

Citizens Advice response to the Ofgem Call for Evidence on Electricity Distribution Business Plans for R110-2

Citizens Advice
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Executive summary

Citizens Advice welcomes the opportunity to respond to Ofgem's Call for Evidence on the final RII0-ED2 (ED2) electricity distribution network operator (DNO) business plans as part of our statutory role to represent energy consumers in Great Britain (GB).

The DNOs have a key role in delivering the shared ambition of achieving the transition to net zero at least cost to consumers. At the same time, DNOs need to provide their core services at the standards that customers expect. Ensuring the right plans and incentives are in place during the ED2 period is vital.

In assessing these business plans, we believe that the appropriate investments will need to be identified, taking into account alternatives, and delivered in a timely manner. This requires the right rate of return on investment to be set to give the right incentive. This is also one key part of ensuring the plans represent value for money for consumers, alongside delivering efficiently and making use of existing assets.

DNO management will need to be fully focused on the challenges ahead. Clarity is therefore required over the role of the DNO in a number of areas. Careful consideration over whether the DNO is the best-placed party to deliver a service is needed to allow the DNO to focus on its core activities. Developing DSO services is a necessary part of the energy transition where clarity is also required.

We would also like to draw attention to the challenges we, and other stakeholders, face in engaging with these business plans. The process has led to difficulties in fully assessing and comparing plans. Improvements are required for future price controls and for allowing stakeholders to engage with draft determinations.

Our key messages

Delivering efficient services at lowest possible cost

The ED2 price control period (2023-28) will see the development of the networks in preparing for the drive to net zero. There will be a need for investment in understanding and managing the demand flows on the network, and in meeting any increase in demand as consumers take up new technologies such as heat

pumps and electric vehicles (EVs). DNOs will also need to ensure that the services they provide to consumers are robust to meet the uptake in connections required, and to continue the support for those in vulnerable circumstances. All of these investments must be made in the most cost-efficient manner so that the best options are selected to meet service and infrastructure needs, and so that consumers get value for money, especially in a time of increased pressure on bills.

Ofgem must ensure that consumers get the services that they need at the lowest possible cost, including ensuring that the best value is extracted from existing assets, personnel, and systems before investing in new operations and equipment. The business plans have explained how they have embedded efficiencies and these will need to be assessed closely. DNOs have also spent considerable time and resources in conducting stakeholder engagement for this business planning process. Justification provided through stakeholder engagement will need to be reviewed thoroughly to assess the merits of proposals, as well as ensuring that there is robust cost-benefit analysis to support any continuing or additional expenditure. Ongoing engagement plans for ED2 must also be carefully considered to ensure proportionality and clear outcomes, adding value whilst also being cost efficient.

Ofgem also must be careful, however, not to jeopardise valid and consumer-supported initiatives by focusing overwhelmingly on affordability. The cost of living crisis and energy market problems cannot be solved using the ED2 price control mechanism and there will be a need for government action to support consumers that cannot afford bills as we have explained in our recent press release¹. As such, there is a balance to be struck by the regulator in ED2 to ensure that costs are minimised but that the services that people need, and where DNOs are best-placed to deliver, are still funded.

Allowances for financing also need to be efficient and to give an appropriate investment signal. All of the plans request higher rates of returns than Ofgem's working assumption, which we believe is too high itself. **Ofgem should consider known areas of potential generosity in cost of capital.**

¹ Citizens Advice, [Soaring price cap set to leave energy bills as a proportion of benefits levels at 'generational high'](#), 13 January 2022

Strategic plans

In our review of the draft ED2 business plans², we noted a concern that plans did not appear coherent and lacked an overall strategic approach. The final ED2 business plans have markedly improved and companies have largely centred the plans around the goal of supporting the drive to net zero. There are still areas where we felt plans could have been better joined-up (e.g. the Vulnerability Strategy and delivery of Distribution System Operation (DSO) functions). While the plans do appear more strategically-focused than before, there is a risk that this improvement may be presentational rather than embedded within the companies' operations. Ofgem will need to verify that the plans fully reflect the benefit from synergies from apparent coherent planning, and so deliver value for money.

Best-placed to provide a service, and 'scope creep'

In our review of the draft business plans, we noted that DNOs had made proposals to extend or begin functions where they may not be best-placed to deliver them, or that may duplicate other organisations' work. In particular, we highlighted how DNOs were becoming involved in wide areas of energy advice for domestic consumers, including fuel poverty, and in supporting people with advice on new technologies. The DNOs have proposed further activities that may compete with other bodies or commercial organisations, including in the field of providing smart meter advice, and providing energy or net zero advice to: community groups; non-domestic customers including large businesses; and to local authorities. DNOs also take steps to develop consumer load control, which is an area which may also limit the development of commercial opportunities that would deliver further benefits to consumers. These proposals in the final business plans could be seen as 'scope creep' where a DNO takes on roles that may be better placed with other bodies. Even where DNOs might be the best-placed organisation to identify a need or to support customers, it was not always clear that full consideration had been given to the extent of that support or the impact that it may have on competitors that may also wish to provide advice services.

Networks have a key role in delivering net zero at least cost, while supporting customers, especially those in more vulnerable circumstances during power cuts. We believe that the DNOs should focus upon these activities rather than

² Citizens Advice, [Citizens Advice views on the electricity distribution network companies' draft business plans for RIIO-ED2](#), September 2021

expanding roles unless they are the best-placed entity to do so and there is adequate justification. **Ofgem should scrutinise any advice or support-giving proposals which involve an increase in scope or extent, especially if they might duplicate other bodies' activities or where there may be competitors. Ofgem should also prioritise the development of an open market for flexibility services over DNO activity given the large scale benefits that can be unlocked. Ofgem will need to ensure that DNOs have justified why they are the best-placed bodies and ensure that competition is not impeded.**

We reiterate our call for the government, BEIS, Ofgem, and DNOs to look holistically at the provision of energy advice and related support across Great Britain and evaluate the best solutions for organising and funding that provision to gain best outcomes for consumers and for an effective, cost-efficient delivery. We refer to our joint letter sent to the Prime Minister on 25 August 2021³ which gives our key asks for net zero consumer protections. Any wider strategy should consider coordinating with other Ofgem-managed advice provision operated via the Energy Savings Trust redress fund, or the Warm Home Discount industry innovation funding as well as UK or devolved government initiatives. It may be appropriate for DNOs to continue to be funded individually at present but that DNOs' plans and any contracts to deliver energy advice to be flexibly drawn so that they could accommodate future changes if a wider strategy emerges in the future.

One area where we believe network companies, collectively, are well positioned to offer value to consumers, given their public service remit and their ongoing initiatives in the area, is to **coordinate a scalable platform for national Priority Services Register (PSR) data sharing to improve the energy service experience of consumers in vulnerable circumstances for trusted third parties or other utilities.** We urge Ofgem to show ambition in this area given the importance of being able to target support during storms and to target bill relief in ED2. It is a failure of regulation that there are not more coordinated data sharing processes to enable targeting of relief.

Lack of comparability and consistency in presentation

We have found it difficult to readily compare the final business plans, as we found with the draft business plans. There was a lack of consistency in

³ Citizens Advice, Which?, Federation of Master Builders, Aldersgate Group,

[Joint letter to the Prime Minister on Net Zero consumer protections](#), 25 August 2021

presentation of material, including for bill impacts, Environmental Action Plans (EAPs), Vulnerability Strategies, Worst Served Customer Schemes, stakeholder engagement, costs and benefits to justify DSO proposals, and in the description and operation of UMs. Identifying justifications for proposals was also problematic and often necessitated the review of multiple supplementary documents in addition to the business plans. The volume of material was substantial, with companies often having over 40 other strategy and explanatory documents in addition to the 200 page plan. Fully scrutinising the proposals is an impossibility within the time available.

Being able to readily examine the business plans is an important aspect of holding these monopoly companies to account for how they intend to spend consumers' money. The burgeoning volume of information limits scrutiny and input to this price control process. Ofgem will need to understand that external stakeholder input in the Call for Evidence cannot be as thorough as its own analysis where it has greater resources. Ofgem will, therefore, have to rely more on its own in-depth scrutiny of these plans and in assessing their value.

We recommend that Ofgem is more prescriptive in future business plan guidance for price controls including requiring data to be produced in more comparable and simpler forms by topic area to facilitate ready comparison and scrutiny. The approach to stakeholder engagement and justification of proposals should be standardised. For the draft determinations, it may be valuable to offer more prescriptive guidance on how DNOs should report the outcomes of their various plan initiatives so that they are readily comparable and it will be easier to hold the companies to account.

Meeting net zero

The ED2 price control period (2023-28) is pivotal for the electricity distribution network operators (DNOs). These companies must ensure that the energy system can accommodate and manage the needs of the net zero transition. The energy networks will need to connect and support many more customers for new generation and low carbon technologies (LCTs) such as EVs and heat pumps. The DNOs are also required to better manage demand profiles on the network to dampen peaks and support troughs through newer measures to ensure that the lights stay on without resorting to building traditional costly infrastructure unless there is no more cost-effective option. DNOs have described how they propose to undertake this management of their networks via their Distribution System Operation (DSO) arms. These DSO functions include the important features of forecasting for the ED2 period and beyond, as well as

how they will plan and better manage the networks using Active Network Management (ANM) solutions, flexibility and energy efficiency. Companies must also better manage their own impacts on the environment and have effective and ambitious EAPs. In essence, net zero for Great Britain will not be achieved without the DNOs having robust plans and strategies for meeting developing transition needs and the ability to implement them effectively. All of this must be achieved at the lowest possible cost to minimise impacts on the bill payer, especially given this current cost of living crisis.

Forecasting risk and the use of uncertainty mechanisms

One of the key tasks in the DSO function is to provide accurate forecasts for planning for the network. We understand the extent of effort that DNOs have undertaken in its forecasting to build its distribution future energy scenarios (DFESs). However, the varied use of the different DFESs by companies results in a significant risk that some companies' activities planned during ED2 would be poorly targeted to meet the evolving trajectory of the energy transition. Forecasting in the RIIO-ED1 (ED1) period, has shown how forecasts can be substantially inaccurate with consequences for consumers who either pay for unnecessary services or to DNOs to share in underspending. Potential implications of inaccurate forecasting in ED2 may be that people will not be able to connect their LCTs when they want, or that the network is built to accommodate more usage than is needed. Either of these options is not welcome for consumers, as they will be impeded from living their lives as they wish, net zero goals may be impacted, or consumers will be paying for infrastructure or services that are not used. We therefore support the concept of baseline allowances based on high confidence and lower range forecasts coupled with responsive uncertainty mechanisms (UMs) that can adjust payments to DNOs in light of better information on demand.

UMs could also represent a risk that companies are over-compensated if investments are poorly chosen or the mechanisms are poorly calibrated, and where the interaction with the Totex Incentive Mechanism (TIM) operates. We therefore recommend lower efficiency sharing factors for companies for some types of UMs (such as reopeners).

It has proved difficult to compare the value and effectiveness of the various UMs proposed by companies, especially in the area of Load Related Expenditure (LRE) which will be a vital tool to effectively respond to demand change.

Ofgem will need to review the UMs on offer and conduct detailed modeling to identify the best options to meet net zero rapidly and cost-effectively. A

lower sharing factor for companies is recommended where there may be a risk of companies being over-compensated, especially where the TIM may interact with the UM. We recommend the support of high confidence and lower range forecasts to ensure that lower baseline funding is provided and that there is a maximal use of UMs. We support a common approach for all networks.

Ofgem will need to be appropriately resourced to be agile and responsive to support the delivery of the various UMs during ED2.

Distribution System Operation (DSO) and potential for conflicts of interest

DNOs currently undertake DSO functions. There is a potential conflict of interest as the selection of whole systems solutions may not always be in a DNO's own interests. Flexibility markets need to allow providers to offer services to various parties to reveal the most efficient overall solution, which may not be the best solution for the DNO. The DNOs have proposed many mitigants: improve transparency of decision-making; improve input from stakeholders; and oversight. One DNO, UK Power Networks (UKPN) has proposed a more far-reaching option, that of legally separating the DNO and DSO functions. This separation mirrors the current solution at the electricity transmission level where the electricity system operator (ESO) is legally separate from transmission network delivery, although further separation is likely.

There may be merit in separating DNO and DSO functions, however, the full costs and benefits of such separation need to be evaluated, and the views of all stakeholders need to be captured. We understand that Ofgem is holding a consultation on DSO Governance later in 2022 which we welcome. We believe that progression to a separate DSO is likely to be in the best interests of consumers, subject to the benefits justifying the costs.

Options to meet net zero

The business plans have described how the DNOs will help to meet net zero. Proposals range across many areas, including in the fields of reliability, DSO functions, EAPs, and vulnerability. It was not always clear that every DNO had considered viable options to meet net zero or adopted best practice. For instance, while many DNOs had a 'flexibility first' approach to DSO implementation, the emphasis on using other options, such as energy efficiency did not appear to be well explored. UKPN went noticeably further and described their DSO strategy as 'flexibility and energy efficiency first'. For reliability

solutions, few DNOs appear to have actively considered the use of flexibility or other options as alternatives to traditional reinforcement solutions. The best practice option did not always appear to be selected for environmental proposals in EAPs. The differences between DNOs may reflect varying levels of maturity in areas of operation.

Ofgem will need to scrutinise the business plans carefully to ensure that cost-efficient and best practice solutions have been selected by DNOs in every part of their operations, including wider use of energy efficiency and flexibility service provision.

Introduction to detailed comments

Given the volume of material to review, we have primarily focussed upon the information presented within the business plans. We have considered information within the Vulnerability Strategies and other supporting documents, including the Customer Engagement Group (CEG) reports, where the subject is of particular relevance. We also commissioned a specialist consultancy, Baringa Partners (Baringa), to undertake a review of the EAPs. We were supported in the scoping of this research and in initial reviews of the Baringa report by Sustainability First, given their expertise in this area. The key views from the Baringa report are included within this Call for Evidence, however, we recommend that Ofgem reviews the Baringa report in its entirety as there are many detailed recommendations. The Baringa EAP report has been sent to Ofgem as a separate attachment with this Call for Evidence response.

