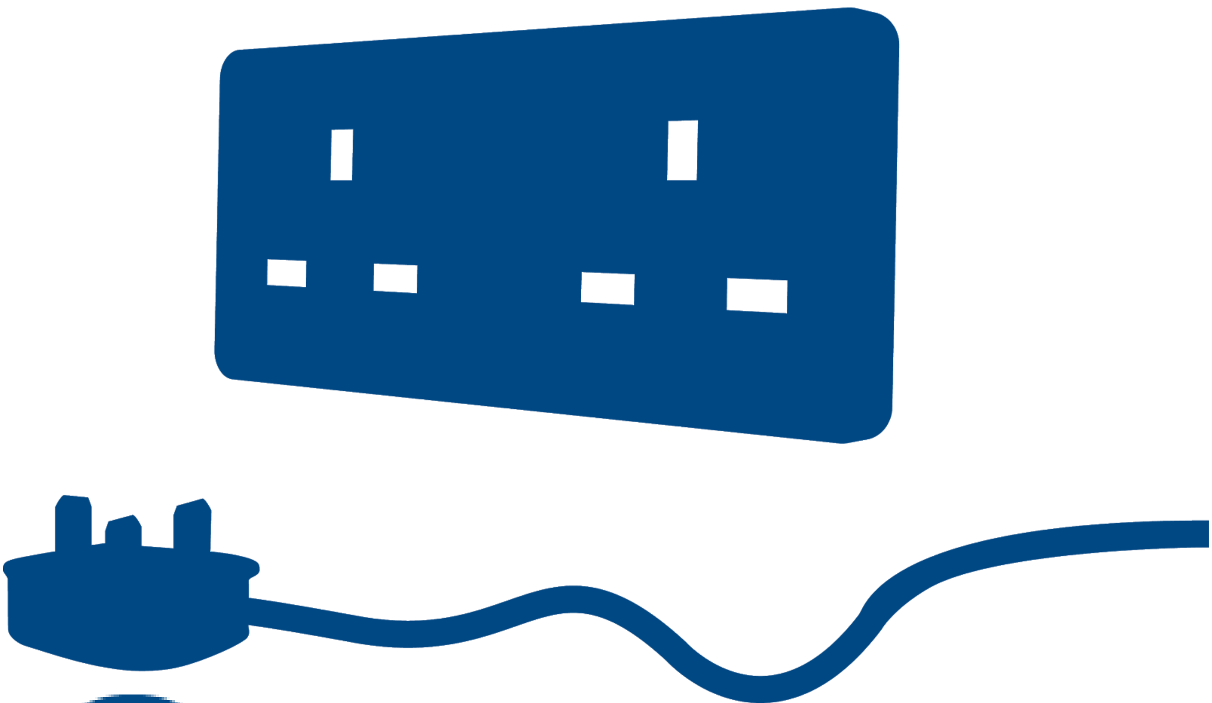
Ofgem consultation on RIIO-2 Draft Determinations

Executive Summary, General Comments and Core Section

Citizens Advice submission

September 2020



citizens advice

Table of Contents

Introduction

Citizens Advice welcomes the opportunity to respond to this consultation as part of its statutory role to represent domestic and small business energy consumers in Great Britain (GB). Our response is not confidential and may be published.

This submission responds to the Ofgem RIIO-2 price control draft determinations relating to 9 different energy network companies: the 3 gas distribution companies (GDN companies), the electricity transmission networks (ET companies), the gas transmission company (GT company) and the Electricity System Operator (ESO). The 6 electricity distribution (ED) companies have a later price control cycle called RIIO-ED2 (ED2). The RIIO-2 draft determinations set out Ofgem's views on the activities and services that the network companies should be delivering as well as how much money these companies should be charging consumers for this work.

Our response draws on input from Europe Economics, HMK Advisory Ltd and Zephyre Ltd.

Executive Summary

The energy network companies that deliver gas and electricity through their pipes and wires to our homes and businesses provide an essential service.

Keeping energy connected to people's homes makes up about a quarter of the cost of consumers' overall energy bills. Affordability has always been a keen focus of essential service price controls, but pressure on people's incomes will be even greater due to COVID-19.

Draft determinations on track to meet Citizens Advice principles

Ofgem has taken significant steps in RIIO-2 towards meeting our 5 principles,[1] published in 2018, to ensure the price control would meet the needs of consumers. The principles were:

1. To address excess company profits
2. Return company unspent money to consumers
3. Listen to consumers
4. Improve company transparency
5. Support for low carbon initiatives and vulnerable consumers

We set out in this submission where we think Ofgem has made the right decisions, and our recommendations in other areas for final determinations that would be more cost-effective, better protect customers in vulnerable circumstances, and ensure that the energy network companies play a key role in the Net Zero transition.

The current context means it is vital that the energy network companies provide value for money and do not make excessive profits. More people are having difficulties paying household bills.[2] While companies should still provide the services people need, this makes lowering costs a key priority[3].

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[1] Citizens Advice, 'Will Ofgem's next price control really deliver for consumers?', August 2018.
[2] Citizens Advice, 'Excess debts - who has fallen behind on their household bills due to coronavirus?', August 2020.
[3] Citizens Advice, "Meeting Net Zero", p.4, and Europe Economics,: "Impact of COVID-19 crisis on appropriate risk allocation mechanisms for highly anticipatory infrastructure investments in the energy sector", p.12, 2020.

The RIIO-2 price control is also an important delivery vehicle for Net Zero carbon emissions by 2050[4]. Companies will need to ensure that they can readily connect low carbon generation and the flexible services to dampen peak and meet turn-up requirements . They will also need to put in place the infrastructure to allow for consumer uptake of low carbon technologies (LCTs) such as electric vehicles (EVs) or heat pumps. The companies will also need to effectively reduce their own impacts on the environment to help meet Net Zero.

Fairer infrastructure costs

In RIIO-1, companies have kept a substantial proportion of unspent funds under the Totex Incentive Mechanism (TIM) which aimed to incentivise efficient solutions through innovation. However, RIIO-1 was permissive of huge underspending. The latest RIIO-1 Annual Report forecasts 16% for ET companies and 11.2%[5] for GDNs. Whilst some of these savings are shared with consumers, and there are genuine efficiencies found, this also represents significant company profit. As a result, we think it is important that RIIO-2 represents better value for consumers. Citizens Advice is pleased there are more mechanisms to return unspent money to consumers.

We support Ofgem's efficiency drive, as the proposals will reduce consumer bills by £20 per annum, on average, compared with RIIO-1. Broadly, we believe that Ofgem has taken the right approach by protecting bill payers. The baseline RIIO-2 package will deliver networks at less cost for consumers. This is due to reductions in the returns companies can make on their investments (cost of capital) and disallowed or delayed decisions on investment. Ofgem estimates that they have reduced the cost of capital against company plans from £7.91 billion to £7.17 billion a year, which will save energy consumers £3.7 billion over a 5-year period.

While Ofgem has moved in the right direction on cost of capital, we think Ofgem can still go further. Our recommendations for the key cost of capital assumptions (Cost of Equity and Total Market Return) could **save consumers at least £1.7 billion over the course of the price control[6]** if adopted.

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[4] UK Government, 'UK becomes first major economy to pass Net Zero emissions law', June 2019.
[5]Ofgem, RIIO-1 Annual performance reports, 2020.
[6] These recommendations and their implications are summarised on page 3-4 in our finance section document

Separately to the Cost of Capital assumptions ,an adjustment to the cost of equity for an expected outperformance of -1.60% rather than -0.25% would **reduce allowed returns by up to £1.2bn over the period of the price control** if adopted.

We have 8 recommendations for Ofgem for a lower cost of capital:

- **Equity beta** - Our analysis shows that Ofgem should apply an asset beta of at most 0.30, rather than 0.34-0.39, and a corresponding notional equity beta of at most 0.56, rather than 0.66-0.79. This alone would imply a reduction in Ofgem's allowed return on equity to at most 2.87%.
- **Total Market Returns (TMR): diversified portfolios** - TMR shouldn't just be based on the average returns on UK equities, but on the average returns on a wider and more diversified portfolio of investments. Based on this we think Ofgem's TMR of 6.25% to 6.75%, is too high, and should be a maximum of 4.0%.
- **Total Market Returns: actual market returns** - Ofgem should take account of forecasts which show that the market is expecting lower returns than Ofgem's analysis of historical returns. Ofgem's TMR assumption based on historical averages (6.25%-6.75% CPIH real) is higher than Ofgem's own data on forecasts from investment managers (4.8% CPIH real).
- **Cost of Equity** - Ofgem's cross-checks source data suggests a cost of equity of 3.1% compared to Ofgem's assumption of 4.2%
- **Outperformance** - We suggest a minimum adjustment of 1.6% half of the amount of expected outperformance by investors of 3.2% revealed by market to asset ratios.
- **Ex Post adjustment** - We disagree with Ofgem's proposed ex post adjustment. It is not necessary and is a one-sided measure for which consumers bear all the down-side risk with no upside.
- **Return Adjustment Mechanism (RAM): debt windfall** - We think it would therefore be reasonable to include debt costs in the RAM to provide an additional safeguard for consumers.
- **Return Adjustment Mechanism (RAM): lower beta** - We also consider that the RAM reduces the riskiness of the regulated companies for investors which should be reflected in a lower beta.

Impact of COVID-19

The COVID-19 pandemic struck the UK in Spring 2020. Companies' Business Plans had been submitted to Ofgem in December 2019. We appreciate that the implications from COVID-19 are still uncertain but it's already clear that issues around consumer affordability will have become even more acute.

One in 9 people, the equivalent of 6 million people nationwide, has fallen behind on a household bill because of coronavirus[7]. Ofgem's overall approach to baseline funding appears to factor in the likely dampening in consumer willingness to pay due to COVID-19. The scale of this impact should be reflected, not just in more efficient baseline funding, but across the whole price control proposal. COVID-19 is also having a wider energy system impact driven by more home working, depressed demand for energy on the system overall and new demand profiles[8]. The costs of responding to these changes is likely to impact consumers,[9] alongside higher unemployment and redundancies, increasing consumer debt, and general pressure on household incomes.

These issues could have potential implications for the operations of networks over the period of the price control. For example, they could potentially lead to a more pressing need for affordable balancing, less investment in some areas due to demand changes, reduced consumer willingness to pay for new projects, and potentially less ability or appetite for consumers to support extensive infrastructure expansion.

Use of Consumer Evidence

A key area for change in the final determinations is communicating how consumer evidence was used by Ofgem. As it stands, we think that the current lack of transparency in decision making in the draft determinations could risk stakeholder commitment to ongoing enhanced engagement in RIIO-2, and business plan development in ED2. We want to see this addressed in the final determinations.

We encourage Ofgem to explicitly consider how to respond to the uncertain implications of the COVID-19 pandemic for consumers and how these may affect the consumer evidence gathered by companies. In our view there needs to be a robust, evidence-based approach set out by final determinations for reflecting the important changes in consumer situations caused by COVID-19. Both Ofgem

[7]Citizens Advice, Six million fall behind on bills because of coronavirus, August 2020.
[8] National Grid ESO, The actions we're taking to manage reduced demand for electricity this summer, May 2020.
[9]Balancing costs are up to £718 million over March to July, which is a 39% year on year increase Ofgem, Open letter our review high balancing costs during spring and summer 2020, 2020.

and regulated companies need to consider the possible scenarios for the duration and economic impact of the pandemic and focus on the potential range of impacts.

Re-openers in RIIO-2 should have a strong evidence base considering willingness to pay alongside other consumer evidence. Projects may potentially require cancellation or rescheduling based on new information, and there may be a need to rebalance bill payments from current to future consumers or to introduce other mitigations to support some consumers in financial difficulties. We believe that there is a role for new sectoral challenge groups to consider the evidence for company proposals relating to uncertainty mechanisms, particularly scrutinising stakeholder support for any projects.

Business Plans

Ofgem's scrutiny of the companies' Business Plans has shown that certain companies have not reassured the regulator that many of their planned projects and costs assessments are robust enough to be funded within their baseline allowances. The onus is now on the companies to provide quality evidence of need, strong stakeholder and customer support for investments, as well as clear and thoroughly-justified costs assessments. Similarly, the majority of Consumer Value Propositions (CVPs) put forward by the companies were not funded. We support the CVP proposals on biodiversity improvements in less-utilised land owned by the networks that Ofgem has accepted.

Ofgem's assessment that the Business Plans were often poorly justified has reduced the rewards that could have been achieved in the Business Plan Incentive (BPI). At present, if the position on the draft determinations does not change, only 1 company (Northern Gas Networks) has received a proposed positive BPI reward (of £1.6 million). One company had neither penalty nor reward, while 6 companies have received proposed penalties ranging from £0.1 million to £66.6 million. In fact, it was only the use of a collar mechanism for the BPI that saved 2 of these companies (National Grid Gas Transmission and Scottish Hydro Electric Transmission) from even higher penalties[10]. We think it is right that there is a high bar for how consumers' money is spent. We expect that these companies will undertake a concerted effort during the time up to the final determinations to strengthen the evidence in their Business Plans to provide

[10] Ofgem, RIIO-2 Draft Determinations - Core Document, July 2020, page 123.

assured, stakeholder-supported, and well-justified investment proposals in the interests of consumers.

Uncertainty Mechanisms and re-openers

Ofgem has managed uncertainty around future spending by moving large amounts of funding into uncertainty mechanisms. The Net Zero re-opener potentially covers up to £10 billion of investment that companies have signalled may be needed to facilitate the transition to Net Zero[11]. This means consumers will need robust protections around how such investment decisions can be challenged in RIIO-2.

In principle, we support Ofgem's decision to use re-openers for highly anticipatory investment. However, the number and scale of uncertainty mechanisms and re-openers are likely to impact the price control if there are UK policy changes to meet Net Zero. These will need to be informed by evidence around consumer ability and willingness to pay, particularly for those in vulnerable situations. We've identified a number of further issues to address, including a need for further modelling of targets to inform anticipatory investment in Ofgem's final determinations.

[11] Ofgem, 'RIIO-2 Draft Determinations - Core Document, p.40-42, 2020.

General Comments

We have given detailed responses to the consultation questions in this submission, however in this section, we have outlined more general recommendations for Ofgem.

How well do the RIIO-2 draft determinations meet our 5 principles:

Principle 1: Profits are lower than the previous price control, to more accurately reflect the relative low risk for investors in this sector.

The cost of capital is a key part of the energy price control, where the decisions Ofgem makes translate into considerable impact for consumers and influence other regulators. Small changes in the metrics which make up these costs can translate into millions of pounds of energy consumers' money.

Ofgem is proposing to reduce the excessive profits evident in the previous price controls but we think that there is more that Ofgem can do to reduce company returns at the expense of consumers. We still believe that Ofgem's calculation for company returns is generous and will reduce consumers' value for money. RIIO-2 should be the mechanism to stop overpayments to monopoly companies.

We have advocated over numerous regulatory price controls in multiple sectors to reduce the mistakes that regulators have made in calculating the returns to network companies and have produced a number of reports presenting our research on this important topic:

- Redetermining water, July 2020[12]
- CMA Ofwat Price Determinations appeal (Water price control) initial submission, May 2020[13]
- Monopoly Money: How consumers overpaid by billions, May 2019[14]
- Energy Consumers' Missing Billions, May 2017[15]

[12] Citizens Advice, 'Redetermining water', July 2020.
[13] Citizens Advice, Initial submission to CMA Ofwat Price Determinations appeal (Water), May 2020.
[14] Citizens Advice, 'Monopoly Money: How consumers overpaid by billions', May 2019.
[15] Citizens Advice, Energy Consumers' Missing Billions, May 2017.

