectively). SSEN has also added that if all UMs are triggered to the full amount, the impact will result in approximately flat bills compared to average ED1 bills. Therefore the value of the UMs could be considerable.

The various UMs proposed by DNOs, if approved, will need to be calibrated carefully to ensure that funding is released only when it is needed and companies are not overpaid. **We recommend that clawback mechanisms or robust driver mechanisms are designed to avoid companies being rewarded for underspends, or where companies could make windfall gains if UMs are not truly reflective of the delivery costs.**

We refer to our prior publications in this area where we have outlined our thoughts in more depth and highlighted the risks if strategic investment is not managed well:

- Blog - March 2021 - [‘Meeting net zero - getting the right strategic investment to support the energy transition’](#)
- Research report - August 2020 - [‘Meeting net zero - Options for network company highly anticipatory investments in a post-COVID-19 environment’](#)

#### **4.2.3 UMs as an alternative to baseline funding for other expenditure types beyond strategic investment**

We have noted that some DNOs have proposed UMs for expenditure that are in areas beyond strategic investment where other DNOs may have proposed to use baseline allowances (for example, SSEN’s range of UMs (page 172) which includes spending relating to tree cutting, LV network and distributed generation monitoring, telecoms, wayleaves, etc.). **We recommend that DNOs and Ofgem review the types of activity that may be suitable to include within UMs rather than baseline funding as UMs may provide additional protection for how consumers’ money is spent and prevent unnecessary future baseline allowance underspending. The same approach for using UMs should be used across the sector to ensure consistency wherever possible.**

### **4.3 Competition**

DNOs have provided differing levels of information on competition within their draft business plans. In many cases, a DNO’s approach to competition is laid out within a separate section of the plan. In other cases, a DNO may have presented the information across various sections concerning connections, the supply chain, or DSO, for instance. **It would be helpful if DNOs could present their**

## **approach and commitments regarding competition within 1 section to be able to readily identify best practice.**

We noted that some DNOs appeared to have assessed their projects against the Ofgem criteria for early and late competition using lower value thresholds (for example, SSEN (page 178) to ensure that their projects are appropriately considered. This appears to be an area of best practice that may be valuable for other DNOs to adopt.

We welcomed the Ofgem proposal for a review of competition in the connections market for ED2<sup>14</sup>. We note the work of the Energy Networks Association Open Networks project and the industry in developing frameworks for DSO activities, for example, in facilitating flexibility markets, however, it is possible that this development work may not have reached all relevant stakeholders. **We believe that it may be valuable for Ofgem to conduct a review of competition in the DSO area similar to the proposed review for competition in connections.** Such a review would help to identify best practice and provide an opportunity for stakeholders to highlight areas of improvement. For instance, the open nature of network data may provide opportunities for competitors to offer additional services as we noted in our response (mentioned above) to the Ofgem proposal for a review of competition in the connections market.

## **4.4 Bill impact**

The DNOs have presented the bill impacts for ED2 in a variety of ways and formats with some DNOs providing detailed calculation models. For example, WPD's model is presented at page 191 of their plan, and ENWL's model is on page 152. Bill impact calculations may have used Ofgem's financial parameter assumptions for ED2, however, DNOs have designed models to highlight bill impacts based on the factors that they believe are relevant, and some have provided additional alternative bill impacts based on different financial assumptions from Ofgem's. It was also not always apparent that the impacts of uncertainty mechanisms or alternative forecasts had been taken into account in bill impacts. It has, therefore, proved difficult to readily compare bill impacts given the variability in how the DNOs have presented their data, the use of the different models and forecasts, what they have included in baseline funding, and

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<sup>14</sup> [Citizens Advice response to the Ofgem proposal to review competition in the electricity connections market in RIIO-ED2](#), Citizens Advice, August 2021

the selection of inputs. **We recommend that Ofgem and the DNOs establish a common methodology for bill impact calculation in advance of the December business plan submission so that there is consistency, and that the effects of uncertainty mechanisms and forecasts are taken into account. We also recommend that the bill impacts are presented per licence area rather than presented at the company level to negate any netting of effects on bills.**

## **4.5 Lack of overarching strategic approach with the risk that plans do not achieve best value for consumers**

There are many interesting and worthwhile proposals within the draft business plans. However, we have noticed that plans often fail to show a strategic and coherent approach. Strategies and proposals can appear siloed without linking between the various elements that make up the plan. For instance, energy efficiency proposals within a Vulnerability Strategy or a CVP could be linked (and possibly funded) via the DSO requirements to promote energy efficiency as an alternative to reinforcement or flex. Links could also be made between proposals for community energy, the Environmental Action Plan, DSO and Vulnerability Strategies, and for proposals relating to resilience and reliability measures. **We recommend that DNOs review their plans to ensure that there is an overarching strategic narrative and that plans are coherently linked. Best value for consumers will be obtained through crossovers between currently siloed strategies and proposals.**

# **5. Financial information**

## **5.1 Financeability**

The business plans make various comments on actions that the companies will, and won't, take to manage financeability issues. We believe companies should be exploring all options that do not increase overall costs to consumers, including equity injections and depreciation. It is not in the interests of consumers to increase the cost of equity to manage financeability.