In this document, we have referred to the DNOs as follows:

ENWL - Electricity North West Limited

NPG - Northern Powergrid

SPEN - Scottish Power Electricity Networks

SSEN - Scottish and Southern Electricity Networks

UKPN - UK Power Networks

WPD - Western Power Distribution

1. An open and transparent approach to business plans

1.1 Giving consumers a stronger voice

1.1.1 Stakeholder engagement

DNOs have undertaken extensive customer and stakeholder engagement programmes following Ofgem's RIIO-ED2 Enhanced Stakeholder Engagement Guidance⁴. All meet the criteria for establishing and providing resources, time, and staff contact to independent Customer Engagement Groups (CEGs). Engagement programmes are multi-phase, and some use innovative methods of meeting their goals and involving hard-to-reach, vulnerable, transient, future, and fuel poor customers. All DNOs meet goals for informing and consulting stakeholders and customers. Some companies also demonstrate greater ambition and include advanced strategies of involving and collaborating with stakeholders and customers through some genuine examples of co-creation. This is undertaken to varying degrees of success. It is evident that there is a golden thread from engagement to many of the commitments, but in some places this line of sight fails and sufficient evidence is not provided for proposals.

Ongoing engagement strategies for ED2 are comprehensive but require further scrutiny regarding their outputs and funding. Ofgem should review ongoing engagement strategies to ensure that proposed activities are proportionate and purposeful; that they are cost-effective and include consumers and customers where their voices will have a genuine impact during the ED2 period.

1.1.1.1 Plan presentation and coherence

Although the network companies delivered business plans consistent with Ofgem's 200-page recommendation, in reality this meant delivering plans with summary information alongside the production of multiple annexes containing the detailed information and data. This form of presentation caused difficulties in comparing plans (as each DNO used a different structure) and following the 'golden thread' within individual plans from detailed stakeholder engagement to

⁴ Ofgem, [RIIO-ED2 Enhanced Stakeholder Engagement Guidance](#), revised September 2021

the proposals. Undertaking this work often entailed referring to multiple documents at once. Presenting information in this manner is a clear risk to robust scrutiny. Information might be easily missed, and it simply isn't possible to give enough time and due consideration to all engagement evidence included in multiple documents.

Some DNOs have made clear efforts to guide the reader through their business plan and annexes. For example, UKPN's 'line of sight' documents made the experience simpler. However, for others, the use of annexes has obfuscated the 'golden thread', making justification for proposals harder to judge. For example, SPEN's Annex 3.2 on Consumer Research is only 5 pages long, contains no substantive information, and directs readers onto 2 much more sizable documents (Annex 3.2a at 176 pages and Annex 3.2b at 238 pages). These appear to be the mostly unedited reports from the research consultancy, and within these the reader is directed to further appendices for a full report – for example p133 of Annex 3.2a states "The full report can be found in Appendix 19 'Phase 2 reports'". However, this appendix appears to be unavailable. Further, DNOs seem to have missed information, perhaps due to the sheer number of documents and multiple places where similar information can be found. A further example comes from UKPN which refers to appendices A2, A4, A6, and A8 that are unavailable on their website.

One further example of presentation causing verification difficulty is the comparison of DNO stakeholder engagement figures, and also within some individual company's own documentation. All DNOs engaged large numbers of stakeholders, customers and consumers, showing a commitment to gathering a variety of opinions and garnering feedback on proposals. However, the presentation of this information varies between DNOs - making comparison difficult. In some cases, numbers differ between the business plan and annexes of individual companies (see Table 1 below) and we have been unable to see evidence within the plans to explain the differences in these figures.

For example, ENWL provides figures for sub-groupings of stakeholders in tables in both the business plan (p166) and Annex 30 (p4). There is no obvious total figure given, leaving the reader to arrive at totals which differ across these documents.

There are further differences in companies' definitions of 'stakeholders' and how this impacts the presentation of these figures. In WPD's Supplementary Annex 5, they state that the term 'stakeholders' includes bill paying customers, and in the business plan 'bill paying customer' interactions are also detailed separately at over 70,000 (p106), this latter number refers to insights from day-to-day

interactions with customers. It is not clear that NPG offers any differentiation between stakeholders and customers in its headline interaction figure. SSEN also takes this approach, but does differentiate between consumer and non-consumer in discussions in Appendix 3.1 (the definition on p8 states that 'the meaning will be clear from the context').

Finally, there are difficulties comparing SPEN's engagement figures with those of other DNOs as we cannot see evidence for the total number of customers or consumers engaged. As noted above, Annex 3.2 Consumer Research is an extremely short document which points to Annex 3.2a and Annex 3.2b as containing all the data on Consumer Research. Annex 3.2 would have been the ideal location for headline figures on engagement, and the information is not readily available in the dense supplementary annexes.

Table 1. Total Stakeholder and Customer Interactions

DNO	Customers	Stakeholders	Stakeholder Events
UKPN	>19,000 (BP) 16,146 (Annex 5)*	>3,000 (BP) 2,962 (Annex 5)*	Unknown
WPD	>70,000 (BP)** >12,473 (Annex 5)	>25,000 (BP) 25,000 (Annex 5)	280
NPG	63,700 (BP and Annex 3.3)		421
SSEN	25,181 (BP and Appendix 3.1)		150
SPEN	17520*** (BP)	1,654*** (BP)	175
ENWL	17,213 (BP and Annex 30)	4,136**** (BP) 4,146**** (Annex 30)	Unknown

* Figures arrived at from the total of relevant interactions from UKPN Appendix 5 p13-41.

***Refers to day-to-day interactions with customers from which insights were leveraged.*

**** Figure arrived at from total of customer/consumer numbers on p22 of SPEN Business plan.*

***** Figures arrived at from the total of sub-group numbers presented in ENWL Business Plan, Figure 64 (p166) and ENWL Annex 30, Table 1 (p4).*

Whilst it is too late to restructure the information in these business plans, we would strongly recommend that Ofgem carefully considers the examples given here in its own review and ensures that all required information is accounted for. Ofgem should ensure that the most effective presentation for business plans to maximize scrutiny, transparency, and comparability is in place for future price controls.

1.1.1.2 Justification and Evidence

The DNOs do draw from their extensive engagement programmes to provide evidence for their decisions and proposals, and the adoption of Social Return On Investment (SROI) by all DNOs is to be commended. However, evidencing proposals is not done uniformly well across DNOs, or even across individual companies' proposals. Justification and evidence for commitments is not always robust or clear in the business plan. Even where engagement strategies are otherwise reasonably comprehensive, there are examples of commitments that appear to be a decision taken despite evidence or with a lack of evidence.

For example, broadly, ENWL's Annex 1 delivers a golden thread from consumer and stakeholder research by clearly stating each proposition alongside findings from acceptance testing, willingness to pay research, the relevant insights from engagement events in each phase, and actions taken as a result of this. They also show evidence of benchmarking against other DNOs' draft business plans and making changes to their final plan as a result of this. However, there are places in this plan – as in all DNO plans, where evidence is weak or underdeveloped. For example, Ofgem could consider ENWL's use of evidence to justify a 60% target for PSR. The company started with a target of 80%, which was roundly supported by consumers and stakeholders including in acceptability testing (Annex 1, p82). However, following a MaxDiff survey ENWL dropped their target to 60% with an 80% stretch target, citing other priorities and benchmarking against other draft business plans which put them above WPD (at 40%). ENWL's engagement shows solid support for the higher target, and WPD has since increased their own target to 75% of total eligible customers (WPD BP,

p39). ENWL's 60% target is therefore too low based on their own engagement and benchmarking mechanisms. Ofgem could recommend a higher PSR commitment based on the company's own engagement evidence.

WPD has made efforts to achieve all levels of stakeholder engagement – inform, consult, involve, co-create, and negotiate – and Annex 2 and Annex 5 set out some clear links between stakeholder engagement insights and commitments/proposals. For example, p110-114 of Annex 2 sets out justifications for their higher PSR of 75% for all eligible customers (compared to 40% in their draft business plan) and 80% for those with critical medical needs. This includes updated data completed over Summer 2021. This is supported by information in Annex 5 (p127). However, it is unclear if customers were asked directly about the higher target in acceptance testing, or whether it was bundled into the broader plan for vulnerability.

Ofgem should review the evidence given in the instances presented here, and carefully consider the suitability and extent of all justifications made in support of proposals.

1.1.1.3 Involving stakeholders and customers through co-creation

A further area for consideration is the extent to which stakeholders were given the chance to fully input into the business plans early on, without any direction from the DNOs. All DNOs achieved this to some degree and WPD did this particularly well, undertaking open engagement with their stakeholders before optioneering in later phases. This avoids leading customers and stakeholders to predefined areas for work. This is good practice as it gives stakeholder and consumers a louder voice by allowing them space earlier on to help define priorities, and helps to avoid stakeholders initially being led by network companies.

SPEN undertook co-creation in the early Phase 0 of their programme and have extensively documented their triangulation process in supplementary annexes. However, we cannot identify evidence for consistent open engagement in the early stages; there is a lack of clarity in the business plan and Annex 3.1.

Therefore, it is possible that SPEN's plan may not fully reflect the priorities of customers and stakeholders. We recommend that Ofgem reviews the justification for proposals to ensure that each is supported by appropriate levels of engagement.

1.1.1.4 Reviewing technical material

Although the direct involvement of a range of stakeholders, including consumers, is laudable, the appropriateness of non-experts reviewing highly technical material can be questioned. For example, asking customers to comment on issues such as flexibility and load management, which require detailed knowledge, may produce unreliable results on which to base decisions.

There was a range of responses to this issue amongst companies. All DNOs acknowledge that customers had limited awareness of DNOs and their role. For example, SPEN states that “Flexibility and Demand Side Response were alien concepts to customers in general” (Annex 3.2a, p91), but there is no apparent evidence of methods used to explain these concepts to customers to produce reliable results. UKPN recorded the “suitability” of each stakeholder/customer group to respond to different topics areas, and this provides transparency of their approach.

Best practice is demonstrated by NPG, ENWL, and WPD who built a systematic approach to developing the expertise of customers. ENWL’s Plugged in Panel demonstrates an effective method to overcoming limited knowledge amongst current and future consumers. This method provided a deliberative forum for (broadly) the same group of customers to engage in the later 4 phases of ENWL’s programme. Accumulating 40 hours of discussion will develop consumers’ knowledge and create a group of ‘expert’ consumers who can, to a certain degree, respond confidently to more technical questions. Similarly, WPD and NPG established citizens’ panels of 96 and 50 members respectively, with the aim of building knowledgeable customers who fed back over a longer period of time. NPG also used this group to develop 12 ‘Energy Champions’ to support the communication of complex information. **The best practice, and innovation, demonstrated here gives an example of an approach that Ofgem may want to recommend to DNOs.**

As Citizens Advice has previously demonstrated, consumer research is an important and central part of engagement and planning. We have also previously noted, in response to the Competition and Markets Authority (CMA) review of PR19 settlement⁵, the difficulties inherent in establishing what robust engagement looks like due to the differences and lack of transparency around engagement activities and goals. We have further noted that, whilst consumer research is crucial to shaping responses to problems, it shouldn’t be the ultimate

⁵ Citizens Advice, [Redetermining water](#), July 2020

arbiter, especially where little technical knowledge is available. Such problems persist during ED2, and **we recommend that Ofgem carefully reviews the weighting given to each stakeholder and consumer segment and their suitability in their review of justifications for commitments and proposals, and considering the differences in knowledge needed for specific topics.**

1.1.1.5 Acceptability testing, and willingness to pay

Acceptability testing and willingness to pay are not always sufficient measures of customer satisfaction with a given proposal if used on their own. Methodological issues persist with these approaches, such as accuracy being heavily reliant on carefully worded questioning. This is illustrated by a question posed in SSEN's acceptability testing, although the company is transparent about the different figures. Initial testing in October 2021 gave a high acceptance score of 78% for their business plan. However, when asked to consider the plan again without reference to their own financial circumstances, participants returned a much higher 86% acceptance score (p9). In Annex 3.3, SSEN uses this statistic to illustrate affordability issues, but **it is also indicative of the importance of transparency around methodologies and question wording, and Ofgem should consider this in their review of the business plans.**

Whilst acceptability testing and willingness to pay research has a place in indicating a general opinion about a business plan, it should not be used as a sole justification – or as the main justification – for commitments or proposals. **Ofgem may also want to carefully consider the evidence from consumer engagement for WPD's CVPs. Although acceptability for all CVPs was high, at 81% (Annex 5, p176) some of the overall justification is weak. For example, the justification for the main benefit of CVP4 is solely reliant on willingness to pay figures.** See also our views on CVPs at 6.1.

1.1.2 Ongoing Engagement Strategies for ED2

The network companies have produced comprehensive plans for ongoing stakeholder engagement throughout ED2. Costings for these plans are, however, difficult to uncover as they generally are not transparently stated within business plan chapters on engagement or in separate ongoing engagement strategy annexes. Where figures are given, we have concerns regarding value for money and whether the scale of proposed engagement is proportionate. We are not aware of any incentives that encourage DNOs to amend their targets or proposals within the period, unlike the Stakeholder Engagement and Consumer Vulnerability (SECV) incentive in ED1. The scope and cost of ongoing

engagement plans therefore needs to be proportionate and focused in areas where feedback and scrutiny can be acted on by the DNOs and reflected in changes during the ED2 period.

ENWL's ongoing engagement strategy includes retaining its customer panels on vulnerability and sustainability and initiating a new DSO stakeholder panel.

While in principle such panels will provide benefits in the form of providing ongoing feedback to the DNO on vulnerability and shaping the DSO approach, we recommend that Ofgem carefully assess the costs.

The cost of the new DSO panel is not evident in the business plan, and we would argue that the incremental cost for the vulnerable customer panel is particularly high with regards to the benefits returned, at £2.5 million (p59). In terms of outcomes, ENWL describes "*strengthening consumers' voices in business decision-making, influencing investment, future policy, and customer benefits.*" This offers some indication of ways in which the engagement will be used by the DNO, but is only broadly described and provides no detail on the extent to which the panel will be engaged, and the extent to which this would lead to actionable changes in the delivery of the business plan.

SSEN proposes a similar method, but as part of the 'customer discovery' customer experience strategy and not defined under ongoing engagement, although some activities appear to fit engagement parameters. The customer discovery programme (costing £2 million) will research and respond to changing customer needs - and includes a customer focus group (costing £0.1 million) to be established for the duration of ED2 (business plan, p50). Again, it is unclear exactly what activities the customer discovery allowance will cover (both within the business plan and annex 4.1) and it is therefore not possible to comment on the appropriateness of this allowance. **Therefore we recommend that Ofgem uncovers the full extent of activities in order to verify both proportionality and value for money for customers.** These figures appear to be especially concerning given NPG's figure of £0.5 million per annum to deliver similar panels and an extensive programme of further engagement activities. We recommend scrutiny and comparison of both plans and proposed benefits, and the benchmarking of plans based on NPG's costing if it is found to be robust.