While Ofgem has moved in the right direction on cost of capital, we believe that the draft determinations are still too generous and we have evidence that Ofgem could go further. **We recommend 8 reasons for why the cost of capital could be lower[16]:**

- **Equity beta** - On the basis of the longer-run raw betas estimated in the Wright and Robertson report – of 0.3-0.5 – Ofwat's asset betas would fall from 0.36 to 0.21-0.30, and notional equity betas from 0.71 to 0.33-0.55. Accordingly, Citizens Advice considers that Ofgem should apply an asset beta of at most 0.30, not 0.34-0.39, and a corresponding notional equity beta of at most 0.56, not 0.66-0.79. This alone would imply a reduction in Ofgem's allowed return on equity to at most 2.87%.
- **Total Market Returns (TMR): diversified portfolios** - On the basis that the TMR shouldn't just be based on the average returns on UK equities, but on the average returns on a wider and more diversified portfolio of investments, we would suggest that Ofgem's TMR of 6.25% to 6.75%, and Ofwat's TMR of 6.50% are too high, and should be closer to 4.0%.
- **Total Market Returns: actual market returns** - Ofgem should consider adjusting its use of historical market returns as a proxy for current forecast total market returns and take account of actual market forecasts which show that the market is expecting lower returns than Ofgem's analysis of historical returns. We find Ofgem's TMR assumption based on historical averages (6.25%-6.75% CPIH real) is higher than that actually expected by investors as shown by Ofgem's own data on forecasts from investment managers (4.8% CPIH real).
- **Cost of Equity** - We also assessed Ofgem's use of cross-checks for its cost of equity and found that its approach generates a higher cost of equity than is supported by the source data. The underlying data suggests a cost of equity of 3.1% compared to Ofgem's assumption of 4.2%.
- **Outperformance** - Our analysis of Ofgem's data suggests actual levels of expected outperformance by investors of 3.2% are revealed by market to asset ratios. On that basis we suggest a minimum adjustment of half of that amount, reflecting the fact that this is the first use of this improvement to the CAPM based methodology for setting a cost of equity. We propose an adjustment of 1.6%.
- **Ex Post adjustment** - We strongly disagree with Ofgem's proposed ex post adjustment. It is not necessary and is a one-sided measure for which consumers bear all the down-side risk with no upside.

[16] These recommendations and theirr implications are summarised on page 3-4 in our finance section document

- **Return Adjustment Mechanism (RAM): debt windfall** - We are concerned that companies may still generate windfall gains for shareholders as a result of debt outperformance. In our view it would therefore be reasonable to include debt costs in the RAM to provide an additional safeguard for consumers.
- **Return Adjustment Mechanism (RAM): lower beta** - We also consider that the RAM reduces the riskiness of the regulated companies for investors which should be reflected in a lower beta.

When proposing policy change in the Final Determination we think it will improve transparency and intelligibility if, where possible, Ofgem provides a cost comparison with a continuation of the existing policy.

Principle 2: The value of any unspent funding for infrastructure projects is returned to consumers promptly and in full.

We expect networks to deliver efficiently against planned investment with underspends returned to consumers, where the underspend is a windfall gain and not based on any innovation or efficiency effort by the company. We outline our detailed views on uncertainty mechanisms and re-openers later in this section.

Regulators face an inherent difficulty in establishing efficient costs given the information asymmetry between the regulator and regulated companies. Cost allowances that are too generous to companies can lead to excess profits being garnered by companies leading to higher bills for consumers. For example, in the context of the RIIO-1 controls we estimated that outturn values for Real Price Effects (RPEs) at the RIIO-1 ET and GD controls may be substantially lower than originally assumed by Ofgem, with the regulatory framework which could allow companies to keep up to £0.9 billion of these savings as additional profit.[17]

In light of its previous experience, Ofgem has included a number of mechanisms as part of the RIIO-2 controls that appear to be designed to prevent companies retaining excessive profits if outturns differ substantially from regulatory assumptions. These include:

[17] Citizens Advice, Energy Consumers' Missing Billions; The profits gifted to energy networks, 2017.

Uncertainty mechanisms and disallowed costs: the RIIO-2 controls are characterised by an extended list of common and bespoke uncertainty mechanisms. Ofgem is proposing to reduce companies' requested totex by as much as 45% in the transmission sector compared to company submissions while noting that this disallowance of costs is "balanced against more widespread use of uncertainty mechanisms".[18]

We welcome that 50% of baseline allowances are linked to either uncertainty mechanisms or Price Control Deliverables which should provide assurance that network companies are only paid for what they deliver. The use of automatic clawback mechanisms for uncompleted projects is also welcome. The principle should be that consumers should only pay for projects that are delivered.

Net Zero reopener: It is vital that RIIO-2 ensures that the network companies have the means to build and manage networks that can deliver Net Zero for consumers. The network companies put forward Business Plans to reduce carbon emissions. They describe the projects that would enable renewable generation to connect to the grid, facilitate the uptake of LCTs such as EVs or heat pumps, or undertake innovation for low carbon alternatives to natural gas.

Ofgem approved some Net Zero-related infrastructure projects in baseline funding totalling approximately £3 billion[19] for connecting renewable generation, for hydrogen research and development and trials, and for the ESO to help the system operate carbon free by 2025. An open-ended £10 billion amount of funding was reserved for uncertainty mechanisms via re-openers and the Strategic Investment Fund for areas including: EV rapid charging, connecting additional offshore renewables, and other Net Zero-related projects.

This £10 billion covers uncertain projects that companies proposed for funding during RIIO-2 which can be obtained if better justification is provided. It also includes a substantial amount of company-proposed baseline funding that was turned down by Ofgem. The reasons given for moving this requested baseline funding into uncertainty mechanisms varied but largely reflected Ofgem's view that companies had not provided a convincing business case or sufficient information. While it would have been preferable to have as much Net Zero-related funding in ex ante allowances to encourage the speed of transition

[18] Ofgem, RIIO-2 Draft Determinations - Core Document, p.6 and p.39, July 2020.
[19] Ofgem, RIIO-2 Draft Determinations - Core Document, July 2020.

to Net Zero, we are supportive of Ofgem's stance in providing additional scrutiny to protect consumers from paying for poorly justified, potentially costly, or unnecessary projects. However, Ofgem has not required companies to provide a clear pathway to Net Zero, or modelled how to reach Net Zero. We are supportive of the Strategic Innovation Fund in supporting Net Zero goals. We also welcome the newly formed Net Zero Advisory Group (NZAG) which we think is needed to help provide greater clarity on a Net Zero innovation approach and wider strategy, guidance on policy, technological changes, and legislative matters to Ofgem in the roll-out of projects funded by the Net Zero re-opener. At present, the NZAG appears to only be meeting at 6 monthly intervals and we believe that they may need to meet more frequently to respond to the scale of the challenge, the rapidly changing environment and the need for quick decisions on funding for Net Zero-related projects.

Totex incentive mechanism: The mechanism has been put in place to encourage efficient delivery by companies while sharing the benefits (as well as the costs of overspend) with customers.[20] We are supportive of the move to reduce the share of underspend that these low risk companies can keep via the TIM, returning more money to consumers. The sharing factors are now around 50% for the GDs and between 30.9% and 39.2% for the transmission companies[21] and we believe that these are a more reasonable level compared to the RIIO-1. The sharing factors are calculated for each company using a metric that reflects Ofgem's confidence in company costs within the baseline allowance. This metric provides better assurance to consumers for less certain costs as less is kept via the sharing factor. Higher returns to companies are therefore more likely to be made where the company has made genuine efficiencies on these high confidence costs rather than on the basis of windfall gains.

Business Plan Incentive mechanism: The mechanism encourages companies to submit ambitious Business Plans which are then assessed through a 4-stage assessment process applying rewards and penalties to companies' costs as relevant.[22] We noted that the network companies, particularly some ET and GT companies, failed to justify a large amount of proposed baseline funding to

[20] For further details on design of the mechanism and the calculation of the sharing factors, please see: Ofgem, RIIO-2 Draft Determinations - Core Document, page 118-122, July 2020.
[21] Ofgem, RIIO-2 Draft Determinations - Core Document, page 118, July 2020.
[22] For example, the first step applies a fixed penalty of 0.5 per cent of totex to company business plans failing to meet the minimum requirements set for completeness and quality; while the second step rewards companies for offering additional value to consumers through the Consumer Value Proposition. For further details please see: Ofgem, RIIO-2 Draft Determinations - Core Document, page 122-138, July 2020.

Ofgem. Optimally, we wanted to see funding, particularly related to Net Zero requirements, within baseline funding to ensure a rapid roll-out of projects. Such spending, detailed in the Business Plans, had been subject to considerable consumer input, stakeholder consultation, review by the respective Customer Engagement Groups or User Groups, and by the RIIO-2 Challenge Group. These Business Plans therefore have had a high degree of public input and scrutiny. It is therefore disappointing that the level of justification, costs information, and needs cases provided by the companies to Ofgem, as well as the engagement process with Ofgem, has not led to Business Plans sufficiently robust to allow for these projects in baseline funding.

Given the level of underspend in RIIO-1 it seems some companies have had the option to invest more in network resilience and development for consumers during RIIO-1 but chose not to. We think Ofgem should be considering this when responding to funding requests in RIIO-2.

Efficiency targets: Ofgem has proposed an efficiency challenge for the network companies to incentivise them as if they were companies in a competitive market. The efficiency targets will require innovation to ensure more efficient processes and lower cost projects. The efficiency targets of 1.2% for capex and repex and 1.4% for opex each year appear suitably challenging and should drive lower cost and more efficient companies.

Return adjustment mechanism (RAM): This is a failsafe mechanism to mitigate the risk of companies earning returns that are materially different from what is expected. We think this will be improved by including debt earnings.[23]

Principle 3: Industry business plans and regulatory decisions are directly informed by consumer (including future consumer) feedback and research.

RIIO-2 introduced an enhanced engagement programme within the business planning processes of the electricity and gas transmission, and gas distribution companies. The networks were given guidance by Ofgem[24] as to the extent and level of engagement that would be needed which was intended to ensure that companies' plans were aligned with consumer needs in a rapidly changing world and would improve the standard of engagement. Requirements included:

[23] Ofgem, RIIO-2 Draft Determinations - Core Document, p.183, 2020.
[24] Ofgem, RIIO-2 Enhanced Stakeholder Engagement Guidance – Version 2, November 2019, and Ofgem, RIIO-2 Business Plan Guidance, October 2019.

- Robust and high quality engagement with stakeholders by the company in designing the plan
- That 'stakeholders' would be widely drawn to include individuals, organisations or communities that are impacted by the activities of the network companies. This would include existing and future consumers.
- The formation of company challenge groups including User Groups for the Transmission companies, Customer Engagement Groups for the Gas Distribution sector, and an overarching RIIO-2 Challenge Group with a comparative role.

Our response to the Ofgem Call for evidence on the RIIO-2 Business Plans[25], noted that we were pleased that Ofgem has introduced the enhanced engagement process. Our review of the Business Plans of the network companies found a positive step-change in the stakeholder engagement programmes used in developing their RIIO-2 Business Plans and how these Plans had been substantially informed by consumer evidence. We believed that this marked improvement in considering consumer input was a direct result of the requirements introduced through the Ofgem enhanced engagement process for this price control, including the need to demonstrate robust and high quality engagement and to establish a company challenge group.

While stakeholder engagement as a whole had improved from RIIO-1 for this price control, there was variability in the engagement approaches and practices, and it was not always clear how companies had used engagement.

Consumer engagement in RIIO-2 couldn't be more vital in a price control period that will see many monumental changes in the way consumers interact with energy as the system transitions. Approximately 26% of the average consumer bill goes to network companies[26] and our research has shown that consumer engagement produces better outcomes and decisions.[27] Therefore it is crucial that consumer evidence is used throughout RIIO-2 to inform company Business Plans, re-openers and Ofgem's decisions.

In the draft determinations it is currently unclear where and how Ofgem have considered consumer engagement evidence when making their final decisions on company's proposals. There are only a few examples throughout the

[25] Citizens Advice, Response to the Ofgem Call for evidence for RIIO-2 Business Plans, February 2020.
[26] Ofgem, Infographic: Bills, prices and profits, April 2018.
[27] Citizens Advice, Strengthening the voice of consumers in energy networks, 2018.

determinations covering both transmission and gas distribution where Ofgem refers to consumer evidence in their explanations. It is disappointing that at this stage Ofgem have not been more consistent in acknowledging consumer evidence in their decision making processes, and we think it is important to have a better understanding.

We think most companies have developed proposals after having rigorous stakeholder and consumer engagement processes and plans developed with CEG or UG input. Ofgem has rejected many of these proposals without explaining clearly how they have considered this evidence and engagement in their decisions. This risks undermining the enhanced engagement process which has been successful in driving companies' efforts in developing consumer research and engaging with consumers. For example, Cadent's proposals for additional fuel poverty interventions and energy efficiency advice in their bespoke PCD proposals had support from consumers and stakeholders in their Business Plan[28]. Yet in the draft determinations, there is little reference to this evidence or feedback about how this was used by Ofgem to come to their decision.

Furthermore, the CEGs and UGs have played an important role in scrutinising consumer engagement to ensure companies have developed their stakeholder engagement plans effectively and really listened to the needs of their consumers. These groups have helped ensure that consumer engagement has been collected and evidenced as robustly as possible. However, in the individual company annexes, the CEGs and UGs are minimally referenced and for some companies (Northern Gas Networks and Wales & West Utilities) are not referenced at all. This discourages the hard work in which these groups have contributed as individuals, giving time and resources towards the process. It is not clear Ofgem has considered their role or their input in their decisions.

For CEGs and UGs to remain engaged in the process, transparency about their work and feedback needs to be shown. This is also important if, as Ofgem suggests, these groups are to continue to play an ongoing role in the scrutiny of the Business Plan commitments. Ofgem needs to be clearer in showing the value of these groups and how they have considered their work in their determinations. Otherwise, there is a risk that in the future, companies will not place value on the input these groups provide.

In the water sector for the PR19 price control, Ofwat provided insights in their final determinations about how consumer engagement and input from the

[28] Cadent, Business Plan, December 2019.

Customer Challenge Groups were weighted and used in their final decisions[29]. Although Ofwat could have gone significantly further in providing transparency in this area, this is still an improvement on what Ofgem provided in its draft determinations. We would like to see Ofgem address this in the final determinations.

There is little or no mention of consumer evidence around willingness to pay (WTP) in Ofgem's company annexes. It's important for Ofgem to show how they have weighted this consumer evidence (as well as any further impact COVID-19 may have had) in their decisions and the context in which they have weighted other factors or evidence in the process. For example, SGN's Business Plan provided evidence that their customers were prepared to pay significantly more on their bills to help consumers in vulnerable situations[30]. However, Ofgem failed to refer to the WTP evidence in the rejection of SGN's vulnerability-related CVP proposals.

It is important to acknowledge that WTP as a method has limitations when representing consumer priorities. Citizens Advice covered many of the limitations in relation to the PR19 water price control appeal[31]. Even when consumers may be willing to pay more for a specific good or service this should only be one element of trying to ensure the right outcomes for consumers[32]. As stated in

[29] Ofwat, PR19 Final Determinations, 2020.
[30] SGN, RIIO-GD2 Business Plan, 2019.
[31] Citizens Advice, Redetermining water, 2020, page 28
[32] In principle, there are two broad ways in which the consumers' values may be assessed: stated preference and revealed preference approaches. Stated preference techniques use specially-constructed questionnaires which are used to obtain estimates of the WTP for a particular outcome. With revealed preference techniques the value of a non-market good or service is estimated from complementary markets which use indirectly a surrogate or proxy for that good or service.
Within the set of stated preference techniques, two methods are commonly used when developing the questionnaire:

- Contingent valuation (CV) is a technique that asks consumers carefully-designed questions to elicit estimates of their WTP. Several approaches have been utilised in the extensive literature which include open-ended questions, bidding games, payment cards and dichotomous choice questions. The latter two of these approaches are generally considered to be superior to the former two.
- Choice modelling (CM) is an approach under which consumers are presented with a series of choices between alternatives. The alternative options will differ in terms of their attributes and the amount of money that the consumer would pay or receive. Econometric methods can be used to estimate WTP based on the choices consumers make between a series of options.