## 5.2 Cost of equity

We remain of the view that a higher cost of equity is not justified. Recent evidence regarding transactions across regulated sectors supports this. For example, the price paid by National Grid for WPD implies a premium of over 60% compared to the Regulated Asset Value. The Market Asset Ratio premium for transactions involving Scotia Gas Networks and Southern Water are further evidence that investors continue to pay a premium for GB utilities because they are seen as attractive investments.

## 5.3 Cost of debt

We note concerns raised that actual embedded debt costs will vary significantly from the allowed cost of debt, based on Ofgem's working assumptions. Although the concerns raised relate to the allowed cost of debt being lower than actual debt costs as Ofgem's working assumptions are based on a sector average, it is highly likely that for some DNOs the allowed costs of debt will be higher than the allowed cost of debt.

We believe this requires further consideration. Networks' financial positions are potentially being significantly influenced by the costs of embedded debt, relative to the allowed cost. This may influence other aspects of the price controls, such as overall incentive properties and the approach to uncertainty mechanisms. Any 'knock-on' effects need to be assessed from the perspective of consumers.

Citizens Advice has previously suggested that out and under performance related to the cost of debt should be included within the Returns Adjustment Mechanism (RAM), alongside performance against other cost allowances. This would need to be carefully calibrated to ensure overall sectoral debt allowances do not increase but could reduce any adverse impacts of mismatched debt allowances.

Whilst noting these concerns, there are a number of key aspects of the current approach to the cost of debt that need to be maintained in the interests of consumers. In particular we would highlight:

- An appropriate incentive is maintained to efficiently manage debt costs
- Overall sectoral debt allowances do not increase above the sectoral efficient actual debt costs



## 5.4 Efficiency

The assumptions for ongoing efficiencies appear to be significantly lower than those in the RII0-2 price controls for transmission and gas distribution. We believe the opportunity for innovation to drive further efficiencies is potentially greater in the electricity distribution sector and so would expect ongoing efficiencies to be higher.

# 6. The Business Plan Incentive

## 6.1 Consumer Value Propositions

CVPs are required to be beyond the minimum requirements as detailed within the ED2 Business Plan Guidance and beyond the functions typically undertaken by an energy network company as business as usual (BAU). Ofgem will need to consider closely whether the CVPs that are presented meet these requirements. The views of CEGs will also be valuable to assess the value and merits of CVPs as these groups will have had longer to witness their development and scrutinise the evidence for value and stakeholder support.

It is not always clear that some proposed CVPs are beyond BAU or minimum requirements. For instance, SSEN's 'Energy Efficiency Accelerator for Smarter Networks' is a welcome proposal to use energy efficiency to address constraints via supporting 120,000 households with such measures. However, the use of energy efficiency to address constraints as an alternative to the use of traditional reinforcement or flexibility measures could be seen as a requirement under the DSO roles and activities.

Some CVPs as presented appeared to have lower levels of stakeholder support compared to other CVPs. For example, WPD's CVP 7 (page 59 and 66) 'Support local people in our communities via an annual £1m 'Community Matters' fund, funded entirely by shareholders at no cost to consumers'. It could be considered that this proposal could be seen as Corporate Social Responsibility and therefore may not be appropriate to receive CVP reward funding. It would be suitable to assess the CEG's and stakeholders' views on this point.

We note that many of the CVPs are undergoing continued development and that in many cases their costs, benefits and outcome metrics are still to be revealed. Further details will emerge by December 2021 to clarify these points but **we recommend that DNOs and Ofgem review all proposed CVPs closely against the CVP criteria to ensure that they are beyond BAU, beyond minimum requirements as set out within Ofgem Business Plan Guidance, have clear costs and benefits, have well-developed metrics to measure outcomes, and have sufficient stakeholder, CEG, and Challenge Group support.**

A number of DNOs have raised voltage control methods as CVPs (NPG dynamic voltage optimisation (their CVP3) and ENWL with its Smart Street CVP). These schemes may have merit in providing bill savings to consumers, reductions in carbon emissions, potentially freeing up capacity for additional connections, and avoiding curtailment of generation. SSEN has noted its proposal (page 89) to undertake a similar voltage control activity called 'Conservation Voltage Reduction', however, this is not framed as a CVP and we understand that this is to be funded via baseline allowances. **We ask Ofgem and DNOs to consider these proposals and, if viewed as having merit, to assess whether such voltage control schemes should have more universal application across all DNOs. We understand that these voltage control schemes provide potential benefits both to consumers and for effective network utilisation. We also recommend that consideration is given by DNOs and Ofgem to understand the justifications for whether these schemes are best funded via CVPs or baseline allowances.**

For some CVPs, it may not always be clear whether the DNO is the most appropriate body to be delivering the activity. For instance, SSEN's CVP to support broadband to island communities via their already installed fibre assets (pages 127 and 132) may be welcome, however, the costs and benefits are not yet presented, and it may be that a DNO may not be best-placed to provide this service, or there may be impacts on competition. **We recommend that Ofgem and DNOs consider carefully whether any scheme proposed is appropriate for a DNO or whether the activity could or should be provided by a different body.**

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