We further recommend that the funding of UKPN's and WPD's ongoing engagement strategies are scrutinised, given the difficulty with establishing total costs and funding within their business plans from the content we have seen.

UKPN states that they will deliver an annual cycle of vulnerability research and engagement, citizen panels, and a core team of engagement and research specialists with no incremental change to totex and included in the baseline, but no figures are readily available within the business

plan document. WPD also has a similar challenge, proposing deliberative engagement panels and an ambitious 300 positive outcomes from engagement per year (loosely defined), but again lacking in clarity on funding. SPEN focuses heavily on process and approach in its strategy. There are some mechanisms defined without detailed output or benefits, including proposed work with partners to identify hard-to-reach customers (that lacks outcomes they will deliver, when they will deliver them and how they will be measured) and a new online engagement tool. Again, there are no evident costs or funding plans ascribed to this within the ongoing engagement annex.

We note the enduring roles given CEGs or similar independent groups by NPG, SPEN, and WPD and accept the premise that the continuation of this level of scrutiny would benefit the implementation of plans. However, given that these bodies will exist alongside many other proposed stakeholder and customer groups with more specific remits, we also note the potential for duplication.

Therefore we suggest that Ofgem works with DNOs to ensure that scrutiny and accountability are achieved through the right structures and at a fair cost to consumers.

Remaining agile during the net zero transition will be crucial, and stakeholder and customer engagement will play a central role enabling DNOs to react to changes and challenges. A core question that Ofgem should consider when looking at future engagement strategies is whether ongoing engagement enables DNOs to adapt and respond to emerging issues and challenges and/or to proactively identify them. There is a balance to be struck between the cost of engagement activities and making sure that the voices of consumers and stakeholders are embedded in the transition. **Ofgem should ensure that ongoing engagement activities are cost-effective and proportional, and that the activity being undertaken will impact the aim of improving services and delivering net zero efficiently.**

2. Delivering value for money services for customers

2.1 Output mechanisms and proposals for bespoke outputs

The DNOs' commitments are frequently protected by outputs, such as common Price Control Deliverables (PCDs), licence obligations, or Output Delivery Incentive (ODI) mechanisms which involve penalties and rewards (ODI-F (Financial)). These mechanisms, when well calibrated, offer good protection for consumers in ensuring delivery, minimising spend through only allowing payment after delivery or through clawback of payments where there has been under-delivery. The final business plans reveal that many of the commitments are not protected by these common output mechanisms. Some are protected through bespoke measures, such as bespoke PCDs, which offer comfort that non- or under-delivery will have clawback of funding for consumers, and we welcome their use. However, many of the commitments are under the thresholds for bespoke outputs⁶ and have been protected with ODI-R mechanisms. While an ODI-R is better than no protection, they do not offer the same level of comfort for consumers that the other measures do.

We recommend that Ofgem considers whether some of the commitments that DNOs are proposing are similar enough so that they can be grouped under a common output measure. Proposals relating to community energy, whole systems, losses, and Sulfur Hexafluoride (SF6), may have universal applicability to be able to establish common output mechanisms.

In addition, it may be valuable for Ofgem to consider reducing the thresholds of the bespoke outputs to permit more commitments to be protected by stronger mechanisms, especially where they may be higher value or where there are new proposals for which a company may not have a track record of delivery. It may also be possible to group similar commitments on a topic by an individual company to allow them to come within a threshold for a bespoke output.

⁶ Ofgem, [ED2 Business Plan Guidance](#), p16: "The value of bespoke ODIs should be at least 0.25% and up to 1% of base revenue (ie the maximum reward or penalty available under a bespoke ODI should be at least 0.25% but not more than 1% of base revenue). Bespoke PCDs should have a value of at least £15m per project."

Alternatively, DNOs could commit to return funds voluntarily for commitments where delivery is not sufficiently achieved.

2.2 Meeting the needs of consumers and network users

2.2.1 Vulnerability Strategy

It is clear that all DNOs have spent a significant amount of time and effort in producing their vulnerability strategies and have sought to demonstrate how the commitments and actions relate to the 4 principles set out by Ofgem in the Sector Specific Methodology Decision (SSMD)⁷ and ED2 Business Plan Guidance⁸. All DNOs have also demonstrated how their plans build on the progress made in ED1 and it's clear that many commitments seek to simply extend the scope or volumes of activity achieved. This is particularly true for commitments which aim to deliver advice and interventions to support those in or at risk of fuel poverty. The strategies also demonstrate a more advanced understanding of consumer vulnerability compared to ED1.

The content we have seen suggests that the minimum standards set by Ofgem have worked effectively to ensure that there is a base level of consistency in the types of activity proposed by DNOs, covering all 4 principles. This means that as a minimum the plans do not appear to lose any of the best practice achieved in ED1 but instead set the best practice as the new minimum.

DNOs also demonstrate the willingness to expand on this new minimum and have identified a range of new actions that they can take in their vulnerability strategies to support customers, as well as expanding the scope of existing actions. We believe that some of these have evidence showing customer and stakeholder support, that they would deliver positive outcomes, and provide good value for money to customers. However, we have also seen many instances where new areas of activity like supporting customers in the energy transition is at risk of extending the role of DNOs into areas where they are not necessarily best-placed, and some commitments do not adequately demonstrate why the DNO is best-placed to carry out or fund these activities at the scale proposed.

⁷ Ofgem, [RIIO-ED2 Sector Specific Methodology Decision](#), December 2020

⁸ Ofgem, [RIIO-ED2 Business Plan Guidance](#), revised September 2021

We have seen the scope of activities, including those related to alleviating fuel poverty, increase in spending by 3 or 4 times compared to the level seen in ED1. In some instances there is evidence that supports an increase and they typically receive positive support from stakeholders and customers. However, we are concerned that DNOs in some cases are pushing the boundary of the DNO role. There is also a risk that if Ofgem accepts proposals with significantly increased volumes without considering the wider implications and context, this 'scope creep' could become the new baseline. Evidence in a number of business plans seems to suggest that, for fuel poverty support and other activities, there is a willingness to increase support significantly, with little appetite to remove, reduce, or even maintain the current levels of support. It is true that fuel poverty is likely to be increasing both as a result of the Covid-19 pandemic as well as the current cost of living crisis. There is therefore a clear and significant consumer need for support and advice services. As we indicate at the start of this response, we believe that there is a need for a nationally coordinated and funded approach, including the provision of energy advice to ensure consumers are receiving high quality and consistent information for their needs. In many instances we do not believe that DNOs are best-placed to deliver commitments in this area, however where a clear gap has been identified and this has clear supporting evidence, it may be justified to continue funding DNOs to deliver at an appropriate level. However, we think that Ofgem and DNOs should ensure plans and contracts are drawn to accommodate any future changes should a coordinated strategy come forward.

Ofgem should also be mindful of the following:

Whether the extreme differences in scope and outputs between DNOs are adequately explained by the supporting evidence. The volumes of customers supported with direct fuel poverty interventions appear to range from around 80,000 customers (SPEN) to 500,000 customers (UKPN). The volumes presented in business plans also reveal that the reach in each DNO area as a proportion of the number of customers in fuel poverty ranges between 6% or 12.9% (SPEN)⁹ and 100% (ENWL). Others (UKPN) are at around 51% and some are particularly targeted such as NPG at a rate of 25% of those in extreme fuel poverty. We acknowledge that the calculation of fuel poverty differs between Scotland, England and Wales and that figures are not directly comparable. Fuel poverty rates have also not been presented by all DNOs. However, we nevertheless think that the variation in targets is material and would not be explained by this factor.

⁹ Depending on which activities are counted

We have also seen significant variation in the benefits associated with these services for example ENWL suggest an SROI of £5.81 for every £1 spent while UKPN state an SROI of £0.60 for their CVP. WPD cite a higher figure of £6.23 though we're unable to disaggregate these benefits from those arising from their Energy Affordability competition. We also note that some DNOs, such as WPD, have used figures observed from ED1 while others may be more reliant on proxies. While these proposals may not be directly equivalent, we are concerned by the extent to which these figures differ and cannot see that they are adequately explained. We believe that this reduces the confidence that Ofgem ought to have when accepting and rejecting proposals, especially where these have links to rewards. Ofgem should also particularly interrogate where DNOs use 'customer' or 'households' when reporting volumes.

We are concerned that it's unlikely that the extreme variation in these targets can be explained by either geographical differences or the preferences of customers and stakeholders. In a number of instances we are concerned that these differences may be as a result of the stakeholder engagement methodologies used by DNOs, particularly where effective and open optioneering is not evident. From the evidence we have seen, WPD appears to have most clearly demonstrated the open optioneering process and the target proposed in this area. **We recommend that Ofgem uses those proposals with the best evidence and justification as a benchmark for making decisions about the commitments of all DNOs to reflect the varying levels of confidence that Ofgem can have in proposals with poorer evidence and justification.**

The impact and precedent this could set for future price controls. If Ofgem accepts particularly high targets which significantly exceed ED1 spend and performance by many times, there is a risk that in future price controls this becomes the new baseline and targets proliferate upwards. We are already concerned that many of these targets and the differences between them are not well justified, and **recommend that Ofgem should take a cautious and proportionate approach, particularly considering the longer term impact.**

2.2.1.1 Assessment, evidence and comparability

Although improvements have been made in the presentation of vulnerability actions in ED2 business plans compared to GD2, we still have a number of concerns including many which have been unresolved since draft plans.

Despite Ofgem updating the business plan guidance to improve the presentation of plans since the submission of draft plans, we have still found

that no single document provides adequately complete information about vulnerability commitments. For all DNOs we have had to assess: the main business plan document; the vulnerability strategy; CVP annexes; and at least 1 or 2 (in the case of SPEN) further customer and stakeholder engagement annexes in order to understand:

- The proposal and detail of implementation
- Costs
- The outcomes and benefits to consumers
- How success will be measured
- The qualitative and quantitative engagement that led to the particular commitment
- ED1 performance
- Whether the DNO considers the proposal to meet or exceed minimum requirements

We found triangulating up to 5 different documents per company challenging. Although it was the second longest consumer vulnerability strategy at 76 pages, we consider that WPD presented this information most clearly and completely.

Although the information may be provided directly to Ofgem via the Business Plan template, we also found that information about costs has not been presented consistently making it impossible to assess all DNOs' plans in a fair or comparative way. In particular, ENWL, NPG and SPEN often present 'incremental' or 'increased' costs of commitments compared to ED1, providing only a relative cost rather than an absolute cost. We welcomed the clear cost presentation from SSEN and WPD. While UKPN cost information is clear in parts, for many commitments "no increased spend" is listed which does not provide stakeholders any information on which to make an assessment of cost/benefit.

The introduction and use of the new SROI tool is very welcome in presenting some information in a consistent and comparable way. However, in the absence of this being mandated for use for all commitments, we note that this has typically only been used for CVPs. We also note that in some instances DNOs have used their own ED1 benchmarking figures instead of the SROI proxy bank. This materially impacts the comparability of the projects in terms of their value for money to consumers and significantly risks CVP rewards not necessarily being commensurate or consistent in their application between DNOs, based on the proposed CVP methodology. An array of SROI values have also been used with some DNOs presenting clear cost, GPV, NPV and SROI value per £1 spent (WPD) while others have presented only some of these.

We are also disappointed that to some extent all DNOs have still presented cost and benefit information based on bundled commitments despite this issue being raised following the publication of draft plans. While this information may have been provided to Ofgem in data tables, it makes it impossible for stakeholders to compare information for many commitments, restricting us and other stakeholders from being able to provide scrutiny.

We have also observed that some DNOs do not appear to have clearly demonstrated how they have met all of the minimum requirements under stage 1 of the BPI as set out in paragraph 3.10 of the Business Plan Guidance¹⁰. This specifies 7 minimum requirements including:

- Include deliverables which are **specific, time bound and relevant**. A company must indicate if in their view **a deliverable exceeds the baseline expectations** and whether it will require additional funding. Whether the DNO is funded for a deliverable will be relevant for the ex post assessment under the ODI.
- Propose relevant **performance measures** which will enable stakeholders and Ofgem to evaluate the DNO's progress in delivering its Vulnerability Strategy and associated outcomes... We would expect the DNO to make it clear how the performance measure is relevant to the baseline expectation(s), how the performance measure is calculated and **why it is the appropriate measure of success**.

From the information we have been able to review we believe that a number of commitments made in the final business plans do not have 'specific' or 'time bound' deliverables as required. Some commitments, particularly those that provide particular funds available to partners, communities, charities and others, do not provide enough detail on what outcomes they will deliver, when they will deliver them and how they will be measured. There is a risk that these proposals, if accepted, could act as a blank cheque without adequate oversight that the money is being spent efficiently, effectively and delivering value for consumers. We have observed this issue with SPEN's ring-fencing of the Net Zero Fund, SSEN's £1 million partnership fund and ENWL's Annual Innovation Fund and Utilities Together proposal which has an incremental cost of £1 million, though a different cost is provided in an annex¹¹. We have other concerns with other 'fund' proposals which we discuss elsewhere in this chapter.

¹⁰Ofgem, [RIIO-ED2 Business Plan Guidance](#). September 2021 - paragraph 3.10, pg 16

¹¹ Utilities Together is reported as a 5-year total cost of £61,465.15 on page 70 of ENWL Annex 1 - Customer Research findings, WTP and Triangulation and as an incremental cost of £1m on page 57 of their business plan

We also believe that some DNOs have not clearly indicated *“if in their view a deliverable exceeds the baseline expectations”* in the documents published publicly. We see clear evidence that NPG and WPD have indicated where they believe they have exceeded baseline expectations. SPEN provides a series of tables which may meet this requirement and while SSEN provides an evidence table it does not explicitly state where minimums have been exceeded. We have been unable to see any clear evidence from either ENWL or UKPN in the documents published online and we believe this requires scrutiny from Ofgem¹².

Justification for the proposals in DNO vulnerability strategies is mixed. We have seen clear evidence of how commitments and targets have been concluded following a process with customers and stakeholders which started with a blank sheet of paper, allowing co-creation to develop proposals and subsequently optioneering to arrive at particular volumes. This has been most clear among WPD, UKPN and SSEN. In other plans, the justification appears to rely on acceptability testing of DNO proposals with little evidence of optioneering.