Both approaches are survey-based which means that the words surrounding stated preference questions, whether CV or CM, must be carefully composed in order to prevent certain sources of bias.

response to PR19, it is reasonable to assume that had customers thought companies were proposing a higher than needed bill that their willingness to pay, acceptability levels, and sense of affordability (which is often linked to perceptions of value for money) of the plan would have declined.

It is important that WTP evidence is weighed carefully. For example, Citizens Advice evidence suggests that although most people are happy to make changes needed to meet net zero, the majority of people also tell us they would need advice or financial support to take up energy efficiency measures (66%) low carbon heat (76%) or get an EV (66%)[33]. Similarly, if low carbon heat options are made mandatory, consumers will expect the government to minimise any risks that they might be exposed[34]. It appears people expect protections are part of a net zero policy approach. This should be reflected in Ofgem's approach to baseline funding and the net zero and heat reopeners

The context in which Business Plan WTP consumer engagement was carried out has changed. COVID-19 has brought a new set of challenges and priorities for consumers and subsequently consumer attitudes towards affordability and WTP may have changed substantially[35]. Our data from earlier this year highlights the affordability challenges as a result of COVID-19.[36] However, the government interventions, such as furloughing, eviction protection and mortgage payment holidays have protected many consumers so far. This has allowed consumers to focus on "ill health and work related issues", which have made up a higher proportion of contacts to local Citizens Advice offices. Advisors expect a "huge spike in people seeking help with debt in the coming months as debt recovery services get back to normal"[37]. This is before tax rises to pay for support are factored into consumers' ability or willingness to pay.

The lack of transparency in Ofgem's decisions about consumer evidence and willingness to pay evidence makes it unclear as to whether Ofgem disagrees with the robustness of consumer evidence presented or with the proposals

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At the same time, the design of such questionnaires also involves a range of methodological and practical challenges such as the order and wording of the questions, minimising non-valid responses, starting point influence or fatigue frustration of respondents. In addition to these potential pitfalls, a further critique of stated preference approaches is that these involve hypothetical choices rather than being based on actual spending.

[33] Citizens Advice, Zero Sum, page 4, 2020.
[34] Citizens Advice, Taking the temperature - consumer choice and heat, pg 2, 2020.
[35] Citizens Advice, Meeting Net Zero options for network company highly anticipatory investments in a post covid-19 environment, 2020.
[36] Citizens Advice, Financial support during the Covid-19 pandemic, 2020.
[37] Citizens Advice, The most striking issues: the impact of coronavirus on the front line, August 2020.

themselves. It would be beneficial if Ofgem could acknowledge the consumer evidence in the proposal even if the proposal is rejected for other reasons. If companies are better able to understand Ofgem's decisions they would be in a better position to improve their proposals.

We would welcome a better understanding of the weighting Ofgem has put behind consumer evidence in the determinations. For example, in tables in which Ofgem provides justification for their decision, an extra column could be added to refer solely to the consumer evidence that was considered for that proposal. This could include Ofgem's thoughts on the consumer evidence provided and the weighting used when deciding the outcome of the proposal. This would provide a framework to ensure consumer engagement evidence is included consistently across all company decisions where relevant.

Overall, we are concerned with the lack of transparency of how consumer engagement evidence has been used in the draft determinations, and we think it is important that this is improved for the final determinations.

We have noted that there is no stakeholder engagement incentive proposed for RIIO-2, with the aim that such engagement is Business as Usual. We believe that there is a high degree of variability in stakeholder engagement by the companies and that an incentive mechanism would embed best practice, and encourage stretching engagement activities.

We recommend to Ofgem for RIIO-2 and future price controls, such as ED2 to:

- Provide evidence of **how consumer evidence has factored in Ofgem's decisions,** particularly on bespoke proposals
- Provide evidence of **how consumer and CEG and UG input has been considered by Ofgem** in the draft determinations
- A thorough Ofgem-run **review of the enhanced engagement process to ascertain the effectiveness of the Customer Engagement Groups, User Groups, the RIIO-2 Challenge Group,** their respective Terms of Reference, whether there was duplication or omission, and to use the learnings in the ED2 price control process
- To **retain the use of enhanced engagement requirements for future price controls,** including for RIIO-ED2 and the future RIIO-3 price controls
- **Continuation of the RIIO-2 Challenge Group, User Groups for Transmission companies, and Customer Engagement Groups** for Distribution companies to challenge companies during the Business Planning process

- **The establishment of sectoral groups (e.g. a group for all Gas Distribution companies) and a Transmission Group (one group for electricity and gas transmission companies)** to hold companies to account, particularly for reopeners, during the RIIO-2 price control
- **Ofgem should provide further guidance on what constitutes 'robust and quality engagement'** to raise the standard consistently across all companies for processes such as customer segmentation (including consumers with vulnerabilities, and future consumers), research methodology, willingness to pay, triangulation, trade-offs, linkages to Business Plan activities, and acceptability testing
- **To mitigate some of the concerns and limitations associated with stated preference approaches in willingness to pay research,** additional evidence provided by companies may be useful in providing regulators confidence regarding consumers' values. For example, where suitable revealed preference studies may be used to complement the results obtained through stated preference methods, thus increasing the robustness of estimated consumer valuations.[38]
- **To trial the Open Hearings process during RIIO-ED2.** It was not possible to see this process in action during RIIO-2 due to the COVID-19 pandemic and its value is yet to be ascertained.
- **Use an ODI-F stakeholder engagement incentive in RIIO-2** to incentivise companies to reach a consistent best practice level, reward exceptional engagement practices, and further embed stakeholder engagement within the company activities.
- **Design the ODI-F stakeholder engagement incentive with the following features:**
    - Based on robust and high quality engagement as the minimum baseline standard
    - Modestly-sized and symmetrical (so that companies could receive either rewards or penalties for engagement that is above or below the minimum standard)
    - Judged on an ex post basis by the proposed sectoral RIIO-2 groups (see Q1 below)

Principle 4: Companies are required to publish complete information on their performance, financial structures, gearing and ownership.

38 For example, a study commissioned by the Consumer Council for Water provides recommendations on maximising the complementarity of stated and relevant preference approaches. For further details, please see: Consumer Council for Water, Improving willingness-to-pay research in the water sector, 2017.

Ofgem, following Ofwat's example in PR19, has taken a number of measures to require greater openness from networks. For companies that will likely be trusted to deliver the tenets of the GB's response to powering Net Zero it is vital that they have a high level of accountability to consumers.

Consumer trust of network companies and of the vital Net Zero policies that they deliver will shape consumer support and willingness to pay. As a result, greater accountability to Ofgem over tax allowances, disclosure of executive pay and of dividends are very welcome. There are set to be extensive protections for accurate tax allowances in RIIO-2. Networks will also be required to link executive pay to the performance of the regulated businesses, which should incentivise staff performance appropriately. When considering a company's Business Plans these factors are highly relevant because they provide examples of how a company creates a culture of efficiency when working at the expense of captive consumers.

RIIO-2 is a critical period in the road to achieving Net Zero and with this comes significantly increased stakeholder interest and the need for greater public scrutiny. As a result, we welcome the new Annual Environmental Report (AER) which will enable gas distribution and all transmission companies to report on progress against the commitments they have made in their Environmental Action Plans (EAPs). We also welcome the new consumer vulnerability showcase event in gas distribution. This will ensure that in addition to reporting to Ofgem, the work that companies do to address consumer vulnerability will be open to greater public and stakeholder scrutiny. We make further comments on the format of these events in response to GDQ3.

We also think there is value in an equivalent annual environmental showcase event for gas distribution and all transmission companies to present and invite scrutiny of their AERs, the progress they are making to decarbonise their business operations and their key role in the Net Zero transition. As we point out elsewhere in this response we envisage that the sectoral groups we support in response to Q1 could play a key role here.

Principle 5: Innovation funding and incentives support consumers in the transition to a low carbon future, particularly those consumers in vulnerable circumstances.

Vulnerability

We would question whether the vulnerability package in the gas distribution sector is sufficiently ambitious to address the needs of those in vulnerable circumstances. We are supportive of the bespoke proposals which Ofgem has accepted or may accept with more evidence for example, Cadent's community trust, NGN's hardship fund and community partnership, and WWU's local energy plans.

However, we have concerns surrounding the large number of bespoke measures relating to support for those in vulnerable circumstances that was proposed by companies and disallowed by Ofgem. These bespoke measures had been subject to consumer research, provided stakeholder evidence, and had CEG and UG review before submission. It is disappointing to see so many of Cadent's bespoke proposals rejected, which would provide better outcomes for consumers in vulnerable situations. Companies may also not push hard enough to reinstate these within the Business Plan final determinations given other areas of focus, such as adjusting to lower baseline funding. Ofgem should reflect on these rejections in their assessment on the distributive impact of RIIO-2 funding, the backdrop of COVID-19 and the new affordability challenges that have arisen, which we describe in more detail below.

We would like to see more transparency around Ofgem's decisions on these bespoke proposals and understand how different evidence was weighted in their decisions. The anticipated use of Social Return on Investment (SROI) does not appear to have been adopted within RIIO-2 at this stage. We strongly urge Ofgem and GDNs to develop a common SROI methodology which is as far as practically possible common with any methodology developed for ED2.

We recognise that funding for the use-it-or-lose-it (UIOLI) allowance is higher than the level of similar spend identified in GD1, however, we also have some reservations about this allowance. Ofgem has indicated that many of the company proposals will be funded from the UIOLI allowance which could risk some strategies not being delivered due to the limits on spending. We are also concerned about the balance of outcomes for vulnerable consumers in this funding. It is unclear how the spending will be split between carbon monoxide activities and those that focus on alleviating fuel poverty or affordability issues.

Ofgem set out in its SSMD that the price control "*would not fund the installation of boilers and heating systems through the price control*", citing that this, *"would require a material change in networks' roles as well as a substantial redistribution of costs. There is already a range of national, devolved and local government funding available for the installation of energy efficiency measures, first time central heating and boiler repairs and replacements*"[39]. This has led to a number of rejected bespoke outputs relating to appliance repair and replacement. We encourage Ofgem and BEIS to review this approach. Where a consumer would be left vulnerable by a faulty or condemned appliance it is in consumer's interests for network companies to be able to respond appropriately.

Furthermore, the uncertainty in the implementation of projects using the UIOLI allowance makes it difficult for stakeholders to understand which projects will be delivered in the period of the price control and what the scope of these projects will be. It is particularly unclear if those projects supported by stakeholders and consumer evidence will be delivered. Ofgem should ensure they provide as much clarity as possible on their own expectations of what companies should deliver and provide timely guidance.

The impact of COVID-19 is likely to have long term impacts on consumers in vulnerable situations, and we would recommend that Ofgem considers a re-opener or expansion of the UIOLI mechanism to reflect decreased affordability, increased vulnerability and higher debt and unemployment. Earlier this year our research highlighted that 6 million people have fallen behind on a bill due to COVID-19, highlighting new affordability and debt issues[40]. Our research from May also showed that some groups of vulnerable consumers were at a higher risk of losing income with more than a quarter of those in the shielding group losing 60% of their income or more due to COVID-19[41]. We would welcome more research by Ofgem into COVID-19 impacts, and in particular, whether there may have been shifts in WTP and consumer attitudes since the pandemic crisis. Ofgem has adapted the RIIO-2 package for Net Zero and we challenge them to do the same for vulnerability.

With respect to the Fuel Poor Network Extension Scheme (FPNES) we are concerned about the change in delivery model from a PCD to an ODI-R. We

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[39] Ofgem, RIIO-2 Sector Specific Methodology Decision - Gas Distribution, pp. 12, paragraph 2.12, 2019.
[40] Citizens Advice, Six million fall behind on bills because of coronavirus, August 2020.
[41] Citizens Advice, Lack of protections for shielded workers, May 2020.

believe this change results in a weaker incentive for companies to deliver, especially as some companies already struggled to meet their annual targets in GD1[42]. We would like Ofgem to provide clarity on why they think an ODI-R will ensure delivery by GDNs.

FPNES is a cost-effective solution to lift households out of fuel poverty and we would like to see Ofgem consider the Net Zero aspects of the scheme as they have elsewhere in the package. There are opportunities to go further to explore other low carbon solutions or consider hybrid heat solutions.

We would also like to see Ofgem ensure that better targeting is used in the scheme to ensure it has the most impact on alleviating fuel poverty whilst achieving the best value for money. These connections for fuel poor homes are cross-subsidised by all gas bill payers. Ofgem should ensure that FPNES eligibility criteria are effective and reflect best practice and the criteria of existing funding schemes that help to enable fuel poor connections to be made.

We have no sight of the new Licence Condition relating to this aspect, which needs to be in place before GD2 starts. We note that Ofgem has set expectations that a number of bespoke outputs and proposals are included in Business as Usual (BAU) but we would like to see evidence that this means companies will deliver these valuable outputs. We would prefer explicit incentive mechanisms or outputs to ensure that there is delivery for these proposals.

On vulnerability, we have the following recommendations for Ofgem:

- **Reconsider the various rejected bespoke projects to support those with vulnerabilities,** including those with substantial consumer input, and stakeholder and CEG or UG support.
- Consider the **use of a re-opener/uncertainty mechanism or expansion of the UIOLI mechanism** to reflect increased vulnerabilities and potential WTP caused **by the COVID-19 pandemic.**
- **Set out explicit outputs or incentive measures** relating to those vulnerability support measures that are currently to be included in BAU.
- **Introduce the use of a standardised SROI methodology** when it becomes available.
- **Ofgem should seek clarification from BEIS on the role of the price control in supporting customers left vulnerable** through faulty or condemned appliances where alternative funding cannot be sourced.

[42] Ofgem, RIIO-1 Gas Distribution Annual Report 2018-19, 2020.

Innovation

Research into new technology, processes and procedures, and the implementation of these innovations into the energy network industry, are vital elements to ensure the success of the Net Zero transition. In non-commercial companies, it may be necessary to stimulate innovation via incentives or through making available funds for this purpose. We therefore welcome the support for innovation within the draft determinations including the:

- Strategic Innovation Fund which is designed for large projects relating to wider strategic innovation
- Network Innovation Allowance which is for smaller projects focused on longer-term transition issues or consumer vulnerability
- Annual efficiency challenge which should drive operational innovation and implementation

It is vital that these innovations are inclusive and will benefit a diverse range of consumers, with particular attention to the fuel poor recognising that low carbon technology will be a barrier for many. Insight needs to be shared widely within the sector and beyond, and that the successful projects become part of the energy networks' Business as Usual (BAU) as rapidly as possible to gain the greatest consumer benefits and achieve Net Zero goals.

The **Strategic Innovation Fund (SIF)**, worth approximately £450 million (or more if needed), is a replacement for the Network Innovation Competition. We welcome the SIF which is designed to fund higher value (above £5 million) Net Zero-related projects, and support projects that would be unlikely to be undertaken via BAU activities. The use of a sector-wide strategic innovation strategy to guide overall direction, largely led by BEIS, is also welcomed along with the intention for collaborative projects with BEIS, UKRI, third party innovators, and other bodies. The whole systems focus, cross-sector approach, and ability to respond to changes in government policy or technological initiatives are also welcome features of the SIF.

We note that there will be further work and consultation to develop detail regarding the SIF and acknowledge the list of issues for consideration including defining 'innovation'.

We would recommend that the following aspects be included in these considerations for the SIF:

- **A focus on distributional impacts and inclusion for consumers with vulnerabilities and low engagement with energy.** The description of the SIF does not provide any specific processes to address these issues and we would ask that all projects have these considerations included within them as we also highlighted within our response to the Sector Specific Consultation Methodology.
- **We believe that there should be a high bar for approval of projects,** as these innovation projects are being funded via the existing system of use charges methodologies and therefore socialised across GB consumers. **Affordability may be an increasing concern due to the likely economic impacts of COVID-19**[43] and the potential benefits must be clear and of significant value.
- There may be a need to develop new robust cost and benefit analyses to assess these projects including the social benefits that may accrue to consumers, including those consumers with vulnerabilities. **We recommend the inclusion of the SROI methodology,** when finalised, in these analyses.
- **We would welcome further information regarding how the percentage of funding that will be borne by consumers or companies is decided.** At present, Network Innovation Competition (NIC) funding is shared 90% to consumers, 10% with company participants. The SIF fund percentages will be decided on a case-by-case basis according to this proposal and we would welcome information regarding how certain projects would attract different percentages of consumer support compared to others and the criteria used for these allocations. It would be useful to know, for instance, whether the likelihood of success, or extent of consumer benefit compared to the cost may be relevant factors in such a decision.
- **There was no specific mention of IDNOs or IGTs** and while these companies may be included as 'third party' partners, we would welcome stated consideration of these companies to ensure an inclusive approach to innovation funding.
- Assessment of the SIF funding and its outcomes may necessarily take some time to realise, however, **it is important to include an evaluation of individual projects and the scheme as a whole,** to assess its value and whether it has met its objectives.

[43] Citizens Advice, Meeting Net Zero - Options for network company highly anticipatory investments in a post-COVID-19 environment, July 2020.

We are supportive of the continuation of the **Network Innovation Allowance (NIA)** scheme and many of its design parameters including the proposed size of the funding for most networks. However, we believe that providing only 2 years of NIA funding for the ESO isn't sufficient given the scope of wider consumer benefits.

This fund needs to enable continued innovative solutions which the market alone might not provide. We welcome the focus of the NIA fund on longer-term energy system transition challenges or consumer vulnerability issues. In particular, we support the new proposed new reporting framework and requirement of the impact assessment to consider the expected effects of the innovative solution upon consumers with vulnerabilities.

We have the following recommendations relating to the NIA:

- **The NIA reporting framework should require all companies to collaborate with partners,** as set out for the ESO. This should support stakeholder expert engagement and encourage cross-sector and whole system considerations.
- **The reporting framework should highlight where projects have collaborated across the different energy sectors** and led to whole systems solutions, as well as detail the partnerships and why they were chosen.
- **Potential partner consideration should include community groups, social housing groups, local authorities and academics.**
- **The proposed reporting framework should include robust dissemination procedures** to ensure that the lessons learned are able to be used by other industry companies and sectors, and within the wider community.
- **Ofgem should set out clear guidance on the boundaries between funding projects** relating to vulnerable customers via the NIA and the UIOLI allowance.

Making Uncertainty Mechanisms work for consumers

Ofgem has managed uncertainty around future spending by moving large amounts of funding into uncertainty mechanisms, but this means consumers need robust protections around challenging investment decisions in RIIO-2. Citizens Advice and Europe Economics have previously identified price control re-openers or interim reviews as a particularly suitable mechanism to address underspending and delaying decisions on highly anticipatory infrastructure investment where uncertainty exists, particularly in the light of the uncertainty caused by the current COVID-19 crisis.[44] Ofgem states that £1.2 billion of the reduction it made to companies' totex proposals was moved to uncertainty mechanisms. So in principle, we support Ofgem's decision to use re-openers for highly anticipatory investment. However, the number and scale of uncertainty mechanisms and re-openers are likely to dramatically impact the price control if there are UK policy changes to meet Net Zero.

Ofgem has introduced 4 main types of mechanisms for network companies in RIIO-2:[45]

- Volume drivers – where company allowances are adjusted in line with volume outturns.
- Re-opener mechanisms – where a decision regarding whether additional allowances should be provided for a specific project is deferred until a later date when more information is available regarding the proposed investment and the need for it.
- Pass-through mechanisms – where actual costs are passed through to customers, in cases where companies have limited control over the costs incurred (e.g. business rates).
- Indexation – where companies' costs are adjusted in line with an index, in cases where they have very limited control over the costs such as inflation or interest rates.

Ofgem is proposing over 50 uncertainty mechanisms, of which just over 30 are re-openers. The Net Zero re-opener potentially covers up to £10 billion of investment that companies have signalled may be needed to facilitate the transition to Net Zero. This compares with Ofgem's proposed baseline totex allowance of £8.7 billion for gas distribution companies and £7.5 billion for transmission companies.[46] We will highlight a number of issues with this approach in this response, particularly in light of COVID-19.

[44] Citizens Advice, "Meeting Net Zero", p.4, and Europe Economics,: "Impact of COVID-19 crisis on appropriate risk allocation mechanisms for highly anticipatory infrastructure investments in the energy sector", p.12, 2020.

[45] We note that the uncertainty mechanisms described in this section do not apply to ESO. Ofgem notes that the ESO price control is sufficiently flexible on its own to allow for the adjustment of allowances.

[46] Ofgem, RIIO-2 Draft Determinations - Core Document, p.40-42.

A range of policy decisions are likely to be necessary to reasonably require all companies to have a clear trajectory to meeting Net Zero targets. We support Ofgem's encouragement for companies to consider a route to Net Zero in their Business Plans. We commend a number of companies who clearly outlined a pathway to Net Zero, including 1.5C targets. However, we are concerned that RIIO-2 does not provide indicators of low, medium or high anticipated cost for consumers or of relative progress to Net Zero through RIIO-2.

We also have a number of risks we see with this approach and some recommendations:

- **The final cost to consumers may be higher than appears at first sight from Ofgem's draft determinations**. With such a high proportion of costs covered by uncertainty mechanisms, as currently set out, the final cost that will be borne by consumers at the time of the final determinations will be hard to predict. This is because companies' final allowances are likely to be substantially different if the uncertainty mechanisms built into the price control lead to a series of adjustments to their cost allowances during the price control period. There is a risk that while the draft determinations created headlines about falling consumer bills,[47] they may in fact lead to increases in consumer bills once companies have secured additional funding under the various re-openers that Ofgem has included. By way of illustration, our high level calculations presented in Appendix 2 suggest that the Net Zero reopener alone could lead to customer bill increases of between £6.15 and £33.48 per household per annum by the end of the RIIO-2 period. If the outturn value is towards the upper end of this range, it would more than offset the £20 customer bill reduction that Ofgem has highlighted in its draft determinations. Ultimately, where this investment is needed to meet Net Zero it is important that the cost for consumers is as efficient as possible.
- **Assessing a large number of re-openers during the price control period could require substantial resources**. Certain uncertainty mechanisms, in particular price control re-openers, typically require input from the regulator as well as network companies before a decision regarding any additional allowances can be made. If many re-openers are triggered during the price control period, this could mean a significant number of additional decisions need to be made during the period. In turn, this could imply significant additional burden for both the regulator and regulated companies in terms of the additional applications to be prepared and assessed. Other interested third parties, such as Citizens Advice, may also bear additional costs.
- **There is a risk that companies may have an information advantage in the re-openers**. Regulators face an inherent difficulty in establishing efficient

[47] For an example, see https://www.bbc.co.uk/news/business-53345845

costs given the information asymmetry between the regulator and regulated companies. Network companies may use their information advantage to request additional funding through the re-openers in areas where costs have increased during the price control period, while keeping silent about areas where costs are decreasing. This information asymmetry may be more challenging for Ofgem to address in the context of the large number of re-openers given that Ofgem may have wound down its peak price review resourcing. We would recommend that Ofgem retains sufficient personnel within the transmission and gas distribution costs assessment departments throughout RIIO-2 to ensure efficient uncertainty mechanism processes.

- **Ofgem's use of re-openers for very specific investment projects may reduce the ability of companies to identify and switch to more efficient solutions**. As shown in the Appendix for the Core Document, some of the re-openers relate to very specific areas of spending. Companies could potentially identify more efficient ways to deliver consumer outcomes over the course of the price control period, but be prevented from switching to them by the fact that they can only request funding under the re-opener for the originally envisaged investment proposal. This runs counter to the intention behind some of Ofgem's previous reforms (e.g. the introduction of the totex regime), which aimed to give companies more flexibility about how to deliver customer outcomes.

Recommendations

- **Ofgem should consider adjusting some of the very specific re-openers to give companies more flexibility to find the most efficient way to deliver customer outcomes.** Given the risk of being administratively cumbersome, it is important that these mechanisms can be made streamlined and efficient. They should support companies if they identify more efficient ways to deliver outcomes than the originally envisaged investment proposal and be able to request funding for the alternative approach instead. By way of example, National Grid Gas Transmission's (NGGT's) draft determinations include a reopener for investment in compressors at four sites that may be required by the Medium Combustion Plants Directive (MCP). In our view, it would be better to have a re-opener for additional costs ensuring compliance with MCP rather than linking it to specific proposals for investment in compressors at four locations, to maintain NGGT's flexibility to find alternative, more cost effective ways of ensuring compliance.
- **Ofgem needs to maintain adequate resourcing throughout the price control period to enable it to thoroughly assess company requests for funding under the re-openers.** The evidence base for any additional

investment proposed by companies needs to be thoroughly scrutinised, and the efficiency of proposed costs needs to be assessed. In addition, Ofgem needs to monitor company costs more generally so that it can initiate action under the re-openers in cases where costs have decreased.

- **Ofgem should produce analysis of the potential impact of its proposed re-openers on consumer bills and Net Zero.** We recognise that by definition there is uncertainty about the costs that may be approved under these re-openers. However, we consider that Ofgem should produce high, medium and low scenarios for the additional cost allowances that may result from these re-openers, along with the impact on customer bills and for meeting Net Zero. Without such analysis, it is impossible to know whether the draft determinations are affordable from a customer perspective or encourage informed decisions on the costs of Net Zero interventions.

Protecting consumer bills from impacts from uncertainty mechanisms

Alongside estimating the bill impact and updating willingness to pay research, Ofgem has further options to protect against the way uncertainty mechanisms will impact bills. This can also help frame the reopeners in such a way as to positively influence consumer receptiveness to meeting Net Zero.

We are concerned that the substantial transfer of risk to consumers implied by these uncertainty mechanisms may lead to uncertain and volatile energy bills. The increased use of uncertainty mechanisms transfers risks that would previously have been borne by energy companies on to customers. As previously identified, the weighted average cost of capital (WACC) should be reflected in the asset beta that is used when setting the WACC. The downside of this risk transfer from a customer perspective is that it is likely to lead to energy bills being more uncertain and volatile, given that companies' final cost allowances may change significantly during the price control period as a result of re-openers.

Whatever the direction of change, significant adjustments to companies' allowances throughout the price control period tend to result in less stable bill profiles for consumers and Ofgem should protect against this.

Recommendations

- **Once an efficient opportunity for investment has been determined, a greater proportion of the cost can be allocated to future consumers than to current consumers**. The main beneficiaries, with increased willingness to pay for the transition to Net Zero, are likely to be future customers as the negative consequences of climate change are expected to worsen over time. In addition, affordability issues brought about by the COVID-19 pandemic may mean that households which have lost jobs and income are likely to have less ability to face higher bills at this point in time. By contrast, future consumers whose incomes have recovered following the end of the COVID-19 crisis may be able to better bear increases in energy bills. Ofgem can allocate a greater proportion of the costs to future customers by adopting a back-ended depreciation profile for these assets. Our recent research 'Meeting net zero - Options for network company highly anticipatory investments in a post-COVID-19 environment'[48] provides further detail on our views on the economic depreciation mechanism to reallocate costs from current to future consumers.

- **A greater proportion of the cost should be allocated to higher income consumers than to lower income consumers**. Those with greater ability to pay for energy and access to new grid capabilities for low carbon technologies should be expected to have a higher willingness to pay. Allocating more of the cost to high income consumers would seem to be a reflection of the respective willingness to pay of these 2 groups. This approach is also appropriate in terms of fairness, given that many low income households are currently struggling to pay their bills. There are a number of ways this could be achieved, some of which lie outside Ofgem's powers and scope of the price control. For example support for lower income customers could be achieved by a targeted development of the Warm Home Discount Scheme.

Recommendations **to address potential bill volatility include:**

- **Applying end of period adjustments rather than applying in-period adjustments**: when adjustments take place once at the end of the price control period as opposed to multiple times during the period, consumers are less likely to see year-by-year fluctuations in their energy bills.
- **Implementing changes through adjustments to the Regulated Asset Value (RAV) rather than to revenue:** if adjustments are implemented through the RAV then the financial impact will be spread through time, thus reducing bill volatility in the near term for current consumers.

[48] Citizens Advice, Meeting Net Zero - Options for network company highly anticipatory investments in a post-COVID-19 environment, July 2020,

- **Using smoothing mechanisms**: these can be used to spread out the financial impact of the mechanisms over a number of years, thus reducing the likelihood of sharp increases or decreases in energy bills.

Other recommendations

Consumer Value Propositions (CVPs)

The draft determinations consultation document states that there were 117 CVP proposals adding up to over £5.5 billion. The Ofgem assessment approved only 6 CVP proposals, with 3 disallowed as the companies had failed at Stage 1 of the Business Plan Incentive (BPI) assessment. Two approved CVP proposals have a combined reward value of £3.2 million plus an amount to be determined for 1 further approved proposal. Companies will have allocated considerable resources in producing the CVPs including providing methodologies for valuation and monitoring. Stakeholders will have expended time in reviewing the CVP proposals (including consumers, customers, User Groups, Customer Engagement Groups and other stakeholder panels). Ofgem has then spent significant time and resources to assess the CVPs.

We are aware that the idea to use CVPs as part of the price control and the provision of Business Plan Guidance for companies regarding CVPs came later in the RIIO-2 process than would have been ideal, and this may have led to the large number of rejected proposals. The suggested (non-exclusive) areas for CVPs within the BP Guidance were widely drawn to encourage a broad consideration by companies as to where they could add value for consumers beyond BAU. While this intention was laudable, the wide range of ideas will have led to companies and Ofgem being required to understand and assess many disparate valuation and methodological ideas as the CVPs were so varied.

The inclusion of CVPs within the BPI mechanism has enabled Ofgem to identify areas where companies could add value for consumers which may otherwise have not been part of the RIIO-2 price control, including identifying CVPs that could become common ODIs. However, we have misgivings regarding the use of the CVP process for future price controls given the high number of CVP rejections. These rejections represent costs to consumers in formulating the proposals and in their evaluation by companies, stakeholders, and Ofgem.

We would recommend the following points if the CVP methodology is to be maintained in future price controls, including for the forthcoming RIIO-ED2 price control:

- **Draft BPs should be used to identify CVPs that may become common outputs at an early stage** and these proposals could then be removed as individual CVP proposals within companies' BPs**.**
- **BP Guidance on CVPs should be provided at an early stage with clear outlines of the parameters** that could result in a project being approved or rejected using examples from the RIIO-2 CVP process (e.g. rejected CVPs were often viewed as Corporate Social Responsibility or as BAU, or were not stretching enough compared to other companies' BAU proposals).
- **CVPs should be limited to a certain number for each company** (perhaps 3 or 5) to constrain the amount of time taken by a company, its stakeholders, and Ofgem in formulating and then reviewing the proposals.
- **The areas covered by a CVP could be narrowed from its current broad scope.** We understand from the ED2 Overarching Working Group that Ofgem is considering narrowing the scope for the CVPs to certain areas (e.g. Distribution System Operation functions, services to large customers, or to support consumers with vulnerabilities). **We believe that there is merit in constraining the scope of areas for CVPs** so that valuation methods and monitoring procedures may be more readily and cost-efficiently developed. Comparability of review by Ofgem will also be enabled through having a narrower scope for CVPs.
- **Consultation should be undertaken,** as usual, within the relevant RIIO-ED2 Sector Specific Methodology process to consider the above and other ideas that may **improve the CVP process to ensure better outcomes for consumers.**

Network Asset Risk Metrics (NARMS)

We support Ofgem's goal to reduce the risk of windfall gains through the NARM and that this may lead to a significant change from the RIIO-1 approach.

We are concerned about the errors and inconsistencies Ofgem saw in company submissions relating to NARMS and we support Ofgem in factoring in their limited confidence in some justified investment options to how the mechanism has developed. However, there are a number of seemingly valid concerns about the NARM proposals in draft determinations and further planned work for developing the model. Issues include the risk of underspend and specifically for justified over-delivery. Outlined below are **proposed principles** to test any new approach which we outline in more detail in the NARM specific section:

1. **Support ex ante confidence in justified spending**
2. **Provide clear criteria and assessment of both unplanned and unjustified spending**
3. **Strong protections against windfall gains**
4. **Avoid creating perverse company priorities**
5. **Avoid unnecessary regulatory burden**

Core Questions

Enduring role of the UGs and CEGs

Q1. What role should Groups play during the price control period and what type of output should Groups be asked to deliver? Who should be the recipients of these outputs (companies, Ofgem and/or stakeholders)?