Where plans have not enabled participants reasonable optioneering, we have seen evidence where acceptability of a DNO-proposed target has been tested only against a counterfactual of not doing the activity at all or doing it at the same level as ED1. **We do not believe that commitments reliant on this level of justification are robust enough to be accepted in their current form by Ofgem as they may not reveal the most accurate preferences.**

2.2.1.2 Have DNOs demonstrated they are best-placed?

We are aware that Ofgem has encouraged DNOs to improve their justification of why they are best-placed to carry out an activity. We have seen some improvement on this with ENWL stating their views most clearly. However, among all DNOs there is often inadequate evidence, particularly for commitments related to advice provision. Some examples of this include:

- SSEN’s proposal to employ staff to upskill 35,000 digitally excluded customers. We have not seen evidence suggesting why SSEN is best-placed to undertake this work internally though we accept there is a need.
- SSEN also proposes to train 30 employees with City and Guild energy efficiency courses to enable improved in-house advice provision and referrals. While we accept that this may better enable SSEN staff to

¹² While we understand that DNOs may have submitted further annexes directly to Ofgem to satisfy these requirements, it is important that such information is also available for external scrutiny.

provide advice directly to customers and improve referrals, these courses would likely overlap with the training and advice delivered by third sector advice organisations so we could not clearly identify that SSEN were best placed to fulfill this commitment.

- SSEN proposes, since the draft plans, to provide education on energy usage, energy efficiency and low carbon technology to children, in addition to workshops with adults with learning difficulties. Neither proposal has a clear or direct line of justification from engagement, nor explanation of why SSEN is best-placed to deliver this.
- In response to challenge from WPD's CEG they suggest that their ability to maximise benefits makes WPD best-placed to deliver. While there may be value added by WPD (and other DNOs) we have not found that this is clearly identified in evidence. For example, the additional value of DNO involvement would be revealed if the counterfactual was partners receiving equivalent funding from another source.
- WPD's CVP on installing solar PV on schools suggests they are best-placed due to technical expertise to effectively deliver the installation. While this may be true, we have not seen evidence suggesting DNOs have more expertise on installing solar PV than other commercial players.
- ENWL acknowledges the issue and asked customers and stakeholders who is best-placed. They suggest that the importance of the issue, lack of other systematic support, and willingness to pay indicates that they are best-placed across a range of commitments. We are concerned that this may not meet the high bar that Ofgem should set on demonstrating whether the DNO is best-placed to undertake an activity.
- NPG's fuel poverty and affordability support is primarily a commitment to provide energy and income advice. They suggest they are best-placed as stakeholders see them as impartial and therefore able to offer independent energy efficiency advice. However, we can see no evidence that suggests NPG would be delivering advice directly itself and while referrals may be an element of this, on balance we do not believe this is adequate evidence.
- SPEN's LCT advice proposal, which includes operating an advice line to customers on the costs and available funding of new technologies, is supported by evidence that customers see them as a trusted advisor and can provide reliable impartial information. There are other organisations who do already provide this support and although we accept there is potentially an unmet need, we do not see clear evidence in this case, and in others, that DNOs are best-placed to establish in-house services to advise consumers of the best technological solutions for their energy

needs. We note that other DNOs propose partnerships with trusted intermediaries as described in UKPN's commitment.

- An associated SPEN proposal would deliver similar low carbon technology and energy saving advice to businesses (B2B). While it receives strong support from commercial customers, we are concerned that the service would replicate the business to business services that already exist to save energy and provide advice. Engagement indicated that SPEN's 'expert' position makes them well placed but again we question whether this outweighs the impact of SPEN entering an existing competitive market, though we understand that the low cost would be attractive to businesses.

We note that UKPN acknowledges the issue of who is best-placed and the cost implications of this for customers and attempts to address the issue. They propose one activity which is wholly shareholder funded (social fund on energy transition¹³) and one partly shareholder funded activity (fuel poverty CVP). We also acknowledge the following wholly shareholder funded proposals¹⁴ though we did not see that they were proposed in response to this particular issue:

- WPD - Community Matters Fund and Solar PV proposal for schools
- SSEN - Powering Communities to Net Zero Fund

Although funding commitments from shareholders does not in itself answer the question of who is best-placed, it clearly reduces the cost implications for customers notwithstanding the staff time and management focus required to achieve positive outcomes.

In draft determinations Ofgem should challenge DNOs again on the following questions:

- Is the DNO best-placed to deliver this type of proposal?
- Is the DNO best-placed to deliver this proposal in this particular way?
- Is the delivery of the proposal aligned to the DNO's core role?
- Is the DNO best-placed to deliver the scope and scale of the proposal?

Ofgem should set a high bar for this evidence and where it's not met, reject or scale down commitments. Where DNOs cannot fully address these questions but deem that there is a clear need or gap in provision, for example with energy system transition advice, we expect Ofgem to implement an

¹³ Largely administered through UKPN foundation

¹⁴ We did not identify shareholder funded proposals in relation to addressing consumer vulnerability in the plans of ENW, NPG and SPEN.

approach similar to that taken by UKPN in their final business plan¹⁵, though expressed more strongly in their draft business plan. This would result in DNOs only carrying out activities until the service can be handed to an independent trusted party.

Ofgem has a significant challenge in its draft determinations. Half of DNOs have proposed shareholder funded activities on vulnerability while the other half have not. It should also be noted that among DNOs without shareholder funded proposals, we have not identified evidence to understand if such an option was developed or tested with customers and stakeholders. If all proposals are accepted in their current form, the postcode lottery would result in customers in some areas paying for a particular service while customers in another area get a similar service but without paying for it directly through the price control. **Ofgem should use the draft determinations as an opportunity to highlight the best practices and offer DNOs the opportunity to make further changes to their plans.**

2.2.1.3 Consumer Value Propositions (CVPs)

We have identified 10 CVPs in total related directly to consumer vulnerability. In summary we have not been convinced that any of the CVP proposals are overwhelmingly justified though some are marginal. We have found that proposals typically fall short in at least one of the following ways:

- Do not adequately demonstrate that as a whole it is significantly beyond business as usual (BAU)
- Materially overlap with other DNO(s) proposals which are not CVPs
- Do not provide adequate levels of detail or assurance on the costs and assumed outcomes to have confidence in the benefits for consumers or the justification of providing reward
- Could be considered corporate social responsibility

However, we do think that with improvement and clarification, some of the more marginal proposals in final business plans could have demonstrated additional value to consumers and been accepted by Ofgem.

The CVP component of the price control incentivises DNOs to develop and present complete and valuable proposals which meet Ofgem's minimum requirements in their final business plans. We would therefore question whether it would be justified and in the spirit of the incentive to provide rewards to DNOs

¹⁵ UKPN, [Final Business Plan](#), December 2021, page 61

in instances where they have been required by Ofgem to alter or clarify CVPs in advance of, or following, draft determinations.

Our thoughts on the overall CVP incentive mechanism are covered in the CVP section at 6.1 and we cover each CVP related to consumer vulnerability strategies below.

Low voltage (LV) voltage control

We have addressed below specific points regarding the CVPs proposed by companies. We would note, however, that there may be merits to using voltage control measures across all DNOs if they can demonstrate good value for money through direct energy bill savings and reduced network costs. We would ask Ofgem to consider for baseline funding those projects that have demonstrable value and clear justification if they are otherwise rejected under CVP criteria.

ENWL - Smart Street

We are aware that Smart Street is already underway in ED1 and we have not identified any evidence that clearly indicates how the proposal for ED2 is materially different, except that it intends to reach a greater number of customers (250,000) and is more targeted. We are therefore not convinced that this represents an activity that is significantly beyond BAU. While we commend ENWL for seeking to find technological solutions to reduce energy bills in a way that we agree aligns with the core DNO role, we are concerned by the cost and assumed benefits. At £78 million this CVP is the single most expensive proposal in all the vulnerability strategies by a factor of about 5¹⁶. It aims to achieve average annual energy bill savings of around £58, however ENWL also states that the direct customer benefit after accounting for the 45 year repayment of assets results in direct customer benefits to the 250,000 customers of £39.11 on average once the assets are installed¹⁷. While the quantified benefits to customers are set out clearly, we have not seen quantified evidence that benefits would also arise in creating capacity on the network though this benefit is claimed.

The high costs, the 45 year payback period for assets, and the level of benefits to customers, mean that this CVP has a negative SROI of £-0.28 for every £1 spent across ED2, with a positive SROI of £0.74 occurring only after 10 years.

¹⁶ Though £78 million is also described as an annual cost on page 6 of ENWL's vulnerability strategy (Annex 8a) but we assume that this is an error.

¹⁷ ENWL Annex 1, Page 272 - customer research findings, WTP and triangulation

We do not think that the evidence demonstrates that the costs and benefits are overwhelmingly good value to consumers over this 10 year period. We are also aware that this CVP is a comparator to a similar proposal from NPG which utilises data instead of network assets. While NPG's achieves more modest average bill savings of around £20 per year it does so at a cost of £7.9 million. It is also estimated to benefit 1.17 million customers by the end of ED2. In other words it achieves 34% of the benefits for a larger group of customers but for around 10% of the cost, resulting in a positive SROI of £2.11 in ED2. While we still have some concerns about NPG's proposal (more information below) we nevertheless believe that it sets a potentially more efficient and effective benchmark for this type of voltage turndown proposal. While we have concerns about this CVP and the justification for reward, the costs and benefits in comparison to NPG's proposal also raise concerns more generally and Ofgem should only approve proposals which achieve the best value for money for consumers.

NPG - Voltage turndown project

As noted above, we consider this proposal to have similarities with ENWL's Smart Street. Although they aim to achieve similar outcomes for customers, NPG's intends to do so using significant volumes of data and existing assets, while Smart Street requires new network assets. This achieves less individual savings per customer but reaches around 4 times as many customers, and at a significantly lower overall cost¹⁸.

We welcome NPG's effort to improve on an existing solution and attempt to make it more efficient. For that reason it appears to be genuinely innovative. However, the proposal does appear to have a number of risks which could affect deliverability.

Firstly, the CVP does not appear to be based on a proven solution. Following innovation trials NPG plans to roll this proposal out from 2025. However there is a risk that innovation trials may not support further rollout or evidence will deviate from the costs and benefits which have been assumed in the CVP proposal.

Secondly, it is stated that benefits are based on current load, not future load where heat pumps and EV households may not benefit in the same way. As the proposal aims to target fuel poor areas first but then roll out to up to 80% of all

¹⁸Bill savings of around £20 per year at a cost of £7.9 million, benefitting 1.17 million customers by the end of ED2. Compared to ENWL's Smart Street this achieves 34% of the individual benefits for 4 times as many customers at 10% of the cost, resulting in a positive SROI of £2.11 in ED2.

customers, some benefits may not be realised in areas with higher uptake of heat pumps and EVs.

Thirdly, NPG also states that to be successful, a majority of customers will need to have smart meters but we have not identified evidence of what confidence NPG has in the progress of smart meter rollout in their area during ED2. Like ENWL, NPG has also been unable to accurately quantify other network benefits such as increasing available capacity though it assumed such benefits would occur.

NPG proposes that the CVP clawback is based on the proportion of customers not delivered to. While we have concerns about the CVP reward assumptions made by DNOs (covered later in chapter 6.1), if Ofgem were to accept this CVP, clawback should also be tied to the level of benefits to customers, given the potential risks and uncertainty associated with this.

NPG - All in one application

While we welcome NPG's intent to provide more accessible communication channels and provide advice and network information to customers, we have been unable to identify evidence that the proposal delivers any outcomes that differ from the services provided via applications already provided by other DNOs in ED1. We were also unable to identify evidence that NPG had assessed best practice among the DNOs. It may be the case that no single application from a DNO provides all the proposed services but we observed the following:

- WPD's power cut reporter appears to go the furthest, already providing customers with voice control, web chat with their contact centre, proactive notifications of power cuts, including to family, and a power cut alarm feature
- SSEN already have a 'Powertrack' app which provides network information and propose an online self serve in ED2 which replicate areas of NPG's proposal but is not proposed as a CVP

Although the app received good support during engagement, we did note that some evidence provided about the likely uptake of the app among customers was based on an online survey (and therefore more likely to be digitally engaged), potentially skewing the likely uptake which NPG assume will be 75,000 downloads and use per year. While NPG seeks to address this by suggesting 70% of the CVP reward is based on uptake of the app, overall we have not been convinced that the proposal meets Ofgem's minimum requirements to be accepted as a CVP, primarily due to its material overlap with existing apps.

SPEN - Innovative technological solutions to reduce energy bills

We note that SPEN has only submitted 1 CVP to Ofgem regarding consumer vulnerability, however it contains 2 very different proposals - 1 to reduce energy bills and 1 to promote smart meters. We are providing views on the components separately. We also assume that if Ofgem chooses to reject either component of the CVP, then the CVP as a whole would be rejected.

SPEN's proposal aims to reduce customers' energy bills, particularly for those in or at risk of fuel poverty. However, unlike ENWL's and NPG's CVPs, SPEN appears to be proposing the use of a technology behind the meter, extending their role into customers' homes. This role may be one that SPEN are reasonably well placed to carry out and we note that it has a positive SROI of £0.60 for every £1 spent and a NPV of £6.4 million on the £12.2 million spend. We also note that the savings for customers are estimated to be at least £100 per year for the 40,000 customers they aim to reach. However, we have concerns about the deliverability of this proposal and some of the underlying assumptions made.

We have found that the technology and how it reduces customers' bills is not clearly specified across the documents it is referenced in:

- Page 51 of the strategy indicates that an example of the technology would be demand side management, installing in-home devices to turn down heating by very small amounts for short periods of time to positively impact the customers overall consumption.
- In annex 5C.2 page 13 the objective is described as lowering and optimising electricity consumption without sacrificing customer comfort i.e. heating.
- Elsewhere the technology is described as "reducing demand and enabling the household to respond to pricing signals on the market" resulting in "lower carbon emissions and unlocking capacity on the system" (Annex 5C.2 p13).