We agree that these Groups have led to better outcomes for consumers through their ongoing scrutiny of the development of the Business Plans and have increased companies' focus on the needs and requirements of their stakeholders. Given the level of funding linked to uncertainty mechanisms during the price control, there is a significant opportunity for change to business planning through re-openers. It is vital that there is accountability of these processes to stakeholders.

The challenge of concurrently meeting current needs and anticipating the future needs of Net Zero will need regular review and the price control Ofgem is proposing encourages regular stakeholder attention and input. In particular, the scale of uncertainty mechanism funding and major decisions about electrification of heat, electric vehicle charging and delivering Net Zero, mean that major re-openers need to take proportionate steps to consider collecting further consumer views.

We believe that there is an ongoing role for Groups during the RIIO-2 price control period. We recommend that there are 2 sets of groups during RIIO-2. One set of groups would be the company-specific CEGs and a second set of groups would be new sectoral groups.

We think that there should be 2 sectoral groups, in addition to the User Groups and CEGs which would provide a sector-wide view in monitoring company performance. One sectoral group would be for the transmission companies (both electricity and gas transmission together) and the other group would be for the gas distribution sector. These sectoral groups would have the following features and roles:

- Experience of the business planning process
- Membership from each of the respective companies in that sector
- CEG and User Group Chair membership
- Could recruit members with knowledge of discretionary reward schemes
- Provide views on proposals by companies for the cross-sector re-openers, and other cross-sector uncertainty mechanisms
- Be tasked to consider willingness to pay research, consumer circumstances and distributional impacts, and how the companies have implemented activities following research and any impact assessments
- Produce a publicly-available annual report detailing their views

These sectoral groups could also help facilitate more sharing and collaboration on engagement practice. There is an ever increasing amount of engagement expertise, research and insight with and about energy consumers that takes place in silos, is not shared widely, or not considered when industry or policy decisions are taken. The need for a "UK observatory of public engagement" that gathers and distributes evidence and advises on good practice in engagement was identified by the UK Energy Research Centre.[49] The sectoral groups could:

- Review and comment on company consumer engagement plans and implementation reports
- Facilitate cross-company sharing of good practice and joint working
- Establish an open library of customer research
- Identify gaps in consumer research
- Feed into annual assessment rounds of engagement incentives (if they are retained)

[49] UK Energy Research Centre, Public Engagement with Energy: broadening evidence, policy and practice, 2017

We understand that there will need to be consideration given regarding the funding and administrative operation of the sectoral groups.

We believe that there remains a more limited role for the company-specific CEGs and User Groups during RIIO-2. These groups should have the following features and tasks:

- Ensure that companies are held to account for the implementation of activities related to baseline funding.
- Scrutinise companies' proposals for company-specific uncertainty proposals and company-specific incentive mechanisms.
- Annual reporting or scorecards on the progress of network companies in meeting their objectives.

The CEGs and User Groups should resume their business planning scrutiny role during the RIIO-3 price control process.

Q2. What role should Groups take with respect to scrutinising new investment proposals which are developed through the uncertainty mechanisms?

See our response to Q1.

Q3. What value would there be in asking Groups to publish a customer-centric annual report, reviewing the performance of the company on their business plan commitments?

We consider that there is value in such an annual report produced by the CEGs and User Groups. See also our answer to Q1 above.

The value of these reports would be in providing input for network companies and Ofgem into the way in which consumers and consumer representatives interpret the delivery of service and new investment by network companies. This requires a qualitative view on the performance and justifications for action that shape and provide context for quantitative assessments for performance and funding. Given that the company's Business Plan input by CEGs and User Groups provides a guide to consumer preferences, it should be a key tool for a sector-specific consumer group and the network company to anticipate the needs of end consumers.

Q4. What value would there be in providing for continuity of Groups (albeit with refresh to membership as necessary) in light of Ofgem commencing preparations for RIIO-3 by 2023?

We believe that the company-specific Groups have been effective during the RIIO-2 business planning process to scrutinise and improve the Business Plan outcomes for consumers. As such, we would support the establishment of company-specific Groups in the RIIO-3 preparation period. Whether or not sectoral Groups have been established during the ongoing RIIO-2 price control period (rather than or in addition to company-specific groups), the establishment of refreshed-membership company-specific Groups would offer a valuable means of providing RIIO-3 scrutiny.

Refreshing these groups is important. From our own knowledge from past membership in one of the water Customer Challenge Groups, there was value in ongoing mid-price control assessment of Business Plan commitments, however, as the next price control process began, it proved difficult, due to resources, for such a group to undertake holding the company to account to its Business Plan objectives as well as scrutinising new engagement. As such, we would recommend that scrutiny of Business Plans is clearly allocated or the roles split during the cross-over period of the ongoing RIIO-2 price control and the start of the RIIO-3 planning process, to ensure that both roles are sufficiently resourced.

We would further recommend that there is ongoing refresh of Groups' membership including the Chair. We would recommend that consultation is undertaken with the Groups, and other stakeholders, to establish if there should be a mandated retirement of a Chair or member (e.g. after a specific set time, or after so many price control processes) to ensure that the appearance of independence is maintained. Our own recommendation would be for the retirement of a Chair or member to be after a maximum of 2 price control rounds (or 10 years) for transmission and gas distribution companies and after 5 years for the ESO.

We welcome the scrutiny provided by Ofgem in approving the Groups' Chairs given the importance of this role within each Group and recommend the retention of this scrutiny and approval by Ofgem for future Chairs, whether for company-specific or sectoral Groups.

At present, the membership of each Group is at the discretion of the Chair. As such there may be variability in the skills and experiences within each Group which may be a disadvantage to the activities of the Group in achieving their aims in the enhanced engagement process. We believe that it would be valuable to have more guidance provided by Ofgem to assist Groups in ensuring that they have an appropriate skill set within each Group. We recommend that consultation is undertaken with the Groups and other stakeholders to establish a list of required and recommended skill sets for Groups.

We believe that it would be valuable to have consistent Terms of Reference between Groups within the same sector as well as consistency regarding the transparency and reporting of apparent or real conflicts of interest. Any such conflicts should be clearly flagged publicly as well as to Ofgem in any reports, so that these matters can be taken into account when Ofgem assesses the confidence of any challenge.

Digitalisation strategy and data

Q5. Will the combination of the two proposed Licence Obligations support the delivery of a digitalised energy system and maximise the value of data to consumers?

We strongly support Ofgem's incorporation of the Energy Data Taskforce's best practice principles into RIIO-2. To deliver value to consumers, it is imperative that data strategies are regularly reassessed to unlock the network efficiencies and service improvements that are possible through better accessibility of data sets for relevant stakeholders.

We support the Licence Obligations for the Digitalisation Strategy and Data Best Practice. The Licence Obligation should ensure compliance with Data Best Practice guidance. We welcome the opportunity to contribute to the future consultation on the design of the Data Best Practice guidance and further welcome the inclusion within the Licence Obligation of the principle of Energy System Data as being 'presumed open'.

As proposed, both licence conditions are framed to aid "*delivery of an energy system that meets the requirements of the UK targets for Net Zero carbon emissions at the lowest possible cost to consumers*"[50]. We think this a highly appropriate aim. However, it is vital that the vision for a more open and innovative system for

[50] Ofgem, RIIO-2 Draft Determinations Core Document, p29

energy data is linked to the delivery of consumer outcomes and not just greater efficiency. The delivery of service options, access to data, forms of service support, access to data and the usability of systems are all vital to consider as part of planning for digitalisation and data strategy. Digitalisation is also an opportunity for networks to deliver a step change in the way they support consumers in vulnerable circumstances. The various vulnerability projects and NIA funding objectives can be better met by a coordinated approach to better managing consumer data to support service provision.

Digitalisation of energy enables the creation and sharing of more data to support the delivery of an informed and innovative energy system. Information about consumer circumstances and energy consumption will arguably be equally as important as system data in determining how to create a modern and sustainable energy system. We fully accept that there are additional challenges around privacy and ensuring that people can control how their data is accessed, shared and used, as outlined in more detail in our recent report Clear and in Control[51]. In order to, to deliver networks that meet the needs of consumers it will be essential to provide opportunities to safely access, use and share consumer data to support a more informed and innovative energy system.

Targeted consumer support from networks is only as good as the data that underpins it and in energy this data should be better. As outlined in our response to vulnerability questions in this response, the Priority Service Register (PSR), data sharing with energy suppliers, support services, other energy networks or utility services could improve consumer engagement with their services. This should be an area to consider for future NIA projects.

Q6. Do you agree with our proposed frequency for publication of updates to the digitalisation strategy and the digitalisation action plan, respectively?

We note that the intention has changed from an annual update of Digitalisation Strategies to every 2 years. We have no objection to this change as we believe it does strike a suitable balance between the need for regular updating of the strategies without overly onerous processes. We welcome the 6-monthly updates to the associated actions plans, which should enable Ofgem and other stakeholders to monitor the progress of companies to implement their strategies. The relatively frequent action plan updates will also ensure that there

[51] Citizens Advice, 'Clear and in control: Energy consumers' views on data sharing and smart devices', November 2019

is an onus on pressure is maintained on companies to take action and rapidly identify any further barriers that may impede the delivery of a digitalised energy system.

Q7. What kinds of data do you think should comply with the data best practice guidance to maximise benefits to consumers through better use of data?

Data best practice guidance as currently framed focuses on system-level data. We agree that this approach will encourage the provision of system efficiencies where these are effectively incentivised. The Energy Systems Catapult work effectively triages appropriate data from the presumed open approach to protect privacy and security.

As outlined in our response to Question 5, there is an opportunity for data best practice to include an approach to improve consumer data sharing that enables better targeting of consumer support. This should include energy consumption data (including the where and how energy is used), a property's energy data characteristics (load capacity, low carbon technologies/assets, energy efficiency) and any information about whether the consumer needs additional support has vulnerable circumstance (what support is needed over what period). As part of this approach it is important that consumers are able to trust and engage with the process of sharing their data. We encourage Ofgem to take a forward-looking approach to the consumer engagement required to respond to low carbon technologies that will facilitate Net Zero.

The amount of detail available about a consumers' energy profile will continue to build over RIIO-2, however, we are concerned that this development is slow and fragmented by being held on various devices and registers by different parties that a consumer is not aware of or able to access. We are keen to see a coordinated approach to ensuring consumers have visibility of their individual energy options. Having access to data in a sharable format will benefit those that want to receive vulnerability support or those that want to make decisions about transitioning to electric heating, electric vehicles or switching to time of use tariffs. Better consumer decisions added by better and innovative intermediary support services will add reliable flexibility to the network.

We are aware that Ofgem is looking at how an asset register for low carbon technologies can help networks better plan how their networks will function. Ensuring that high quality data is held on such a register will be vital to ensuring networks are able to maintain a reliable service. However, an asset register is only one layer of data. For innovation in the energy system to respond to the complex needs of consumers in the future it is likely that richer data would encourage further innovation about energy consumption.

Stakeholder Engagement Incentive

Q8. Do you agree that the Groups could have an enduring role to work with the companies to monitor progress and ensure they deliver the commitments in their engagement strategies?

See also our answers for Q1 to Q4. We do believe that the Groups could have a continuing role to hold companies to account for their Business Plan commitments, including with respect to their stakeholder engagement strategies. This could be within company-specific Groups or as part of cross-company sectoral Groups (e.g. 1 Group for Transmission, and 1 for the Gas Distribution companies). There may be an advantage in having a cross-company view on stakeholder engagement to identify and disseminate best practice. An annual report on the companies' activities with respect to stakeholder engagement issued by the Groups would be suitable to ensure transparency.

We do, however, believe that there are risks in having the Groups as formal decision-makers with respect to any incentive mechanisms for stakeholder engagement. There is a risk of duplication of roles with any other decision makers, and there could be an undermining of the relationship, as an independent critical friend, between the companies and their Groups if they undertook a decision-making role.

We note that Ofgem is not proposing any common outputs for the ongoing RIIO-2 period with respect to stakeholder engagement. It is stated that Ofgem considers high-quality stakeholder engagement to be BAU in RIIO-2, and that no comparable performance metrics could be identified that could be used to appropriately monitor performance across all the companies. As such, there is no ODI-R nor ODI-F proposed for this aspect of the companies' activities. We believe that a common ODI-F for companies would have a strong incentive to raise practice in stakeholder engagement to a higher and consistent level, and encourage companies to push the boundaries and innovate. We are aware from our own review of Business Plans for the RIIO-2 consultation process[52] that there was a wide range of performance. In our summary of the stakeholder engagement, we noted (page 8):

[52] Citizens Advice, Response to the Ofgem Call for evidence on the Electricity Transmission, Gas Transmission, Gas Distribution, and Electricity System Operator Business Plans for RIIO-2, February 2020

"*Our review of the companies' business plans identified a degree of variability in the stakeholder engagement approaches and activities undertaken by the companies, with some apparently striving to attain best practice while others looked to be at an earlier stage in their stakeholder engagement development. Similarly, we noted the different standards that the companies were held to by their Customer Engagement Groups (CEGs) or User Groups (UGs). For instance, the Cadent CEG appeared to hold Cadent to the highest standards of practice not only within the energy industry but in comparison with other industries, such as the water sector. The business plans and the CEG and UG reports reflect these different aspirations and standards. As such, an apparently more critical CEG or UG report may actually reflect a company with a higher current standard of stakeholder engagement performance than some others within the sector.*"

We also have identified comments on stakeholder engagement from the RIIO-2 Challenge Group[53]:

"*Stakeholder engagement: All companies are committed to engaging stakeholders in their businesses, and some propose enhanced engagement strategies that will upgrade their approach considerably. However, our overall assessment is that there is still a considerable way to go before stakeholder engagement is fully embedded in these companies and routinely driving decisions at all levels, from the Board to the front line. It is essential that this transformation continues at pace, and in advance of RIIO-2.*"

In our response to the Sector Specific Methodology Consultation[54], we recommended the following:

"F*or GD, GT and ET companies we support a tight financial incentive to encourage companies to undertake engagement with consumers and stakeholders on longer-term, complex issues. We also support a reputational incentive to prevent the quality and quantity of engagement from slipping back in the absence of a broad financial incentive. We suggest the incentive should be judged by a standing panel covering the works of gas, electricity, distribution and transmission companies, and drawing members from CEGs, User Groups, Stakeholder Groups, as well as new members. Their role could entail holding distribution and transmission companies to account to deliver the engagement strategy they set out in their Business Plan, make companies report on their*

[53] RIIO-2 Challenge Group Report to Ofgem, February 2020
[54] Citizens Advice, Response to the Ofgem RIIO-2 Sector Specific consultation, March 2019

engagement activities and learnings, and facilitate an open library of consumer research to prevent studies from being duplicated."

We are therefore disappointed that there is no ODI-R or ODI-F common output for stakeholder engagement for the ET, GT, and GD companies and recommend that an ODI-F is considered for RIIO-2. We believe it is possible to establish a common methodology to assess excellence in stakeholder engagement and would be willing to work with Ofgem and others to establish such a framework, if desired. We recommend the use of an ODI-F stakeholder engagement incentive in RIIO-2 to incentivise companies to reach a consistent best practice level, reward exceptional engagement practices (for example Citizens Juries), and further embed stakeholder engagement within the company activities.

The ODI-F stakeholder engagement incentive should be:

- Based on robust and high quality engagement as the minimum baseline standard
- Modestly-sized and symmetrical (so that companies could receive either rewards or penalties for engagement that is above or below the minimum standard)
- Judged on an ex post basis by the proposed sectoral RIIO-2 groups (see Q1 above).

Large Project Delivery (LPD) mechanisms

There is not a specific numbered consultation question regarding the use of the LPD mechanisms within the Core Document section, although there is reference to the Electricity Transmission annex questions on the LPD mechanisms. However, we note that Ofgem has asked for input from stakeholders regarding whether the LPD mechanisms should be applied to the Gas Distribution and Gas Transmission sectors. We provide our response below.

In our response to the SSMC[55], we were supportive in principle of the use of LPD mechanisms within the ET sector to ensure that Large Project Delivery was incentivised to ensure timely delivery. We do not have strong opinions regarding the different mechanisms (such as re-profiling of allowances, milestone-based approaches, or project delay charges) but do support the underlying aim to ensure that consumers do not pay for work not carried out or where there are delays. We support the application of the LPD mechanisms to other sectors (e.g. GT and GD).

[55] Citizens Advice, Response to the Ofgem RIIO-2 Sector Specific consultation, March 2019

Deliver an environmentally sustainable network

Q9. Do you agree with our proposal to accept the proposals for an ODI-R for BCF and the other proposals set out above as EAP commitments and to require progress on them to be reported as part of the AER?

In our response to the RIIO-2 Sector Specific Methodology Consultation[56], we highlighted our concerns regarding the patchwork of environmental incentives within RIIO-1, and how RIIO-2 needed to address these issues. Specifically, we asked for annual and well-designed environmental impact reporting which should be a licence condition for all companies. We are pleased to see that Ofgem are proposing a new Licence Obligation for network companies to publish an Annual Environmental Report. The AER will report on the environmental impact of their network, the progress made in delivering their Environmental Action Plan (EAP) during RIIO-2, and their contribution to the low carbon energy transition, which we believe are appropriate themes.

We note that EAPs are worth a total estimated £1.5 billion of spending with £160 million allowed as baseline funding. Ofgem has stated in its draft determinations that on an individual company basis these costs have low risks associated with non-delivery or are "not material" to require a different funding mechanism. However, Ofgem should set out clearly how costs would be clawed back in the instance of under-delivery to ensure that consumer money only funds delivered activities.

We think Ofgem should also explore how the AER could form part of a new annual showcase event. RIIO-2 represents a significant step in the transition to Net Zero and we expect there is significant stakeholder and customer interest in what companies are doing to decarbonise their operations and how well they are progressing to meet their EAP commitments. We think there is value in enabling gas distribution and all transmission companies to present their progress and invite scrutiny, with a key role to be played by the sectoral groups we have suggested in response to Q1. We encourage Ofgem to consider this ahead of final determinations.

We note that among the other requirements, the inclusion of science-based targets has led to companies having clear trajectories for tackling scope 1-3 emissions in line with the latest climate science advice on meeting the goals of

[56] Citizens Advice, Response to the Ofgem RIIO-2 Sector Specific consultation, March 2019

the Paris Agreement - “to limit global warming to well below 2°C above pre-industrial level and pursue efforts to limit warming to 1.5°C”.

However, we are concerned that the draft determinations will result in a patchwork of financial incentives for gas distribution and transmission networks to deliver or exceed many of their EAP commitments. Ofgem proposes to accept, with amendments, the bespoke proposals from NGET and NGGT which would reward both companies for exceeding their EAP commitments and penalise them for under-delivery. At present, no such incentive will apply to the remaining electricity TOs (SPT and SHET) or any of the GDNs. While this may partially be a result of Business Plan proposals, we believe it would be valuable for Ofgem to consider a set of common financial ODIs for each sector (GD, ET and GT) to ensure consistency. Where these are well calibrated and targets set appropriately, they can represent good consumer value.

We are pleased to note that all of the companies had met the Business Plan EAP minimum requirements. This has led to a good level of consistency in the types of activities that all companies will undertake in RIIO-2 to reduce their environmental impact. However, there remains a high degree of variability in the ambition and scope of these proposals. Ofgem should set out clearly in its final determinations, the reasons for accepting EAP commitments where they do vary significantly in scope to those of other companies.

Ofgem notes that for impact areas where there are less reliable measures that reporting conventions and standards will be developed during RIIO-2. We would urge Ofgem to set a target within RIIO-2 for this to be achieved as early as possible, and to engage with stakeholders to ensure that the AER reporting process is using best practice and incorporates leading-edge metrics. Not only will this assist scrutiny against the targets companies have set, but will also enable Ofgem to consider environmental and decarbonisation targets for RIIO-3 with the benefit of all the necessary metrics and benchmarks with which to make informed decisions.

It is understandable to have a split between those metrics which are currently well-understood and have industry-standard measures (such as Business Carbon Footprint) and those that are less well-developed. As such, we support the reputational ODIs for the more robustly-measured environmental aims, and the use of narrative reporting within the AERs for the less-developed measures.

Consideration should be given during RIIO-2 (at a set point, e.g. at 2 years), for those environmental impacts where there is less standardisation of reporting methodology to become part of reputational ODIs when measurements become clearer and standardised.

Driving Efficiency - Real Price Effects

Q10. Do you agree with our proposed RPEs allowances? Please specifically consider our proposed cost structures, assessment of materiality, and choice of indices in your answer.

in the context of the RIIO-1 controls we estimated that outturn values for Real Price Effects (RPEs) at the RIIO-1 ET and GD controls may be substantially lower than originally assumed by Ofgem, with the regulatory framework which could allow companies to keep up to £0.9 billion of these savings as additional profit.[57]

We support the updated model outlined by Ofgem.

Q11. Do you agree with our proposed ongoing efficiency challenge and its scope?

We believe that the proposed efficiency challenges of 1.2% per year for capex and repex, and 1.4% per year for opex applied to all network companies should drive appropriate innovation culture as well as ensure that previous innovations are incorporated within BAU. We note that the ongoing efficiencies will be shared at the totex sharing rates for the respective network company and therefore this will be a further feature to act as a driver to encourage innovation.

Managing uncertainty

Q12. Do you agree with our proposed common approach for re-openers?

We are supportive of re-openers within the RIIO-2 price control, as we believe they will provide flexibility to build on agreed spend where required. In principle, they offer mechanisms to ensure that investments in assets are facilitated but also that consumers are protected from the risk of stranded assets or from paying unnecessarily high costs. When projects are in an early stage of

[57] Citizens Advice, Energy Consumers' Missing Billions; The profits gifted to energy networks, 2017

development and the needs case or cost profile is not clear, the opportunity to delay until there is better information is valuable.

We support the use of a common and broadly defined approach for re-openers with a clear focus on consumer outcomes for network companies. We note that there will be a further consultation on the guidance for re-opener processes and procedures and welcome this consultation to address the issues we have raised in the Executive Summary.

Q13. Do you agree with our proposals on a materiality threshold, a financial incentive, a 'foreseeable' criterion, and who should trigger and make the application?

We welcome the introduction of the Coordinated Adjustment Mechanism (CAM), that can facilitate whole systems solutions through transferring a project from one licence holder to another where there are clear consumer benefits. We note that Ofgem intends to introduce a CAM licence condition, which we support, and welcome the intention for further engagement on CAM guidance with stakeholders. We also welcome the ongoing work being carried out through the Energy Networks Association (ENA) to develop a methodology for whole system cost benefit analysis which will support the CAM.

We understand the rationale for not setting a materiality threshold for such transfers given that the costs for the project are set at the outset of RIIO-2, that consumers will benefit from such a transfer, and that companies will be dis-incentivised from trivial applications due to resource costs. It may be suitable to monitor the extent and value of CAM applications during RIIO-2 to assess whether a materiality threshold would be appropriate if there are many small projects with low consumer benefit from the transfer.

We note that there is not intended to be a financial incentive for the CAM. Network companies repeatedly tell us that they are focussed upon ‘Doing the right thing’ and therefore a financial incentive should not be necessary to facilitate a project transfer which is in consumer’s interests. Network companies’ abilities to agree a compensatory value between transferring companies for any issue relating to a reward or penalty under the Totex Incentive Mechanism (TIM) appears appropriate.

We agree with the proposal to not have a 'foreseeable' criterion for the reasons outlined in the consultation, namely that this may be an additional burden in the application process with little gain for consumers as there should have been sufficient scrutiny at the project's initial application to assess foreseeable issues.

We note that Ofgem intends to introduce a CAM licence condition, which we support, and welcome further engagement on CAM guidance with stakeholders.

We believe that it would be efficient to have the receiving company as the lead applicant with the passing company as the supporting secondary applicant.

Q14. Do you consider that two application windows, or annual application windows, are more appropriate, and should these be in January or May?

We have no firm views regarding the application window frequency except to comment that there may be an additional administrative burden upon Ofgem and companies with more frequent applications. There will be a necessary tension between being responsive and the costs of the process and believe that this should be borne in mind.

Q15. Do you consider that the RIIO-1 electricity distribution licences should be amended to include the CAM, or wait until in 2023 at the start of their next price control?

We believe that there is merit in considering amendment of the RIIO-1 electricity distribution licences to include the CAM. Such an amendment will facilitate the operation of the CAM across all licensed network companies as rapidly as possible to enhance consumer benefits.

Cyber resilience

Q16. Do you agree with our proposed re-opener windows for cyber resilience OT and IT, and our proposal to require all licensees to provide an updated Cyber Resilience OT and IT Plan at the beginning of RIIO-2?

Cyber resilience is an essential element for a network company and we support the re-openers noted within this section to facilitate improvements in cyber resilience as needed. We do not see value in the re-opener windows, as with materiality thresholds, where networks require a re-opener they should be unconstrained by rather arbitrary parameters.

Q17. What are your views on including the delivery of outputs such as: CAF outcome improvement; risk reduction; and cyber maturity improvement, along with projects-specific outputs?

We think Ofgem has set out a clear range of delivery outputs.

Non-operational IT and Telecoms capex re-opener

Q18. Do you agree with our proposal for the Non-operational IT and Telecoms capex re-opener?

We support the proposal for the re-opener as described in this section. The re-opener should provide the flexibility for companies to upgrade systems to improve efficiency and operational capability while providing suitable scrutiny.

Physical security

Q19. Do you agree with our approach to using a re-opener mechanism for changes to government physical security policy?

As custodians of Critical National Infrastructure, the network companies may require additional funding in response to any government mandated changes. A re-opener mechanism to provide funding in these circumstances appears reasonable.

Addressing changes to legislation, policy and technical standards

Q20. Do you agree with our approach regarding legislation, policy and standards?

We note that Ofgem are not proposing any additional re-opener mechanisms relating to changes in legislation, policy or technical standards. While some companies put forward requests for bespoke mechanisms to manage risks such as those associated with Brexit, environment and climate change, and black start resilience, Ofgem has viewed that they had insufficient information to justify the need for such mechanisms. The consultation asks for further information regarding the types and magnitude of possible changes that could create increased costs from changes in legislation, policy and standards. We believe that the network companies are best placed to identify and propose forecast costs for these issues. We would support a re-opener for relevant changes if there is sufficient justification and clarity on costs, although we note the range of proposed uncertainty mechanisms within RIIO-2 that may already provide support for changes in this area, such as the mechanisms relating to Black Start, Net Zero, Heat Policy, etc.

Net zero and innovation

Q21. Do you agree with our overall approach to meeting Net Zero at lowest cost to consumers? Specifically, do you agree with our approach to fund known and justified Net Zero investment needs in the baseline, and to use uncertainty mechanisms to provide funding in-period for Net Zero investment when the need becomes clearer?

Our own research into anticipatory investments conducted by Europe Economics [58] has highlighted that the use of uncertainty mechanisms may be particularly suitable where there are unknown or uncertain elements such as in timing, scope, or through potential policy changes. We commissioned updated research from Europe Economics to encompass the COVID-19 pandemic and this found that likely economic changes as a result of the COVID-19 situation may mean that:

- Reductions in the demand for energy may weaken the case for highly anticipatory investments
- Customer willingness to pay for improvements to the quality of service or the environment may be lower
- Affordability issues may be especially important given that many more households are struggling financially
- The case for applying real options analysis is especially strong in the current context with the value of the real option to wait now likely to be higher
- Cost and benefit analysis to value highly anticipatory investments will need to accommodate different COVID-19 scenarios and the ranges for estimated impacts are likely to be wider

Uncertainty mechanisms that can respond rapidly, but with appropriate scrutiny, are essential to ensure that the Net Zero transition is enabled while protecting consumers from unnecessary spending. Appropriate real options analysis and a refined cost and benefit analysis framework will also be needed to facilitate the investment requirements for the Net Zero transition. The willingness and ability

[58] Citizens Advice, Meeting Net Zero - Options for network company highly anticipatory investments in a post-COVID-19 environment, July 2020

to pay for certain investment projects may have weakened since the Business Plans were submitted by the network companies and there may need to be increased scrutiny by Ofgem, or further research by companies or Ofgem, to assess the continued viability or desirability of particular future investments. As stated earlier in this response we particularly think Ofgem should produce high, medium and low scenarios for the additional cost allowances that may result from these re-openers, along with the impact on customer bills and for meeting Net Zero.

The use of re-openers is noted as a particularly suitable anticipatory investment mechanism in the current scenario which should offer the ability for companies to obtain the investment funding that they require to meet consumer needs while protecting consumers from the risk of stranded assets.

As we stated within our response to the RIIO-2 Sector Specific Methodology Consultation[59], we were looking for Ofgem to rectify the shortcomings relating to environmental issues and the facilitation of Net Zero in RIIO-1, and to enable a greater level of ambition from our energy networks in RIIO-2. We note that Ofgem, within this draft Determination, aims to prepare the networks to deliver Net Zero at the lowest cost to the consumer, while maintaining world-class levels of system reliability. Ofgem are challenging network companies to be as efficient as possible as they deliver a network to transition to a Net Zero future, and also challenging the ESO to be highly ambitious, and work with other industry parties and wider stakeholders to ensure that there is a coordinated, whole systems approach to solving Net Zero system challenges. We agree with all of these stated aims and support the need for fundamental change in the price controls to accommodate the needs to deliver the Net Zero transition.

We support the inclusion of known and justified expenditure within baseline allowances and the use of a range of re-openers to facilitate less certain investments. The network companies have stated that they may need a further £10 billion in funding to meet the Net Zero transition[60] and it is reassuring to know that this amount has been considered for inclusion within the various re-openers (whether the Net Zero re-opener or the sector-specific re-openers). As companies become more sure of the scope and costs of the investments that they need to make, it is essential that the re-opener process in terms of

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[59] Citizens Advice, Response to the Ofgem RIIO-2 Sector Specific consultation, March 2019
[60] Ofgem press release, Ofgem proposes £25 billion to transform Great Britain's energy networks, 9 July 2020

application and decision-making, is streamlined and rapid so as not to impede the investments needed for the Net Zero transition.

With potentially £10billion of additional spend by networks, we are mindful that final allowances and the costs to consumers could be higher than currently appears in the draft determinations. We think it is important that there is some protection for consumer bills from this increase and have suggested a number of options of how this can be achieved in the executive summary. In particular, we think Ofgem should consider where costs can be allocated to future consumers, and where costs could be borne by those on higher incomes and who have a greater ability to access the low carbon technologies that new grid capabilities would facilitate.

Q22. Do you think the package of cross sector and sector-specific UMs provides the appropriate balance to ensure there is sufficient flexibility and coverage to facilitate the potential need for additional Net Zero funding during RIIO-2?

Flexibility will be key to respond to the uncertainties in timing and scope of future changes that will be needed in the transition to Net Zero. A wide range of uncertainty mechanisms, such as the cross-sector and sector-specific mechanisms noted within this section of the consultation appears to demonstrate the required flexibility. In particular, the Net Zero re-opener will not be confined to specific types of activity or investment which should enable investments to be facilitated which are not covered elsewhere in the price control and have not been foreseen in clarity. We note that changes in legislative matters or policy does not have its own re-opener (see answer to Q20 above) as the intention is that the Net Zero re-opener and other re-openers should accommodate such changes. We agree that the flexibility of the Net Zero re-opener, with its widely drawn framework, should be able to encompass changes to legislation or policy initiatives, such as those relating to Electric Vehicle (EV) uptake, hydrogen usage, and heat policy.

Net Zero re-opener

Q23. Do you have any views on our proposed approach to a Net Zero re-opener?