It is therefore unclear whether the technology is intended to switch off heating and/or appliances, whether it would potentially risk customer comfort, or whether it would only be responding to pricing signals on the market. The implications of this last point are significant as we assume that customers can only respond to price signals if they are on a time of use (ToU) tariff. We have not identified any information which suggests whether the fuel poor customers this CVP intends to reach must already have a ToU tariff or would be required to switch to such a tariff. If this is the case, it would be necessary to consider the

negative impacts as well as the positives of some customers moving to ToU tariffs who may already be underusing energy and may have inflexible demand.

While the proposal does appear to have reasonable customer and stakeholder support it is also in conflict with SPEN customer engagement evidence which states that customers “want control and flexibility over when they use their energy, particularly when they cook, use central heating, hot water and appliances”¹⁹. It is unclear how SPEN has balanced these conflicting preferences.

As we have been unable to identify clear information about the technology that would be used and the expected experience of SPEN’s customers to deliver the assumed benefits, we do not think Ofgem can have an adequate level of confidence to reward this proposal. If Ofgem were to approve, the clawback mechanism would need to extend beyond the number of customers reached to also include whether the benefits have been realised and outweighed any associated costs and risks. We also have concerns regarding whether DNOs should be undertaking behind the meter roles as this activity may raise issues about the ability of third parties to compete with DNOs. **Ofgem should consider closely any competition issues relating to this proposed CVP.**

SPEN - Supporting the smart meter rollout

We agree with SPEN’s problem statement that some customers may not be aware of, or clear about, the benefits of smart meters and that the particularly hard to reach groups they have identified²⁰ could be missed in the smart meter rollout. However, as the promotion and rollout is already the responsibility of Smart Energy GB and energy suppliers, we have not seen convincing evidence from SPEN that they are well placed or an appropriate body to fund promotion and awareness campaigns to customers. In particular, SPEN’s proposal does not appear to capitalise on existing consumer touchpoints in the way that is proposed under WPD’s Smart Energy Action Plans CVP. Furthermore, the proposal requires the establishment of a new and dedicated team to identify these customers and deliver the awareness via local partners.

We also have concerns with the modelled benefits. We welcome SPEN’s effort to identify the network avoided costs of 136,000 additional smart meters on their network. This contributes 3.87% of the total benefits. However, 56.5% of the total benefits²¹ are assumed to arise from “reduced stress during an outage”.

¹⁹ SPEN, Annex 3.2a, page 20

²⁰ Off the gas grid, digitally excluded, fuel poor, 18-24s, those with low qualifications

²¹ £1,715,498 - Calculated from the figures in SPEN, Annex 5C.2, page 52/53 paragraph 4.8

Elsewhere an explanation is provided that this benefit arises because DNOs can monitor the issue and take action. We were unable to identify whether the action described is preventative or in response to a power interruption and are concerned that Ofgem may not be able to have complete confidence in these figures. As such this could undermine the majority of the benefits to customers.

SSEN - Personal Resilience Plans (PRP)

This proposal contains 2 main elements:

- Utilising a mixture of proactive contact and existing processes during the sign up and data cleansing of PSR data to provide information to customers on what they should do in a power cut.
- Providing £300 vouchers for batteries to 21,000 customers in their PSR1+ category who are medically dependent on electricity. We note that the concept of using vouchers could only be identified in the customer engagement section of the vulnerability strategy and in the CVP annex. The battery would provide back-up power to ensure customers can continue to use medical equipment in the event of an interruption and the costs represent around 90% of the total cost of this CVP.

We believe that there is good evidence that the battery provision element of the CVP may go above BAU, would have a positive impact for those customers supported, and has reasonable overall support during engagement. However, we do think more evidence could have been provided to demonstrate the customer need. For example, 30% of customers who might be eligible indicated that they would be interested in this support²² and during a trial among a number of customers, one user indicated that the battery was valuable due to it lasting more than 6 hours which is 4 hours longer than NHS provided batteries²³. SSEN also states that when domestic customers, some of whom were medically dependent and had experienced supply interruptions, were asked about the overall PRP proposal, they indicated support. While this evidence is useful it does not appear to go far enough to demonstrate why a target of 21,000 is the most appropriate target. The evidence also does not explore or mitigate any likely crossover there may be with NHS provision.

The justification provided for the information provision element of this CVP does not appear to indicate clearly that it is above BAU. We highlighted in draft plans that it was not clear to see how the information element of the proposal differed significantly from existing provision among DNOs. In addressing our particular

²² SSEN, CVP Annex, p39

²³ SSEN, CVP Annex, p117

feedback²⁴, SSEN states that in final plans they have expanded this element of the CVP to reach all PSR customers and have engaged with stakeholders on how to further tailor the plans and that this will be refined further subject to the CVP being accepted. We have found that this response and the evidence provided still do not adequately demonstrate how the service offering differs from existing BAU services among DNOs. SSEN's vulnerability strategy sets out the following information to describe their own current service²⁵:

"All newly registered customers on the PSR will receive a wide range of information on how to contact us, what to do in a power cut, how to prepare for a power cut, detailing our password scheme and, for those in our PSR1+ category, a handy torch and a magnetic thermometer card both showing the 105 number".

As DNOs will be aware of needs codes at the point of sign up, we would question why the information provided to customers is not already tailored to their needs and why through current data cleansing processes existing customer needs are not also addressed in this way.

Some evidence also appears to not provide clear support for SSEN's proposal. In a survey of domestic customers, 7/10 said the phone call proposed would be unnecessary and preferred contact was by post though we note this survey was with all customers and was not specific to PSR customers. This does nevertheless highlight the extent to which this information can reveal the preferences of those it is intended to reach. Engagement showed fairly low levels of support for the items SSEN proposed to discuss with customers. We note that SSEN engaged with employees on potential materials which we think is a welcome step in utilising employee experience. In July 2021 we note employees indicated that the materials they were presented with were "basic" and we would have liked to see whether later iterations received greater support.

Due to potential crossover with SSEN's services and those of other DNOs, Ofgem should conduct a review of existing services provided to PSR customers and the extent to which they already are or should be tailored. We believe a CVP reward would only be justified if the service is significantly beyond BAU and is not just incremental improvement or levelling up. As indicated earlier, as this CVP contains 2 separate elements, we would assume that rejection of one part of the CVP would lead to rejection of the CVP as a whole.

²⁴ SSEN, CVP Annex, p112

²⁵ SSEN, Annex 4.2, p28

UKPN - Fuel poverty support

UKPN proposes to reach 500,000 customers. 200,000 would be direct and 300,000 would be via regional collaboration programmes. The commitment also states that 800,000 customers would be reached per year via partners with physical or digital leaflets as well as verbal advice. UKPN intends to fund the £18 million total cost with £9 million funded through the CVP and £9 million from shareholders. It is not clear to us whether the £9million shareholder funding is contingent on the CVP funding or not, and what would happen if Ofgem rejects the CVP.

We have not identified any evidence that suggests the actions or outcomes that would be achieved by this proposal differ from fuel poverty support and advice provided in ED1. Instead, we assume that the CVP is based on the significantly increased scale by reaching at least 500,000 customers in ED2 and because half of the overall funding is provided by shareholders.

We welcome the fact that UKPN has proposed this scale of shareholder funding in response to the conflicting views of stakeholders of meeting customer need without passing all of these costs onto consumers.

However, overall we found this proposal difficult to understand. We could not identify a clear difference between the services for the 200,000 customers, 300,000 customers, and 800,000 customers described, nor where there is overlap or risk of duplication. We have seen evidence suggesting that in depth support would be offered only after a home visit though it is not clear whether UKPN are proposing 500,000 home visits.

We have also been unable to clearly identify the costs of each of the 3 areas of provision. In the CVP annex, UKPN states²⁶:

- *"We propose investing £18m in our business plan to support over 200,000 customers".*
- *"To achieve our portion of the 200,000 we propose investing £9m of our shareholders money to support over 100,000 customers directly and propose a further £9m funded by customers under this CVP to support the remaining 100,000".*
- *They also state that they will "coordinate an additional 300,000 through regional collaboration programmes. Additionally, through our partnerships we will directly provide fuel poverty information to 800,000 customers each year."*

²⁶ UKPN, Appendix 7 CVP details, page 5

While it is clear how the delivery of a volume of 200,000 is funded, we cannot clearly identify the costs of delivering to the additional 300,000 customers and 800,000 customers and where the funding is sourced from. It is also therefore unclear what is and is not attributable to UKPN. The benefits are similarly difficult to identify.

As we discuss earlier in this response, Ofgem should carefully consider what scale of activity is appropriate to be funded and delivered by DNOs with our preference for a more coordinated funding approach for energy advice. While we welcome the significant funding contribution from shareholders, it is not clear whether it is appropriate to provide rewards. We also think it is unclear from the evidence provided whether it meets the minimum requirements set by Ofgem and at this stage **we do not think Ofgem can justify accepting this CVP.**

WPD - Smart energy action plans

This proposal is supported by clear evidence of stakeholder support. It appears to be aligned with the core DNO role as it only utilises existing customer touchpoints during the PSR data cleanse process. The target to reach 3 million customers is well justified based on WPD's existing support and there is evidence of clear optioneering during engagement processes. However, we do note that WPD expects only 4% (120,000 customers) to benefit from the smart energy action plans as a result of taking a subsequent action with these customers benefiting by an average of £59.17.

There is evidence provided that suggests 77% of stakeholders think they are best placed to carry out this activity, though the in-house delivery of this type of advice is clearly an extension of the role of a DNO. They do provide evidence that shows that WPD did consider outsourcing the delivery but this was rejected on cost grounds²⁷. **While this proposal relating to low carbon technology appears to be most closely aligned to the core DNO role and makes best use of existing consumer touchpoints, Ofgem needs to consider the implications of extending the DNO role in this way.**

WPD - Community Matters Support Fund

While we welcome this shareholder funding from WPD, we do not believe that it is in consumers' interests to fund rewards for what appears to be corporate social responsibility. As WPD cannot predict what projects would be funded, though do attempt to quantify the benefits based on previous funds, we do not

²⁷ WPD, Annex 2a - Commitments justifications, page 52, row G

think this provides a level of confidence in the costs and benefits that can be used to derive a CVP reward. As WPD already has a fund of this nature, it is also unclear that it meets Ofgem's CVP requirements other than being shareholder funded.

WPD - Solar PV on schools

While we welcome this shareholder funding from WPD, we do not believe that it is in consumers' interests to fund rewards for what appears to predominantly be corporate social responsibility. We acknowledge that WPD have refined this proposal since draft plans to provide solar PV only to schools as they believe the impact would be increased through the educational addition. In choosing to target schools in areas of high deprivation, WPD states that the proposal benefits customers who could be at risk of falling behind in the energy system transition though we did not see any evidence to support this. It is also unclear whether WPD is suggesting that schools as a customer base could be left behind or whether WPD is inferring this to the wider community of schools.

Lastly, we are concerned that a CVP reward could not be accurately and confidently derived from the benefits stated. WPD state that the proposal would deliver £20.4 million in social value and has an SROI of £8.98 per £1 spent though this appears to be largely derived from willingness to pay research²⁸. However, there is also evidence suggesting schools could save around £1,000 a year on energy.

2.2.1.4 Incentive need and design

Having reviewed all DNOs' business plans, vulnerability strategies, annexes and CVPs we believe that the only role the proposed Vulnerability Strategy Delivery Incentive (SDI) should play is to ensure the delivery of the targets and commitments set out by DNOs and accepted by Ofgem in its draft determinations.

As we indicate earlier, generally we believe Ofgem has successfully incentivised DNOs to deliver a more consistent baseline of activity and in many instances the scope of proposals potentially exceeds the role that DNOs should play. This is a materially different starting scenario compared to the first years of ED1 where fuel poverty support, as an example, was delivered to only hundreds of customers in some cases. We do not therefore think an incentive is required to encourage DNOs to deliver greater volumes than they have already proposed.

²⁸ WPD, CVP4 annex, page 16

We do support incentives which encourage efficient delivery, however this is already provided by the Totex Incentive Mechanism (TIM) and duplication of this is not likely to be needed.

The SDI in its current form is also mechanistic and is therefore reliant on accurate input and output measurement. However, we believe the evidence in business plans indicates that despite the significant progress made so far, SROI values and benefit values are still unlikely to be directly comparable compared to other mechanistic incentives used in ED1 and proposed for ED2. This causes undue risk that consumers could fund inappropriate rewards.

We therefore recommend that the Vulnerability SDI incentive does not provide financial rewards and holds DNOs to account on the delivery of their commitments using only penalties for under-delivery.

The divergence away from the more qualitative stakeholder engagement and consumer vulnerability incentive (SECV) is welcome in many ways to prevent incentives being an essay writing competition. However, the reputational incentive that sits alongside this should be governed by strict guidance in how information is presented and published annually in order to avoid this.

One benefit of the SECV that would be lost in the move to a mechanistic incentive though, is the ability to incentivise DNOs, beyond reputation, to respond to changing circumstances and customer needs within the price control. We are aware that Ofgem’s preference is to review the incentive after year 2 and this may be an area worth reviewing.

2.2.1.5 Support to those on the Priority Services Register

PSR - Reach

Overall we welcome the push from all DNOs to improve their PSR reach. It was clear from all DNOs’ customer engagement work that even customers eligible for the PSR had limited awareness of it. However, it is clear that PSR reach targets range significantly:

ENWL	60% or 80% (stretch target)
NPG	50% and 70% for high risk customers
SPEN	80% for each needs code
SSEN	72%
UKPN	86%

WPD

75% and 80% for those with medical dependency on electricity

SPEN's target to achieve 80% for every needs code should be regarded as the most ambitious as all others appear to produce their reach on aggregate. Though it should be noted that SPEN's CEG have expressed concerns about deliverability. However, like other areas, we do not think this level of variation in targets is explained by geographical differences. Instead we are concerned that the method of stakeholder engagement is more likely to have resulted in such a disparity. **Where possible, Ofgem should seek to level up DNOs to a level which balances ambition with effective stakeholder engagement and cost. We consider that WPD evidences its target most effectively.**

We welcome the approach by all DNOs to use partnerships to help identify PSR customers and support the targets set by DNOs on the proportion of PSR sign ups achieved from their own employees as well as from partnerships. This encourages an approach to make every contact count with customers.