We note the following features of the Net Zero re-opener:

- Cross-sectoral

- Widely-drawn to encompass a broad range of potential investment needs
- Able to be initiated solely by Ofgem
- A materiality threshold in line with the principles for re-openers described earlier in the consultation
- Adjustments can be made to allowed revenue, existing output targets, existing reporting requirements, or introductions can be made for new output targets and reporting requirements

As stated in our answer to Q22, we believe that the widely-drawn framework of the Net Zero re-opener is an advantage in helping to meet potential currently unknown or less certain requirements to meet Net Zero. In addition, the cross-sectoral nature of the re-opener allows funding to be allocated to which industry sector needs it at that time. We note the discussion regarding the ability of Ofgem to solely initiate the re-opener and how some network companies wished to be able to trigger the re-opener. We appreciate the mitigations for network concerns that have been proposed such as consideration by Ofgem of matters raised through the Net Zero Advisory Group (which includes membership of the National Infrastructure Commission and the Committee on Climate Change), and the consultation process that will accompany any changes in circumstances when considering potential activation of the re-opener.

We believe that these mitigations strike an appropriate balance to ensure that the re-opener is only triggered for material changes, and that network companies and other stakeholders can input their views. We support the ability to amend or introduce output targets, and reporting requirements. We further support the use of a materiality threshold in line with the principles for re-openers proposed for RIIO-2 to offer consistency and to ensure that the costs of the re-opener process (for Ofgem and network companies) are only incurred (and paid for by consumers) when there is a substantial investment required.

As we have noted earlier summary, we recommend that Ofgem produces high, medium and low scenarios for the additional cost allowances that may result from reopeners along with the impact on customer bills and for meeting Net Zero. By way of illustration, our high level calculations presented in Appendix 2 suggest that the Net Zero reopener alone could lead to customer bill increases of between £6.15 and £33.48 per household per annum by the end of the RIIO-2 period. If the outturn value is towards the upper end of this range, it would more than offset the £20 customer bill reduction that Ofgem has highlighted in its draft determinations.

See also our answers to Q21 with respect to the need for scrutiny of information in light of likely changes due to the COVID-19 pandemic including issues relating to changes to willingness to pay, the need for cost and benefit analysis amendments to incorporate wider scenarios, and the potential reduced ability of consumers to afford the funding of large investment projects. We would ask that the projects funded under the Net Zero re-opener routinely considers any distributional impacts relating to the project to ensure that certain consumers, e.g. those with vulnerabilities, are not left behind in the transition or negatively impacted.

Innovation

Q24. Do you agree with our proposals for the RIIO-2 Strategic Innovation Fund?

In our response to the RIIO-2 Sector Specific Methodology consultation, we noted our concerns about the lack of a clear whole systems approach to low carbon innovation. We also suggest that consumers with vulnerabilities may need additional support and should not be forgotten when designing RIIO-2 incentives and innovation programmes. We are pleased to see progress in these areas.

It is crucial that consumers in vulnerable situations and consumers who struggle to engage with their energy are not adversely affected or left behind by the transition to Net Zero. We also noted our support for a specific funding pot to address whole systems and to avoid duplication with other forms of funding. We welcomed proposals for more collaboration with wider stakeholders such as BEIS, third parties, and other innovation bodies.

The Strategic Innovation Fund (SIF) aims to support strategic innovation that contributes to the achievement of Net Zero targets and benefits network companies and consumers as a whole. The SIF has a number of aspects which we support and many of which we supported or proposed in our response to the Sector Specific Methodology consultation:

- A sizeable (£450 million or more) funding pot available
- Coordination with government via the Net Zero Innovation Board to set a strategic focus for the SIF
- The setting of efficiency challenges with ongoing response rather than annual funding rounds

- Widely drawn to encompass both early developmental projects to later deployment trials
- Flexibility to cover a wide range of different types of projects including whole systems solutions
- An independent expert panel to assess projects including scrutiny proportionate to the size of the application
- Start of the SIF by 2021

We note that there will be further work and consultation to develop detail regarding the SIF and acknowledge the list of issues for consideration including defining 'innovation'. We would ask that the following aspects be included in these considerations:

- A focus on distributional impacts and inclusion for consumers with vulnerabilities and low engagement with energy. The description of the SIF does not provide any specific processes to address these issues and we would ask that all projects have these considerations included within them as we also highlighted within our response to the Sector Specific Methodology Consultation. If Ofgem does not support this recommendation, we would welcome an explanation as to why these aspects for consideration are not supported.
- We believe that there should be a high bar for approval of projects, as these innovation projects are being funded via the existing system of use charges methodologies and therefore socialised across GB consumers. Affordability may be an increasing concern due to the likely economic impacts of COVID-19[61] and the potential benefits must be clear and of significant value.
- There may be a need to develop new robust cost and benefit analyses to assess these projects including the social benefits that may accrue to consumers, including those consumers with vulnerabilities.
- We would welcome further information regarding how the percentage of funding that will be borne by consumers or companies is decided. At present, Network Innovation Competition (NIC) funding is shared 90% to consumers, 10% with company participants. The SIF fund percentages will be decided on a case-by-case basis according to this proposal and we would welcome information regarding how certain projects would attract different percentages of consumer support compared to others and the criteria used for these allocations. It would be useful to know, for instance,

[61] Citizens Advice, Meeting Net Zero - Options for network company highly anticipatory investments in a post-COVID-19 environment, July 2020

whether the likelihood of success, or extent of consumer benefit compared to the cost may be relevant factors in such a decision.
- There was no specific mention of IDNOs or IGTs and while these companies may be included as 'third party' partners, we would welcome stated consideration of these companies to ensure an inclusive approach to innovation funding.
- Assessment of the SIF funding and its outcomes may necessarily take some time to realise, however, it is important to include an evaluation of individual projects and the scheme as a whole, to assess its value and whether it has met its objectives.

We also noted (on page 97 of the Core Document), that there is a continued emphasis on companies undertaking more innovation within Business As Usual (BAU). In our response to the Sector Specific Methodology consultation (page 29) [62], we supported more innovation as BAU activities, particularly with respect to lower-risk operational and maintenance projects. We believe that the proposed efficiency challenges of 1.2% per year for capex and repex (GD), and 1.4% per year for opex should drive appropriate innovation culture as well as ensure that previous innovations are incorporated within BAU. We note that the ongoing efficiencies will be shared at the totex sharing rates for the respective network company and therefore this will be a further feature to act as a driver to encourage innovation.

Q25. Do you have any comments on the additional issues that we seek to consider over the coming year ahead of introducing the Strategic Innovation Fund?

See our answer to Q24 which incorporates our comments for this question.

Network Innovation Allowance

Our general comments on the NIA

We note the intended continuation of the NIA, which is to be allocated to companies for their respective price control periods (5 years for Transmission and Gas Distribution, and 2 years for ESO).

We support the focussed use of the NIA for innovation projects relating to longer-term energy system transition challenges or consumer vulnerability

[62] Citizens Advice, Response to the Ofgem RIIO-2 Sector Specific consultation, March 2019

issues. In particular, we support the requirement for the NIA projects to each have an impact assessment to consider the expected effects of the innovative solution on consumers with vulnerabilities. We would also recommend that this requirement applies to funding projects under the Net Zero re-opener and the SIF (see our answers to Q23 and Q24 above in this regard).

We note the level of funding proposed is £181.8 million which is the allocation for all companies (Transmission, GD and ESO) and believe that this represents a reasonable size of funding to enable innovation projects during the price control periods.

We support the intention that companies fund more innovation as part of BAU activities and therefore agree that innovation projects for operational efficiencies should be funded via BAU. We believe that the efficiency challenges proposed by Ofgem should provide the necessary stimulus to incentivise companies for such operational improvement projects.

We support the requirement that NIA projects will not be eligible for funding where there are commercially available technologies as such technologies could be trialled by companies within BAU.

We support the requirement in the RIIO-2 NIA governance arrangements that network companies collectively produce guidance for third parties on the treatment of Intellectual Property Rights in NIA projects in order to facilitate the involvement of third parties within these projects.

We would welcome the requirement for the network companies to work with partners for all NIA projects, as is the requirement for the ESO's NIA projects. We believe that this requirement will provide positive consumer benefits in gaining expert and consumer views within the design and implementation of projects.

Q26. Do you agree with our approach to benchmarking RIIO-2 NIA requests against RIIO-1 NIA funding?

We note that Ofgem assessed Business Plan NIA funding requests and where companies requested a proportionately higher amount of funding, Ofgem looked for clear and compelling reasons why this was necessary. Where the funding case was clear, Ofgem is proposing to set the allowance level at the amount proposed. When the funding case was not clear, Ofgem is proposing to set the allowance with levels of NIA funding similar to the RIIO-1 benchmark, provided they included evidence against the criteria from the SSMD. While allocating funding benchmarked to what the companies received in RIIO-1 is not ideal, the nature of the allowance, being a use-it-or-lose-it-allowance should ensure that only those projects that fit the criteria go forward. In addition, the use of a common improved reporting framework should assist in ensuring that consumer benefits from those projects are demonstrable.

Q27. Do you agree with our proposal that all companies' NIA funding should be conditional on the introduction of an improved reporting framework?

We agree with the proposal that all companies' NIA funding should be conditional on the introduction of an improved and common reporting framework. The use of the framework should focus attention on the design of these projects to ensure that they meet the aims of the NIA funding which should lead to implementable innovations in longer-term energy transition issues or innovations relating to mitigate issues for those consumers with vulnerabilities.

Q28. What are your thoughts on our proposals to strengthen the RIIO-2 NIA framework?

We support the aims of the common reporting framework, namely to track innovation activities through their lifecycle, enable coordination of activities and avoid duplication, improve dissemination of lessons learned, and facilitate evaluation of project costs and benefits for consumers.

We note that Ofgem found that that companies' plans for NIA innovation funding were largely independent of each other, even though Ofgem had encouraged companies to demonstrate collaboration across the different energy sectors. We believe that the NIA reporting framework should highlight where projects have collaborated across sectors and led to whole systems solutions, or if the project did not, why collaboration and/or whole systems was not part of the design of the project.

Similarly, there should be a requirement for projects to explain the nature of the partnerships that were established and why certain partners were involved and why other potential partners were not included. If no partners were involved, or no third party companies beyond the industry were part of the project, companies should explain why only those partners were needed and why the projects (and consumer benefits) are not negatively impacted by having only a restricted or solely industry-based partnership. The collaboration of community energy groups, social housing groups, local authorities, and academics should be included within the consideration of potential partners as well as better known consultancies and commercial companies.

The proposed framework should include robust dissemination procedures to ensure that the lessons learned are able to be used by other industry companies and sectors, and within the wider community.

Q29. Do you have any additional suggestions for quality assurance measures that could be introduced to ensure the robustness of RIIO-2 NIA projects?

We note the suggestions within the draft determinations consultation with respect to the types of quality assurance that could be used to ensure the robustness of NIA projects. These suggestions include peer review of NIA projects by other network companies or by an external party such as an academic, or by an independent audit of completed projects by an independent body examining the research conducted and the project's compliance with governance requirements. We would support the use of an independent body to evaluate the projects to ensure compliance with requirements as well as to assure that the aims of the project which were stated at the outset have been met, or where not met, why they were not met, and that the project still communicated any lessons learnt from the project. We recognise that there may be instances in innovation projects where there may be excellent and well-considered aims at the start of the project but that the outcomes may not be met for a number of reasons. The project may still have value in being able to discount a particular innovation as long as that information is appropriately communicated.

Closing out RIIO-1 NIA

Q30. Do you agree with our proposals to allow network companies and the ESO to carry over any unspent NIA funds from the final year of RIIO-1 into the first year of RIIO-2?

We note the proposal to allow network companies and the ESO to carry forward unspent NIA fundings into the first year of RIIO-2. We understand that the motivations for this proposal are to encourage projects that may be dis-incentivised to start, to permit projects to be completed, and to allow for more time for projects that may have been affected by the COVID-19 pandemic. We note that there will be no additional cost to consumers for this proposal as the funding was allocated previously. We support this proposal which offers a realistic solution to the potential problems identified and should ensure that consumer benefits from these projects are realised rather than funding wasted on partially completed projects.

Improving data transparency within innovation projects

Q31. Do you agree with our proposal that all work relating to data as part of innovation projects funded via the NIA and SIF will be expected to follow Data Best Practice?

Please see our responses to Q5-Q7. We agree that all work which involves data as part of both NIA and SIF funded projects should be expected to follow Data Best Practice. We understand that the Data Best Practice guidance is still in development[63], but the requirement to follow the Data Best Practice guidance should ensure that the recommendations of the Energy Data Taskforce[64] are carried through to NIA and SIF projects, such as maximising the value of data, and maximising the visibility of data.

Expansion of late competition

Q32. Do you agree with our proposed position on late competition?

Competition is a vital element within the investment assessment process to ensure that consumers get best value for money. We note that the projects proposed for the baseline allowance funding is not being considered for competition as competition models may not be sufficiently developed or the projects may not be readily separable due to the projects being largely related to upgrading of existing assets. There is also an apparent time criticality for these imminent projects. We understand the rationale for the decision to not require competition for these projects particularly given the large number of projects that have been moved from possible baseline funding into the uncertainty mechanisms (over £5 billion of possible project value). We note that the various re-opener mechanisms will have late competition processes applied for their projects across all sectors where they meet the criteria for competition, and that

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[63] Ofgem, An early draft of Data Best Practice Guidance is available, January 2020
[64] Energy Data Taskforce report, A Strategy for a Modern Digitalised Energy System June 2019

consideration will be given for competitive processes for parts of projects, where separable. We welcome the use of competition for this substantial number of projects which should drive cost-efficient delivery.

We note the reference to 2 projects by NGET and SHET (the Dinorweg-Pentir project and the Skye project) that will now be subject to competition assessment as they are proposed to be part of the Large Onshore Transmission Investment re-opener. We believe this to be in consumer's best interests to ensure value for money.

We note the continued development of the competition models and would point to our response to the Sector Specific Methodology consultation (at page 32)[65], where we highlight where the administrative costs of running a competition may outweigh any savings from being competitive. We trust that the competition models will take this point into account in their design. We also noted in our prior response that we felt that a threshold of £100 million may exclude projects that may be suitable for competition. We note in the draft determinations consultation that whole or parts of projects may be suitable for competition, and we recommend that any threshold for including competition is set so as to include as many projects as possible, subject to the competition being run cost-effectively, and so that delivery can be timely, if urgency is a factor.

Introduction of early competition

Q33. Do you agree with our proposed approach on early competition?

We note the ongoing development of the Early Competition Plan (ECP) by ESO which will likely include projects of value £50 million or over. The ECP has a planned date for conclusion of February 2021 but we note that key aspects of the model are still to be finalised and that early competition proposals are therefore not yet finalised for RIIO-2. We note the consultation position that the early model will not be applied to projects receiving baseline funding, presumably for similar reasons as outlined for late competition (see Q32 above), but may apply to those projects eligible for the uncertainty mechanisms, subject to further consultation. We await further information on the ECP and its parameters with interest, and agree that until the ECP is finalised, that it would not be appropriate to make any firm conclusions about its implementation for RIIO-2 as yet.

[65] Citizens Advice, Response to the Ofgem RIIO-2 Sector Specific consultation, March 2019

Business Plan Incentive Stage 1

Q34. Do you agree with our view that SHET, SPT, SGN and WWU passed all of the Minimum Requirements, and as such are considered to have passed Stage 1 of the BPI?

We do not believe that we are best placed to assess whether these companies have passed or failed Stage 1 of the BPI and therefore will not answer this question. We have also provided a comment regarding the BPI assessment process within the Executive Summary section above.

Q35. Do you agree with our rationale for why NGET and NGGT should be considered to have failed Stage 1 of the BPI?

See our answer to Q34.

Q36. Do you agree with our rationale for why Cadent and NGN are considered to have passed Stage 1 of the BPI?

See our answer to Q34.

Business Plan Incentive Stage 2 assessment process - Consumer Value Proposition

Q37. Do you agree with our overall approach regarding treatment of CVP proposals?

We support the annual reporting requirement with suitable performance metrics for CVPs, the ex-post clawback mechanism to recover an appropriate proportion of the reward in the event of non-delivery, and that each CVP proposal is assessed separately. The clawback mechanism should protect consumers from non- or under-delivery of the CVP projects which is welcomed.

We note that companies spent considerable time putting together CVP proposals for their BPs. In total, the consultation document states that there were 117 CVP proposals adding up to over £5.5 billion. The Ofgem assessment approved only 6 CVP proposals, with 3 disallowed as the companies had failed at Stage 1 of the BPI assessment. Two approved CVP proposals have a combined reward value of £3.2 million plus an amount to be determined for 1 further approved proposal. Many of the non-approved CVPs are expected to be carried out as BAU or Corporate Social Responsibility (CSR). Companies will have allocated considerable resources in producing the CVPs including providing methodologies for valuation and monitoring. Stakeholders will have expended time in reviewing the CVP proposals (such as User Groups, Customer Engagement Groups and other stakeholder panels). Ofgem has then spent significant time and resources to assess the CVPs.

We are aware that the idea to use CVPs as part of the price control and the provision of Business Plan Guidance for companies regarding CVPs came later in the RIIO-2 process than would have been ideal, and this may have led to the large number of rejected proposals. The suggested (non-exclusive) areas for CVPs within the BP Guidance were widely drawn to encourage a broad consideration by companies as to where they could add value for consumers beyond BAU. While this intention was laudable, the wide range of ideas will have led to companies and Ofgem being required to understand and assess many disparate valuation and methodological ideas as the CVPs were so varied.

The inclusion of CVPs within the BPI mechanism has enabled Ofgem to identify areas where companies could add value for consumers which may otherwise have not been part of the RIIO-2 price control, including identifying CVPs that could become common ODIs. However, we have misgivings regarding the use of the CVP process for future price controls given the high number of CVP rejections. These rejections represent costs to consumers in formulating the proposals and in their evaluation by companies, stakeholders, and Ofgem. We would, therefore, recommend the following points if the CVP methodology is to be maintained in future price controls, including for the forthcoming RIIO-ED2 price control:

- Draft BPs should be used to identify CVPs that may become common outputs at an early stage and these proposals could then be removed as individual CVP proposals within companies' BPs.
- BP Guidance on CVPs should be provided at an early stage with clear outlines of the parameters that could result in a project being approved or rejected using examples from the RIIO-2 CVP process (e.g. rejected CVPs were often viewed as CSR or as BAU, or were not stretching enough compared to other companies' BAU proposals).
- CVPs should be limited to a certain number for each company (perhaps 3 or 5) to constrain the amount of time taken by a company, its stakeholders, and Ofgem in formulating and then reviewing the proposals.
- The areas covered by a CVP could be narrowed from its current broad scope. We understand from the ED2 Overarching Working Group that

Ofgem is considering narrowing the scope for the CVPs to certain areas (e.g. Distribution System Operation functions, services to large customers, or to support consumers with vulnerabilities). We believe that there is merit in constraining the scope of areas for CVPs so that valuation methods and monitoring procedures may be more readily and cost-efficiently developed. Comparability of review by Ofgem will also be enabled through having a narrower scope for CVPs.

- Consultation should be undertaken, as usual, within the relevant Sector Specific Methodology process to consider the above and other ideas that may improve the CVP process to ensure better outcomes for consumers.

Q38. Do you agree with our proposed clawback mechanism to treat received CVP rewards?

A clawback mechanism which recovers an amount which is proportionate to the extent of non-delivery appears reasonable to protect consumers from poor delivery. See also our answer to Q37 regarding our views of the CVP process in the round.

Q39. Do you have any views on the interlinkages explained throughout this chapter?

Q40. Are there other interlinkages within our RIIO-2 package that you think are relevant to the three pillars identified in this chapter?

Q41. Do you have any views on our proposal to include a statement of policy in final determinations that in appropriate circumstances, we will carry out a post appeals review and potentially revisit wider aspects of RIIO-2 in the event of a successful appeal to the CMA that had material knock on consequences for the price control settlement?

We support this because it is important that changes as a result of an appeal do not have unintended consequences that are not in consumers' interests.

Q42. Do you have any views on the proposed pre-action correspondence, including on the proposed timing for sending such to Ofgem?

Q43. Do you think we need specific mechanisms in RIIO-2 to manage the potential longer-term impacts of COVID-19? If yes, what might these mechanisms be?

We note Ofgem's statement (at page 150 in the consultation) that it is not yet possible to accurately forecast the final impact of COVID-19 on the ability of companies to deliver against their output targets for the final year of RIIO-1. This uncertainty also has implications for potential knock-on effects when setting RIIO-2 baselines. We also note that Ofgem intends to undertake a series of bilaterals and other workshops with companies to understand the potential implications for both RIIO-1 and RIIO-2, and has asked companies to submit evidence of any impacts in their consultation responses to the draft determinations. We support the collection of this information and evidence to assist in understanding the implications of the COVID-19 pandemic for both of the price controls (RIIO-1 and RIIO-2).

We would agree that it is difficult to forecast all of the impacts for both RIIO-1 and RIIO-2 at this stage. However, our recent research on anticipatory investment mechanisms[66], conducted by Europe Economics, included a review of post-COVID-19 impacts and has highlighted a number of likely economic outcomes:

- Reductions in the demand for energy may weaken the case for highly anticipatory investments
- Customer willingness to pay for improvements to the quality of service or the environment may be lower
- Affordability issues may be especially important given that many more households are struggling financially
- The case for applying real options analysis is especially strong in the current context with the value of the real option to wait now likely to be higher
- Cost and benefit analysis to value highly anticipatory investments will need to accommodate different COVID-19 scenarios and the ranges for estimated impacts are likely to be wider

It is not clear that specific mechanisms will be needed to adjust for implications in RIIO-1 given that there are already close-out mechanisms in place that could be used, although the network companies will be closer to this matter and may suggest specific mechanisms based on their impact evidence. For RIIO-2, there is a range of proposed uncertainty mechanisms that may be suitable to adjust for changed investment activities during the price control period. However, it may be useful to consider the above listed points relating to likely reductions in demand for energy, willingness to pay, affordability, real options analysis, and cost and benefit analysis, to adjust the parameters and tools of allowances and

[66] Citizens Advice, Meeting Net Zero - Options for network company highly anticipatory investments in a post-COVID-19 environment, July 2020

uncertainty mechanisms to reflect the likely economic impacts of COVID-19 and the likely changed risk and affordability profiles of consumers.

Core Document Appendix 1

The table below includes a list of the uncertainty mechanisms proposed by Ofgem in the RIIO-2 draft determinations.

Table A1.1: List of uncertainty mechanisms

Mechanism name	Common / bespoke	Sector / company coverage	Mechanism type
Real Price Effects	Common	Cross-sector	Indexation
Coordinated Adjustment Mechanism	Common	Cross-sector	Re-opener
Cyber Resilience OT	Common	Cross-sector	'Use it or lose it' allowance and re-opener
Cyber Resilience IT	Common	Cross-sector	Re-opener
Non-operational IT and Telecoms Capex	Common	Cross-sector	Re-opener
Physical Security (PSUP)	Common	Cross-sector	Re-opener
Net Zero	Common	Cross-sector	Re-opener
Cost of debt indexation	Common	Cross-sector	Indexation
Cost of equity indexation	Common	Cross-sector	Indexation
Inflation Indexation of RAV and Allowed Return	Common	Cross-sector	Indexation
Pensions (pension scheme established deficits)	Common	Cross-sector	Re-opener
Tax Review	Common	Cross-sector	Re-opener
Bad Debt	Common	Cross-sector	Pass-through
Business Rates	Common	Cross-sector	Pass-through
Ofgem Licence Fee	Common	Cross-sector	Pass-through
Third-party damage and water ingress	Common	Gas distribution	Pass-through
Miscellaneous pass-through	Common	Gas distribution	Pass-through
Gas Transporters share of Xoserve costs	Common	Gas distribution	Pass-through
Repex – Tier 2A iron mains	Common	Gas distribution	Volume driver
Repex – HSE policy changes	Common	Gas distribution	Re-opener
Repex - Tier 1 iron stubs	Common	Gas distribution	Re-opener
Diversions	Common	Gas distribution	Re-opener
Multiple occupancy buildings (MOB) safety	Common	Gas distribution	Re-opener
Heat policy	Common	Gas distribution	Re-opener
Domestic connections	Common	Gas distribution	Volume driver
New large load	Common	Gas distribution	Re-opener
Smart meter rollout costs	Common	Gas distribution	Re-opener
Specified streetworks	Common	Gas distribution	Re-opener

Fuel Poor Network Extension Scheme (FPNES)	Common	Gas distribution	Re-opener
London medium pressure	Bespoke	Cadent	Re-opener
Opex escalator	Common	Electricity transmission	Indexation
Generation and Demand connections	Common	Electricity transmission	Volume driver
Shunt Reactors	Common	Electricity transmission	Volume driver
Large Onshore Transmission Projects (LOTI)	Common	Electricity transmission	Re-opener
Pre-Construction Funding (PCF)	Common	Electricity transmission	Re-opener
Medium Sized Investment Projects (MSIP)	Common	Electricity transmission	Re-opener
Visual amenity in designated areas provision	Common	Electricity transmission	Re-opener
Net-zero carbon capital construction	Bespoke	NGET	Use-it-or-lose-it allowance
Subsea cable repairs	Bespoke	SHET	Re-opener
Uncertain non-load projects	Bespoke	SPT	Re-opener
Central Data Services Provider costs	Bespoke	Gas transmission / NGGT	Pass-through
Independent Systems	Bespoke	Gas transmission / NGGT	Pass-through
Policing cost associated with Counter-Terrorism Act 2008	Bespoke	Gas transmission / NGGT	Re-opener
Incremental capacity	Bespoke	Gas transmission / NGGT	Re-opener
Quarry and Loss	Bespoke	Gas transmission / NGGT	Re-opener
Pipeline diversions	Bespoke	Gas transmission / NGGT	Re-opener
Bacton terminal site redevelopment	Bespoke	Gas transmission / NGGT	Re-opener
King's Lynn subsidence	Bespoke	Gas transmission / NGGT	Re-opener
Asset health – non-lead assets	Bespoke	Gas transmission / NGGT	Re-opener
Compressors	Bespoke	Gas transmission / NGGT	Re-opener
GT Opex escalator	Bespoke	Gas transmission / NGGT	Indexation

Source: Europe Economics based on Ofgem’s core and sector-specific draft determination documents.

Appendix 2: Potential Customer Bill Impact of Uncertainty Mechanisms

This appendix provides some high-level calculations for the Net Zero re-opener under three illustrative scenarios, given the potential magnitude of the costs that could be requested under this re-opener. In our view, these basic calculations, using some simple assumptions, as set out below provide a useful indication of the potential scale of the impacts of this re-opener on customer bills.

1.1 Assumptions used in calculations

We have constructed a simple financial model to assess the potential impact of the Net Zero re-opener on customer bills at a high level. In this section we set out the assumptions used in our calculations.

The Net Zero re-opener potentially covers up to £10 billion of investment that companies may request under this uncertainty mechanism.[67] Consequently, we developed three illustrative scenarios in which companies are permitted to undertake additional spending of £2.5 billion, £5 billion and £10 billion (corresponding to low, medium and high scenarios in the remainder of this appendix) under the re-opener.

Table A2.1: Summary of additional investment under Net Zero – illustrative scenarios

	Low	Medium	High
Additional spending under Net Zero reopener	£2.5 billion	£5 billion	£10 billion

Source: Europe Economics assumptions.

Further assumptions used in our high-level calculations are broadly based on the relevant parameters published by Ofgem as part of the RIIO-2 draft determinations. These key assumptions are summarised in the table below. Each parameter is then discussed in further detail.

Table A2.2: Summary of key assumptions

[67] Ofgem (2020): "RIIO-2 Draft Determinations - Core Document", p.40-42.

Parameter	Assumed value
Capitalisation rate	90% and 80%
Baseline WACC	2.63%
Asset life	45 years
Number of households	26.39 million

Source: Europe Economics analysis of Ofgem documents.

Capitalisation rate

Ofgem published the proposed capitalisation rates for illustrative uncertainty mechanisms as part of the Finance annex to the RIIO-2 draft determinations. The table below summarises the proposed capitalisation rates for network companies. Based broadly on Ofgem's figures, we present results using capitalisation rates of both 90 per cent and 80 per cent.

Table A2.3: Capitalisation rates for uncertainty mechanisms from RIIO-2 draft determinations

Sector	Licensee / network	Capitalisation rate
Gas transmission	NGGT (TO)	90%
Electricity transmission	SHET	98%
	SPT	98%
	NGET	94%
Gas distribution	East	83%
	London	60%
	North West	76%
	West Midlands	66%
	Northern	56%

	Scotland	77%
	Southern	70%
	Wales & West	78%
Average		**79%**

Source: Ofgem (2020): "RIIO-2 Draft Determinations – Finance Annex", p.151.

Baseline WACC

While parts of the WACC will be indexed in the RIIO-2 price controls, Ofgem's draft determinations use a baseline allowed return on capital of 2.47 per cent for SHET and 2.63 per cent for the remainder of the network companies.[68] Our calculations have used a baseline WACC figure of 2.63 per cent given that this is applied to the majority of network companies.

Asset life

Ofgem's draft determinations also set out the depreciation policies used for the RIIO-2 draft determinations. Post-2021 an asset life of 45 years is applied in the case of network companies (with the exception of SHET where asset life post-2021 will increase from 32.5 to 45 years from 2022 to 2026) with either a front loaded or straight-line depreciation.[69] Our calculations have assumed an asset life of 45 years with straight-line depreciation for simplicity. (This implies that our calculations may understate the immediate bill impact in sectors such as gas distribution where front loaded depreciation is applied by Ofgem.)

Number of households

A document published by Ofgem in May 2020 on the distributional impacts of economic regulations provides information about the number of households in Great Britain, including a breakdown by consumer archetypes.[70] In line with this document, our calculations use a figure of 26.39 million for the total number of households in Great Britain.

Further assumptions

[68] Ofgem (2020): "RIIO-2 Draft Determinations – Finance Annex", p.92, available at: https://www.ofgem.gov.uk/system/files/docs/2020/07/draft_determinations_-_finance.pdf
[69] Ofgem (2020): "RIIO-2 Draft Determinations – Finance Annex", p.145.
[70] Ofgem (2020): "Assessing the distributional impacts of economic regulation", p.17, available at: https://www.ofgem.gov.uk/system/files/docs/2020/05/assessing_the_distributional_impacts_of_economic_regulation_1.pdf

In addition to the assumptions above, our calculations have assumed that the additional spending under the Net Zero re-opener occurs in four equal instalments starting at the second year of the price control period. We have also attributed spending to the middle of each year, meaning that the proportion of spending added to the RCV in the same year incurs a half-year of depreciation only in that year.

1.2 Potential customer bill impact

The tables below show the potential impact on customer bills under capitalisation rates of 90 per cent and 80 per cent, respectively.

Taken together, the high-level calculations suggest that the potential impact of additional spending under the Net Zero re-opener on customer bills by the end of the RIIO-2 price control period may be between £6.15 and £24.61 using a capitalisation rate of 90 per cent, and between £8.37 and £33.48 using a capitalisation rate of 80 per cent.

Table A2.4: Potential impact on consumer bills (£) with 90 per cent capitalisation rate

	2022/23	2023/24	2024/25	2025/26
Low scenario	2.94	4.02	5.09	6.15
Medium scenario	5.88	8.05	10.19	12.30
High scenario	11.76	16.09	20.38	24.61

Table A2.5: Potential impact on consumer bills (£) with 80 per cent capitalisation rate

	2022/23	2023/24	2024/25	2025/26
Low scenario	5.31	6.34	7.36	8.37

Medium scenario	10.62	12.68	14.72	16.74
High scenario	21.23	25.36	29.44	33.48

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