PSR - data cleanse

All DNOs meet the minimum requirement for PSR data cleanse, though some DNOs stand out for their proposals. UKPN's proposal to cleanse all records every 18 months for all customers is the most ambitious target, while WPD adds an additional evidence-based target to contact 60% of customers by direct phone call which provides the basis for their Smart Energy Action Plans. A number of DNOs also propose yearly data cleansing for those who have a medical dependency or additional validation targets such as SPEN's to achieve a minimum of 60% fully validated data. Although the differences are smaller here, we again do not think they are likely to be explained by regional differences and think there is **opportunity for Ofgem to seek to level DNOs up to best practice which balances costs with reach.**

A number of DNOs propose online self-serve portals or apps to enable customers to update information themselves which we welcome as an incremental BAU activity. Where this forms part of a CVP we do not see that there is evidence that this is significantly beyond BAU.

PSR - needs codes

SSEN proposes introducing a financial vulnerability needs code in response to feedback from stakeholders and we welcome this introduction. While it's clear that this is intended to be used in data sharing with partnerships, **Ofgem should**

seek assurance that SSEN also intends to codify this introduction. We would also recommend that Ofgem encourage DNOs to review needs codes generally, to ensure they are suitable for ED2 as WPD has proposed²⁹.

PSR - simplification

We welcome the variety of different commitments which seek to improve the ease of registering to the PSR, processes which require customers to register only once, which ensure data reaches other partners and utilities (including telecoms), and where this process is automated. However, no single proposal adequately ensures that all of these conditions are met and as it stands would result in a better but still piecemeal approach across GB.

As we indicated earlier, we encourage the DNOs to be tasked to **coordinate a scalable platform for national PSR data sharing to improve the energy service experience of consumers in vulnerable circumstances for trusted third parties or other utilities. We urge Ofgem to show ambition in this area given the importance of being able to target support during storms and to target bill relief in ED2. It is a significant failure of regulation that there are not more coordinated data sharing processes to enable targeting of relief and to prevent duplication of effort.** Such a platform should enable:

- Customers to register once through utilities, telecoms and trusted third parties
- Data sharing to be automatic and in realtime to enable;
- Customers to benefit from the services and protections provided by all parties involved

PSR - satisfaction

We welcome the new target proposed by DNOs to achieve high levels of satisfaction among PSR customers. It appears that all targets improve or maintain levels between 91% and 94% and typically receive engagement support for balancing services with cost. There is however, still a range in what is measured. Some DNOs appear to be more aligned with the Broad Measure of Customer Service (BMCS) and specify that they are measuring the experience of customers who have and have not experienced a power cut, whilst others like SPEN seem to indicate that their target is set for “every service and channel”. **Ofgem should ensure there is consistency in what and how DNOs are measuring the satisfaction of PSR customers. In particular we support the addition of measuring the experience of PSR customers who have not**

²⁹ WPD, Consumer Vulnerability Strategy, p55, paragraph 5.143.

experienced a power cut. However, this needs to be rigorous, particularly to gauge whether customers have experienced a benefit from being on the PSR to encourage DNOs to maximise touchpoints.

Ofgem should also consider that in some cases we have seen evidence that customers are mindful of the cost of increasing satisfaction levels where the improvement may be minor or incremental. For example, UKPN commits to being the best DNO for customer satisfaction in ED2 which would require them to meet a 94% target (SPEN) rather than their proposed 93% target though it is not clear customers would support this.

PSR - interruptions support

DNOs have proposed a wide variety of services to support PSR customers before, during and after an interruption in ED2. We welcome many of the improvements though we have not always been able to clearly identify how proposals differ from ED1 performance. As proposals stand there is also likely to be a postcode lottery in the service PSR customers would receive. **We recommend that Ofgem intervenes to establish a more common approach and set of targets among DNOs.** We have attempted to summarise the variation according to the following broad categories, though this list is not intended to be a complete or exhaustive record:

Communications and notification

- NPG - Contact 100% of high risk customers within the first hour of an unplanned interruption and 95% of all PSR customers within 3 hours, and 3 new contact channels
- SPEN - Notify all customers at least 10 days before a planned interruption and 90% of customers contacted by preferred communication method 48 hours before. 95% of the highest risk customers are spoken face to face in advance of a planned power cut. All PSR customers contacted when an unplanned power cut occurs via customer's channel of choice with highest risk customers receiving a phone call
- SSEN - 2 way automated text notification, tailored updates during a power cut at a frequency agreed with the customer on their preferred channel
- UKPN - by 2024 medically dependent PSR customers with smart meters will have new arrangements which automatically notify carers during a power cut

Speed of response

- ENWL - First call answer rate of 86% (or 95% stretch target)
- SPEN - 10 seconds or less regardless of channel, less than 1% abandoned calls (99% answer rate). Use contact method of choice in 99% of cases during and after a power cut.
- SSEN - 20 seconds response during a power cut, 5 minutes for social media
- WPD - 2 seconds for phone, 5 minutes for social media, and less than 1 minute for webchat
- UKPN - less than 10 seconds regardless of channels in emergencies

Welfare visits

- ENWL - Welfare visits to all customers in vulnerable circumstances without power for 12 hours or more
- NPG - on site support during the day for interruptions exceeding 6 hours

Back-up power - a mixture of diesel generators and cleaner EV battery provision or smaller portable battery banks

- NPG - battery back-up power available
- WPD - batteries with medical dependent
- UKPN - battery banks after an interruption has lasted 4 hours

Restoration and GSOPs

- SPEN - will restore power within the stated time in 80% of cases
- UKPN - automatic GSOP payments with the aim to provide 90% of these via digital payments including through supplier bill credits
- WPD - Automatic GSOP payments

Among these proposals there are some welcome improvements. For example, NPG's engagement indicates that customers may face greater harm or issues after a power cut has lasted 6 hours and in response they have established a clear timeline of what services are provided and to which groups at different milestones. We have not identified similarly clear timelines among other DNOs and in many instances it is unclear how quick a DNO's response may be. Where this is unclear or targets have not been explicitly proposed there is a risk that GSOPs become the default service level or it may be unclear what level of service customers should expect to receive. We also believe that the recent increase in storms resulting in longer power interruptions, should prompt a review of

GSOPs to ensure that minimum levels of service are still suitable and reflect a lot of valuable insights collected by DNOs.

We welcome the targets set to respond to customers on digital platforms and for incoming telephone calls, however, there is a significant variation. While SSEN will answer the phone during a power cut in an average of 20 seconds, WPD will answer in 2 seconds. In both instances there is customer and stakeholder support, however we do not believe that the extent of this variation can be justified by geographical differences or customer engagement evidence. We are also mindful of diminishing returns. For example, faster response times, while impressive, may provide only minor changes to customer experience but at disproportionate cost. **Ofgem should interrogate the evidence and seek to achieve an appropriate balance between cost and reasonable speed of response as well as trying to come to some form of common standard.**

As we highlighted in our response to draft plans, the change to the Public Switched Telephone Network (PSTN) will mean that it will switch off in 2025 and in future all phone calls will be routed over IP (Internet Protocol). The PSTN is currently powered and can still work even during a power cut. However, after this change, during a powercut it may not be possible for DNOs or customers to be in contact with each other by phone. This could have serious implications for the PSR interruption services proposed by DNOs, especially where these are reliant on being able to make phonecalls. We welcome the acknowledgement of this change by SSEN, WPD and UKPN. However, we have seen no detail from any DNO on how they will address these potential issues despite evidence suggesting that healthcare providers, who may rely on PSTN for telecare, had also raised this issue during customer engagement as early as November 2020.

2.2.1.6 Providing support to address fuel poverty

As we indicate at the start of this chapter, **Ofgem needs to carefully consider the appropriate level at which DNOs play a role in providing this support, and be mindful of the following questions:**

- **Whether the extreme differences in scope and outputs between DNOs are adequately explained by the supporting evidence**
- **What impact and precedent could be set for future price controls as a result of accepting the level of scope proposed**

It is clear from stakeholder and customer engagement that there is significant support for DNOs to be playing their role in tackling fuel poverty. However, in

addition to the larger questions our views on some of the details of proposals are below. Please see the CVP section above for relevant CVPs.

ENWL's proposal to reach all fuel poor customers in ED2 represents an increase in scope of 5 times³⁰. It is split into 2 targets with 25,000 customers accessing support and 25,000 customers being aware of support each year. Both have a stretch target of 30,000. Firstly, we have been unable to identify a clear rationale for either the base target or the stretch target and we are also concerned that measuring customers' awareness of support may be challenging. Some other proposals such as SPEN's specify that their target is not inclusive of awareness. This proposal also has 1 of the highest SROI values (at £5.81 for every £1 spent) among all DNO proposals in this area³¹. However, we have been unable to identify why there is such a large variation. ENWL also proposed doubling spend on partner referral networks to £500,000 a year which would result in a minimum of 75,000 customer referrals to services including those aligned with tackling fuel poverty. However, we could not clearly identify whether these referrals were as a direct result of PSR cleanse processes.

NPG has opted to target 100,000 customers in extreme fuel poverty and is the only DNO to have chosen this form of targeting. However we have been unable to identify the rationale for this.

SPEN aims to reach 40,000 households and the proposal is therefore the smallest in relation to the size of the network area and as a proportion of those in fuel poverty (6%)³². It is true however, that other proposals would reach more customers with other advice services and that the use of 'customers' and 'households' may not be consistent across DNOs. Costs and benefits were provided on a bundled basis so we have been unable to assess the costs and benefits to customers.

SSEN proposes to reach 50,000 households (114,000 customers) with a mixture of referrals (32,500) and in depth support (17,500). This proposal explains how the scale of current activities would be scaled up in advance of ED2 to ensure they meet their annual target which we did not identify in all plans. SSEN also states in their supporting evidence³³ that they aim to balance lower cost referrals

³⁰ Although the figures presented in ENWL Annex 8 page 22 indicate that this is an increase of 25 times, subsequent clarification from ENWL has explained that this is as a result of the omission of the word 'annual'

³¹ WPD cite a value of £6.23 per £1 spent covering both their fuel poverty support schemes and their Energy affordability fund.

³² SPEN estimates 620,000 customers are in fuel poverty

³³ SSEN Annex 4.2 Consumer Vulnerability Strategy, p42

where the benefits are less bankable with higher cost partnerships which will deliver higher consumer benefits. However, we have been unable to identify further justification for why the overall 50,000 target has been split in this way.

SSEN also includes a new proposal since draft plans to provide 5,000 energy efficiency packs. Although the scope and cost of this proposal is relatively small, we have been unable to identify whether the new proposal is in response to particular feedback and what support from customers and stakeholders it has. Costs and benefits information was bundled and so we have been unable to assess the costs and benefits to customers.

WPD's proposal to reach 113,000 customers is among the best justified with clear optioneering of different targets. This reach improves on their current ED1 performance of 92,000 customers which is industry leading among DNOs. This proposal demonstrates the link between fuel poverty, PSR eligibility and resilience to power cuts, aligning the activity more closely to the DNO core role than others. However WPD could have gone further by mirroring SSEN's proposal to introduce a financial vulnerability needs code. WPD also proposes an energy affordability fund which we note WPD have been running since 2018. As the costs and benefits have largely been bundled for these 2 proposals we could not clearly identify the intended outcomes and benefits to consumers of the fund.

2.2.1.7 Supporting customers who may be 'left behind' in the energy transition

ENWL appears to meet this requirement predominantly through an annual innovation fund at a cost of £1.3 million. This seeks to work with partners to fund projects to identify and trial potential solutions to address barriers like cost, education and support. This may also lead to business cases to develop solutions further. We have been unable to identify any estimated benefits arising from this fund, how success of this commitment would be measured³⁴, and have also struggled to identify whether this fund aims to predominantly fund further research or to trial technologies. ENWL, like other DNOs, have conducted research for their business plans to identify those who may be less able to benefit from the energy transition and the reasons why, creating a valuable bank of information and research that all DNOs should benefit from. We are therefore concerned that it may not be good value for customers to fund such DNO-specific innovation funds, in addition to the funding provided via the

³⁴ We note that ENWL proposes that the SROI tool would be used to measure individual projects, though it is less clear how success of the overall commitment would be measured.

Network Innovation Allowance (NIA). We are also concerned about the risk of duplication of effort and activity by ENWL and other DNOs in holding these innovation funds. We would prefer to see a more coordinated fund which seeks to fill the gaps in knowledge and practical solutions or ring fencing of funds within the NIA for this area.

NPG proposes 2 main commitments. Firstly to deploy 2 community energy advisors, rising to 6 by 2028. This increase was in response to stakeholder feedback and with 6 regions, would mean 1 per region by the end of ED2. These advisors would make referrals and provide advice to households and groups. NPG also states that this would support 20,000 customers a year and support 45 'schemes'. Like others, this proposal would involve NPG staff directly delivering advice provision and we have not identified evidence that suggests NPG would be best-placed to deliver this. We also note that reaching 20,000 customers per year would be an equivalent of each advisor on average reaching over 16,000 customers each year on average and we question whether this is deliverable.

NPG also proposes to support 5,000 vulnerable customers a year through partners with a range of support to enable customers to benefit from government funded support. They say that each year this would result in 400 customers benefiting from tariff switching advice, 100 PSR customers purchasing an EV, and 200 PSR households accessing and benefitting from the social housing decarbonisation fund, delivering a GPV of £2.9 million. We welcome the specific outcomes described here which is a level of detail not seen among all plans. However we have been unable to identify corresponding costs. We have also been unable to identify whether it is deliverable that households could individually benefit from the social housing decarbonisation fund which typically aims to provide grants to social landlords for large scale housing stock improvements.

SPEN proposes to prioritise the targeting of their services by using data to allocate an LCT risk score so that they can identify which customers face the greatest barriers in the energy system transition. We welcome the utilisation of data that SPEN already holds in addition to new data. However, we could not identify exactly how it would be used by SPEN. For example it is not clear if PSR customers might be contacted directly because of their LCT risk score, whether this would be used to prioritise customers who contact their advice line, or if it is to target outreach to areas with higher levels of barriers. SPEN also proposes to reach 40,000 customers with advice on low carbon technology to provide education, awareness of the benefits, as well as help to access grants and funding, providing £10 million in gross benefits. This proposal appears to involve SPEN providing at least some of this advice in-house including the proposed

advice line and we would reiterate our concern about whether SPEN are best placed to do this.

SSEN's main commitment is the Powering Communities to Net Zero Fund. This shareholder fund would provide £500,000 a year, benefitting a total of 640,000 customers with over £9 million in benefits though this number is different across documents³⁵. We identified a variety of descriptions about how this fund would be used including providing community infrastructure, financial assistance with the installation of new LCTs, promoting or enabling LCTs to benefit community members in vulnerable situations, and to support environmental and resilience schemes. SSEN predicts applications may be received from local authorities and local heat groups and might include smart heating controls, EV schemes and support for energy efficiency measures. While we are supportive of the fact that this £2.5 million fund is provided by SSEN shareholders, we did struggle to identify whether it would provide direct or indirect support to customers.

Since draft plans, SSEN have also proposed an education commitment to reach 39,000 children and 2,400 adults with information relating to energy, some of which appears relevant here. However, we did struggle to identify supporting evidence for this commitment.

We have identified 2 proposals from UKPN though it is not clear whether there is overlap between them. UKPN commits to offering a net zero advice service to customers. This would direct customers to trusted intermediaries on LCT, making choices about these technologies and financial support that may be available. UKPN acknowledges that others are better placed to provide this service and so they intend to develop the platform, offer it to DNOs and Gas Distribution Network (GDN) operators and later hand it to an independent trusted party. We believe that this may be a more balanced approach, though we could not identify any costs, benefits or expected reach.

UKPN also proposes an £11 million shareholder funded element of UK Power Networks Foundation to support customers in vulnerable circumstances in the energy transition. It aims to reach 50,000 customers and appears to be mainly administered via the UKPN Foundation and not within the UKPN business. This would deliver a range of direct support to customers and represents the most ambitious proposal in this area, especially as it is not funded directly by customers through the price control. UKPN states the fund would provide matched funding for LCTs for fuel poor customers, including in off gas grid

³⁵ We identified an inconsistency in the figures reported by SSEN. In the business plan (pg 47) financial benefits are listed as £8.2m and societal benefits are £1.4m. In the vulnerability strategy they are listed as £9.6m and £7.3m respectively (pg 49 and 86).

communities, be involved in delivering ECO energy efficiency measures and electric heating installs as well as providing advice. The commitment would have benefited from more detail on whether match funding is with Government schemes or is reliant on customer self-funding. We would also be interested to understand how the UKPN foundation would work with ECO and question why the net benefit is only £1.8 million. Overall we welcome this level of ambition at no cost to consumers. We believe this proposal also poses a significant question for Ofgem, as we highlight elsewhere, as business plans in this area would currently result in a postcode lottery of the support that is available and whether it is at a direct cost to customers.

WPD appears to have proposed 3 primary commitments in this area in their vulnerability strategy - the Smart energy action plans, Community Matters Support Fund and the Solar PV proposal. As these are proposed as CVPs our views have been presented in the CVP section above. However, we would note that while we generally have concerns about the role that DNOs might play in this area, the Smart Energy Action plan proposal does appear to be more closely aligned to the core DNO role as well as making effective use of existing consumer touchpoints.

2.2.2 Connections

For ED2, there are likely to be many more connections requested by both domestic consumers and business customers, as they switch to electricity-using solutions for heat and transport, and to be able to offer further flexibility services and generation. The minded-to Ofgem position on the Access and Forward Looking Charges Significant Code Review (Access SCR), if implemented, is likely to further increase demand for connections during ED2. As such, DNOs need to ensure that they have a robust strategy for connections at all levels, including ensuring that there are benefits of collaboration and standardisation between DNOs as a group, and between DNOs, the transmission level and the Electricity System Operator, e.g. via the Electricity Networks Association projects on Queue Management³⁶ or via coordination with Gas Distribution Networks to ensure ease of replacement of gas connections. We are aware of the extensive stakeholder engagement undertaken to build the connections strategies and support the use of the ODI-F incentive mechanism to protect cost-effective delivery. The customer satisfaction measures to be used within the ODI-F mechanism should ensure that shortcomings in the strategies or their delivery

³⁶ [Citizens Advice response to the consultation on the ENA Queue Management Process Guide](#), June 2020

are rapidly identified and rectified. **Ofgem will need to ensure that the ODI-F for connections is well-calibrated to drive the correct behaviours by the companies and not over-reward activity.**

The work of connections is a core part of a DNOs' operations, and therefore should represent a more straightforward area to scale for the upturn in demand expected. The connections strategies, however, will need to be supported by well-designed workforce resilience strategies to ensure that there are sufficient qualified workers available to meet the demand. We have noted our comments on these workforce resilience strategies at 2.3.2.2.

2.2.3 Customer services

We welcome the various initiatives to improve customer satisfaction (CSAT) during ED2. For instance we have noted the proposals for increased ability to self-serve, wider access channels, and more responsive complaints resolution services. These will all be important elements for the coming years as the interactions between DNOs, third parties, and customers (including those in vulnerable circumstances) increase. These interactions will include: many more requests for connections for new technologies from both businesses and domestic consumers; enquiries about upgrading or unlooping supplies; and the new provision of services to DNO, such as flexibility service providers and community energy groups. Improvements to existing CSAT measures, including the use of higher minimum CSAT scores, and for targeted customer segments, such as those on the PSR, will be valuable to track satisfaction, and maintain high quality services as DNO interactions increase.

However, Ofgem should consider the likely customer journey for domestic customers in these touchpoints throughout ED2. As it stands, installers of energy assets are typically responsible for notifying DNOs about an installation and so domestic customers may only have an indirect relationship with the DNO³⁷. In the future this could and should be a more automated process as recommended by the data and digitalisation taskforce and so the targets and CSAT methodologies may need to evolve.

Companies have proposed measures to monitor CSAT scores for new areas, such as data service users, or in DSO relationships. As the energy transition continues to develop, it will be necessary to collect feedback from these users to ensure that their views are taken on board and help to refine DNO services.

³⁷ BEIS, [Guidance: How to register energy devices in homes or small businesses: guidance for device owners and installation contractors](#), March 2021

All customer satisfaction targets sit between 9 and 9.4 and generally indicate a good service level. Some additional targets have been included such as for digital satisfaction from SSEN and additional ICS benchmarking, realtime service ratings and a 5* trustpilot score as proposed by UKPN. Generally, UKPN appears to have gone the furthest in this area to track customer satisfaction and feedback outside of the incentive mechanism and we also note SPEN's commitment to achieve 9.4 for all customers and services including those not covered by the BMCS. There are some instances where targets are set to be reached by 2028, whereas others aim to be achieved in year 1 and in every subsequent year of ED2 which we think indicates a higher level of ambition. We also note that in some customer engagement it was clear that customers were mindful of diminishing returns above a certain level of customer satisfaction, given the associated costs and that customer preferences may not clearly relate to absolute targets. One example is WPD's target of 93% or higher. Earlier engagement in 2019/20 suggests an incremental increase in performance in ED2 by 1% to 90% was preferred. In further engagement in 2021 with a new performance baseline of 92%, customers still preferred an incremental performance increase of 1% leading to a target of 93%. As WPD's performance within ED1 had already improved beyond the preferred target for ED2 it is unclear if customers have a clear preference for an absolute target despite being mindful of diminishing returns, though we have observed effective optioneering here by WPD. It is also unclear what Ofgem can infer from this evidence, when aiming to strike the right balance, if evidence reveals preferences for relative performance increases rather than absolute targets or where customers and stakeholders encourage DNOs to be 'industry leading' which is also the case for other DNOs such as UKPN. Ofgem should consider whether all targets have adequate levels of support where they involve additional costs.

On complaints we see all DNOs aiming to resolve 89% or 90% of all complaints within 1 day and a rate of 98.5% or 99% within 31 days. The most ambitious proposals appear to be WPD's where 99% of complaints are resolved within 25 days instead of 31; SSEN which target 75% of complaints resolved on first contact and a 5% reduction in the number of complaints; and UKPN who proposes to set a target of 55 complaints per 100,000 customers (down from 99) as well as committing to publishing complaint numbers and performance. ENWL acknowledges that their ambition to resolve 80% of complaints within 24 hours is lower than other DNOs though we did not identify a clear rationale.

We recommend that Ofgem reviews the various CSAT measures being proposed and considers whether the best of these measures, including

those extending into novel areas, would be useful to introduce as common measures for the sector.

2.2.4 EV recharging infrastructure provider of last resort

In our review of the draft business plans, we noted that 1 DNO, SPEN, was considering acting as the EV recharger of last resort. In the final business plans, SPEN (p62) has confirmed its intent to work with Ofgem on this issue.

We have copied below our comments from the review of the draft business plans (p32), as our views stand as before.

A new Electricity Distribution licence condition (31.F) has permitted DNOs to act as the EV charge infrastructure owner and manager of last resort. This can occur “where the Authority [GEMA] is satisfied that no person other than the licensee is able to own, develop, manage or operate an Electric Vehicle Recharging Point or could not do so at a reasonable cost and in a timely manner”. The licence condition was introduced in early 2021 as part of a range of EU Clean Energy Package measures. There are required procedures to act as safeguards to ensure that the DNO does not impact competitors. For example, DNOs are required to undertake open tendering to allow others to bid to own and manage the EV charging infrastructure, and must review the situation every 5 years to see whether the circumstances have changed where the DNO is owner of the infrastructure. One DNO, SPEN (p62), appears to be actively considering this activity. We understand that Ofgem is working upon guidelines to support the licence condition.

We have a number of concerns regarding the proposed activity. The DNO describes the lack of bidding by competitors as ‘failed market tendering’ (SPEN, p62). In reality, this could be seen as appropriate market responses to, presumably, uneconomic EV charging sites. As such, any DNO taking on the ownership and management of the infrastructure is likely to have an ongoing loss-making position for these charge points. Bill-payers for a whole licence area will be picking up the cost for, perhaps, only a small number of EV owners to benefit. The 5 year periodic check on whether the situation has changed offers no automatic protections for customers that there would be any resolution to picking up the bill for the loss-making on this infrastructure. While the Authority has the right to revoke the DNO’s ability to own and manage the infrastructure, it appears that the revocation can only be called upon where the original requirements (i.e. no other person will step in) are met. It is possible that the EV charging sites would need to be managed and retained in perpetuity if no other company or body takes on the responsibility.

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

We also recommend that Ofgem considers carefully the guidelines necessary to ensure that bill payers are protected, competition encouraged, and whether this licence condition should be reconsidered.

For example, it may be more appropriate for a local authority or devolved government, with their processes for accountability, budget scrutiny, and a democratic mandate, to take on the responsibility of ownership and management of EV charging infrastructure for their communities in preference to privately-owned, monopoly utility providers.

2.3 Maintaining a safe and resilient network

Reliability and resilience proposals by DNOs represent some of the largest cost items for companies within their plans. Ofgem is the best-placed organisation to be able to undertake a thorough analysis of these proposals, especially in respect of the optioneering process and comparative costs analysis revealed through Engineering Justification Plans (EJPs) and detailed DNO costs data.

2.3.1 Reliability

We note that the DNO plans have responded to strong stakeholder engagement on the topic of reliability, and also to the likely Ofgem Interruptions Incentive Scheme (IIS) target increases. DNOs have proposed plans that improve both the duration and frequency of power cuts for consumers. Provided that these are cost-effective, these proposals to improve reliability are welcomed as they respond to the current and future increasing reliance on electricity in people's lives, and consumer desires for increased reliability. **The new IIS targets may not match with consumers' desires for levels of improvement and Ofgem will need to consider how to effectively reconcile consumers' wishes revealed through stakeholder engagement with the IIS targeting process to achieve a fair outcome.**

2.3.1.1 Use of alternative resources in resolving reliability and resilience issues

The DNO proposals for resolving reliability and resilience issues have described the measures that they will be undertaking to achieve improvements. Some DNOs have highlighted how they intend to consider the use of non-traditional options, such as flexibility, to meet reliability and resilience concerns (e.g. UKPN (p151)). It will be important that all options are considered to ensure that the most cost-effective solution is identified. It is probable that the increasing market availability of flexibility, as well as outcomes from trials such as the SSEN Resilience as a Service project or fault prevention technology, may result in alternatives to traditional measures becoming cheaper to use. **We recommend that Ofgem ensures that DNOs have considered all options for meeting reliability and resilience issues. Ofgem should also ensure that DNOs have factored in potential ongoing developments in flexibility markets, fault prevention technology, and other innovations that may provide more cost-effective alternatives to address reliability or resilience issues.**

2.3.1.2 Interruptions Incentive Scheme (IIS)

We note that the IIS did not perform as expected during ED1 so that DNOs may have been over-rewarded as described in the 2018 CEPA report³⁸ commissioned for Ofgem (p4):

“In RIIO-ED1, the interruptions incentive scheme (IIS) was based on outdated data. However, we note that Ofgem’s decision was ultimately upheld by the Competition and Markets Authority (CMA). As a result, a number of electricity distribution network companies (DNOs) were outperforming their targets from the start of the new price control period, resulting in returns that are not proportionate to the performance improvement.”

We note that the IIS is due to be revised later in 2022 to set new targets (SSEN, p84). We welcome the use of up-to-date information to set targets for the DNOs. **We recommend that Ofgem ensures that the IIS is well calibrated using latest data and accommodates the potential use of alternative measures (see 2.3.1.1 above) so that DNOs are not overly rewarded for any incremental improvements. There may be a need to undertake ongoing**

³⁸ CEPA, [CEPA Review of RIIO Framework and RIIO-1 Performance](#), March 2018

recalibration of the IIS as the flexibility market develops or new data emerges.

2.3.1.3 Worst Served Customers (WSCs)

DNOs have responded to the Ofgem changes to funding arrangements for alleviating issues for WSCs. The change from a 'logging-up' WSC mechanism in ED1, which was little used, to baseline funding supported by a PCD has encouraged DNOs to propose wider schemes to address customers that have a markedly worse service than others. In an era of increasing reliance on electricity for work, transport, education, heating, business, and to manage smart energy usage, a reliable service will be more important for consumers. Reliance on electricity will also result from the move in telecoms from the Public Switched Telephone Network (PSTN) to Internet Protocol in 2025. The WSCs scheme offers a mechanism to ensure a minimum standard for all GB consumers and we believe that the time has come for such a minimum standard given the changed nature of every consumers' reliance on this essential service.

Many DNOs have proposed improvements to their networks to 'remove' all those categorised WSCs by the end of ED2 (recognising that this is a moving ongoing target), which is a welcome action. DNOs that have this goal include: ENWL (p63 and Annex 1 p131, 3,770 customers at £20 million cost); SPEN (p69, 7,857 customers at £14.6 million); and WPD (p21, p51, 8,260 customers at £4.4 million).

UKPN's plan (p95 approx. 50,000 customers at £28.04 million) proposed improvements to all those categorised as WSCs although it was not clear that their proposals would 'remove' them as WSCs or just make improvements to those affected.

NPG's plan (p96 2,835 customers at £4.3 million) was not clear as to whether their plan would eliminate reliability issues for all their WSCs or whether this is only a proportion of those that are categorised as WSCs.

SSEN's plan (p36, p78, p84 improves performance for 75% of WSCs (approx. 12,882 at £25.2 million). This proposal would leave about 4,294 customers continuing with markedly worse service which may not be rectified until beyond 2028 at the earliest (i.e. ED3 onwards), if then.

As mentioned in our review of the draft plans³⁹, we found it difficult to compare the plans given differences in terminology as to the level of improvements (e.g. 25% improvement, numbers of WSCs ‘removed’, etc.). While we can readily compare some of the plans that use similar terminology and explanations of their proposals, it has still proved difficult to identify whether all WSCs are aimed to be removed or whether all or some affected just have improvements. **We would recommend that Ofgem clarifies with DNOs where the level of assistance is not clear to ensure that proposals can be compared in terms of numbers of customers helped, whether this would remove them as WSCs, and whether some WSC customers are not included in the schemes.**

SSEN, which is aiming to resolve only 75% of its WSCs, has explained the reason for not going further at p36. They conducted stakeholder engagement and found that “we were surprised how resilient domestic WSCs already were. Many didn’t feel there was a problem with their service as they didn’t remember all of the power cuts they had experienced, adding that short duration cuts were only minor inconveniences. They would like a more reliable service, but not at any cost”. It is valuable for SSEN to have undertaken this research and sought these views. While domestic customers may have been more accepting of the lower service quality, Small and Medium Enterprises (SMEs) felt that the target should be 100% (SSEN Annex 7.2 Reliability (p53) and expressed dissatisfaction with compensatory alternatives: “SMEs reported a loss of confidence in us and were unhappy with lack of or low compensation offered” (SSEN Annex 7.2 Reliability (p53). It is clear that there may be differences in opinions by different stakeholder groups, and this may reflect that a business is already experiencing that extra reliance on electricity supply that has yet to affect as many domestic customers, but may in the future. Some participants in the ‘customers in vulnerable situations’ group also expressed a preference for a more ambitious target. It was not entirely clear how these and other stakeholder viewpoints were traded off to arrive at the 75% target. There also appears to be a disconnect between DNO plans, supported by extensive stakeholder engagement to improve overall reliability for customers (e.g. SSEN proposals to improve frequency and duration of power cuts by 20% (p78)) while allowing some WSC customers to continue to experience poor service. The inference would be that WSCs that are not assisted in ED2 will find that they fall further behind the average.

³⁹ Citizens Advice, [Citizens Advice views on the electricity distribution network companies’ draft business plans for RIIO-ED2](#), September 2020

For those plans where there is not a clear outline of resolving all WSCs in their areas (possibly NPG and UKPN), and for SSEN, where the level of support is clear in only addressing 75% of WSCs, **we would ask Ofgem to consider whether these schemes are sufficient to meet the needs of consumers in a world where there is an increased reliance on electricity in their lives, and whether a 100% target is more appropriate. It seems reasonable to expect that all consumers should receive a minimum standard of reliability, and the WSC mechanism is available to ensure that minimum standard.**

We note that some plans referred to non-traditional means of resolving WSC issues where traditional means might be high cost (UKPN, p95). There are also trials to increase resilience in localised remote communities using battery storage or Demand Side Response (e.g. SSEN's Resilience as a Service project)⁴⁰. **We recommend that Ofgem considers the plans for WSCs to ensure that DNOs have considered all options to resolve reliability issues for WSCs. It may be that innovations and cost reductions for certain technologies may result in a more cost-effective solution emerging during ED2. Ofgem should monitor such developments and revise costs for WSC plans appropriately during ED2.**

In ED1, a post-spend 'logging-up' WSC mechanism was used to encourage schemes. The ED1 WSC mechanism failed to deliver consistent outcomes and was little used. The consequences for poor delivery during ED2 may result in many thousands of customers, who have experienced poor quality service for possibly decades, continuing to receive worse quality service at a time of increasing reliance on electricity. **We recommend that Ofgem uses baseline funding and the PCD mechanism, as proposed in the SSMD⁴¹, for meeting the funding of schemes to remove WSCs and to ensure action is undertaken within ED2. Ofgem will need to scrutinise the costs and options proposed for all of the WSC schemes to ensure cost-effective delivery.**

2.3.1.4 Short interruptions (SIs)

At present, only interruptions lasting 3 minutes or more count for the IIS. Short interruptions (SIs), while monitored to some degree, do not have any incentive mechanism or other measure (e.g. Guaranteed Standards of Performance (GSOP)) to incentivise reduction. Some DNOs have undertaken stakeholder engagement on this topic for their business plans, and have generally proposed

⁴⁰ SSEN, [Resilience as a Service project](#)

⁴¹ Ofgem, [RIIO-ED2 Sector Specific Methodology Decision](#), Annex 1, p89, December 2020

increased monitoring of the issue and working towards better coordinated reporting to Ofgem to potentially address the issue in ED3, although some have not mentioned the issue or are not proposing any measures in ED2: ENWL (p30) will be measuring and reporting on SIs as an output commitment; NPG (p150) have proposed CVP4 which aims to increase resilience in rural areas which will cover short interruptions although there appear to be no overarching commitments on the topic; SPEN does not appear to mention short interruptions within their business plan; SSEN (p84) appears to have no specific proposals for SIs and states in their plan that “Ofgem are exploring a new minimum standard for short interruptions (less than three minutes). We think that proposals have not been sufficiently developed at this stage, and further careful consideration is required to test the potential benefits, customer impacts including costs and interactions with other standards and incentives.”.

One DNO, UKPN, has gone much further in its business plan on the topic of SIs. UKPN (p94) has proposed a commitment to achieve a 10% reduction in the number of SIs experienced per customer (excluding those which are as a result of avoiding a customer interruption and those relating to exceptional events) by the end of ED2. UKPN are also proposing to make an automatic compensation payment of £25 to customers who experience more than 25 high voltage SIs during a regulatory year (excluding those relating to exceptional events).

It is not clear why some DNOs have not mentioned SIs within their plan, or why stakeholder engagement should have resulted in such different outcomes such as deciding to take no action on SIs, only choosing monitoring and reporting, or going much further with targeted reductions. **We believe that the UKPN position on SIs has merit for consumers in an age of increasing reliance on electricity. We recommend that Ofgem considers using the UKPN proposals on SIs as a universal proposition for all DNOs.**

2.3.2 Resilience

To a large degree, resilience plans by DNOs are building upon long-standing operations to maintain or improve resilience in their networks. Therefore, most plans have proposed incremental changes in items such as NARM (Network Asset Risk Metric) asset health, flood resilience, or tree cutting, to take into account future climate change impacts. As such, there should generally be a good evidence base for these types of activities, evident stakeholder engagement, and costs that are strongly rooted in prior data. As with reliability proposals, the costs for meeting resilience requirements are some of the largest cost items in the plans. Many of these cost elements have mechanisms to

ensure effective delivery and to prevent consumers overpaying such as PCDs or ODI-Fs. We welcome their use, and would welcome extension of them to any new or existing lines of expenditure where practical. For instance, we welcome the use of a volume driver to address Ash Dieback (ENWL, p156).

Ofgem will need to assess whether the mostly incremental changes proposed by DNOs appear sufficient to ensure that the distribution system is resilient for the future, including for cyber risks and physical security, and that the proposals are cost-effective. The use of protective mechanisms to ensure delivery and reduce the likelihood of overpayment should be used wherever possible, including where new lines of expenditure have been proposed by companies.

2.3.2.1 Storm Arwen

Storm Arwen and Storm Malik tested DNO capabilities to respond to outages, particularly in the north of England and in Scotland. There are ongoing reviews of the networks' readiness and response to Storm Arwen by both the Department of Business, Energy and Industrial Strategy (BEIS) and Ofgem. We are contributing to these reviews. It is likely that these reviews will identify where improvements in resilience could be made, and therefore, **Ofgem will need to consider the resilience proposals within the ED2 final plans in light of any findings and recommendations from the Storm Arwen reviews. We support an open review to identify the appropriate ongoing communications and resilience standards in the light of companies' performance during Storm Arwen. A reopener mechanism may be suitable to introduce changes for resilience during the ED2 price control period.**

2.3.2.2 Workforce resilience, and Diversity and inclusion

Workforce resilience

In contrast to the other resilience elements, where DNOs have a long track record of performance, the development of newer Distribution System Operations (DSO), and data and digitisation projects, will create new challenges for the DNOs for workforce resilience. DNOs will need to attract and retain a different type of worker from the more traditional engineering roles. There may also be increasing competition for workers in engineering due to the growth in green technologies, such as wind farms. Expected forthcoming retirement of personnel within DNOs will also put increased pressure on companies to recruit and retain new staff.

DNOs are proposing to use a combination of measures to ensure workforce resilience, including higher recruitment of professional staff and apprentices, cross-training and upskilling of existing staff, and expansion of the use of the supply chain via contracted staff. These measures are often supported by intentions to change the company's culture and to have inclusive workplaces. The overall increases in staffing can be considerable. For example SSEN (p159) intends to recruit an additional 850 staff, SPEN (p123) has plans for 446 more staff, and NPG (p170) plans for over 1,000 new job opportunities.

Stakeholder engagement for workforce resilience proposals appears varied, with some companies acknowledging more limited activity, e.g. UKPN (p107) which states: *"We did not engage deeply with our customers on workforce resilience..." although UKPN does note other stakeholder engagement with trade unions. Other DNOs such as SSEN (p164) noted that "we have engaged with a wide range of stakeholders to support the development of our workforce resilience strategy, including trade unions, and our employees, through local authorities and various customer groups, to industry bodies including Energy & Utility Skills (EU Skills) and other DNOs."*

We are aware that many Customer Engagement Groups (CEGs) have reviewed the workforce resilience proposals of the DNOs in some depth, and Ofgem should review their comments on this subject. The CEG reports highlight the challenges that the companies face, and areas of strength and weakness, including in changing culture, stakeholder engagement, setting targets, and measuring progress.

Ofgem should review the DNO proposals and CEG reports on this subject to ensure that the workforce resilience plans: meet the needs of the businesses in ED2 and beyond; are realistic and deliverable; have appropriate stakeholder support; and represent value for money for the options selected to deliver workforce resilience.

Diversity and inclusion

In the area of equity, equality, diversity and inclusion, the DNO plans have proposed improvements for a more inclusive workplace, however, the differing ambition of these proposals probably reflects the varying maturity levels of the companies in this field. As noted by many companies, there will be a need to provide more flexible work options, wider and targeted recruitment, and better engagement and opportunities to ensure that the DNOs can have a workforce of

the future that is best able to meet the needs of the net zero transition, and represents the environment in which they operate.

Some DNOs have proposed targets to measure and advance progress in diversity and inclusion (e.g. ENWL (p128), SSEN (p164)) which should be viewed as best practice. Other companies such as WPD (WPD CEG report at 3.5.3.7 (p21), WPD (p60)), do not appear to have any firm targets for diversity and inclusion but are intending to only measure progress. WPD do have firm targets in other workforce areas, however, e.g. for staff absences (p60). NPG (p170) appears to aim to monitor progress and use 'forecasts' (p169), e.g. for increasing the percentage of women in the company. NPG's language in this area may not equate to firm targets for delivery.

Ofgem should consider whether DNO plans for diversity and inclusion are materially weaker if they are not supported by targets to measure progress, engender senior scrutiny, and ensure delivery. Ofgem should also consider whether the diversity and inclusion plans are inclusive of all types of characteristics beyond the better known ones like gender, disability, and ethnicity, i.e. characteristics such as age profile, sexual orientation, neuro-diversity, and socio-economic background, etc.

2.4 Delivering an environmentally sustainable network

We commissioned a specialist consultancy, Baringa Partners (Baringa), to conduct a review of the Environmental Action Plans (EAPs) and associated material for this Call for Evidence. We also commissioned Sustainability First to support us with scoping the research and reviewing the material from Baringa, as we welcomed their expertise in this area which is less familiar to us.

Baringa has produced a detailed report which has been sent to Ofgem as an attachment to this Call for Evidence response. We recommend that Ofgem reads the Baringa report in full as it highlights best practice (including where this may be from international sources), and describes key areas for improvement with recommendations addressed to Ofgem, the DNOs, the Energy Networks Association (ENA), and wider industry. Baringa's report and this Call for Evidence response document will also be uploaded to our website in due course.

The research has covered these important areas of the EAPs, including considering them in relation to the Ofgem ED2 Business Plan Guidance⁴² baseline expectations for EAPs at Appendix 3:

- Business Carbon Footprint (BCF)
- Losses
- Sulphur Hexafluoride (SF6)
- Supply Chain
- Embodied Carbon
- Resource Use and Waste
- Oil Pollution
- Biodiversity/natural capital
- Polychlorinated Biphenyl-related pollution (PCBs)
- Noise

Key overarching messages revealed from the research include the following points.

There was a disparity in rigour and ambition between plans which was beyond that which may be expected from localised differences. The causes of the variability could be due to: the high level nature of the guidelines that permitted differing interpretations, approaches and presentation of data; and potentially different maturity levels in executive management and board-level priorities, governance structures, dedicated roles that include both responsibility and authority, resource allocation (financial and expertise), and company culture.

Ofgem should review the Baringa report which has highlighted areas where the framework and expectations could be improved and made more prescriptive for the draft determinations. Ofgem should consider the 'softer' aspects that support the plans, such as governance, resourcing, and seniority of those with the environmental remit to identify areas for improvement across the sector and how these aspects may have impacted the EAPs.

It proved difficult to readily compare the EAPs given the variability of the presentation of material in relation to targets, activities, methodologies and reporting. The extent of material has also proved problematic to readily review in the time available for the Call for Evidence. It was apparent that some targets, while appearing stretching, when considered closely, may be less ambitious than other DNOs' targets as they may have included more within the scope of the target. The Baringa report describes this comparability issue in more depth and points to examples where a simple reading of targets will not be sufficient to

⁴² Ofgem, [RIIO-ED2 Business Plan Guidance](#), Appendix 3, September 2021

identify leading ambition or best practice. **As with the first point above, it would be valuable for Ofgem to drive standardisation in what should be within scope of targets, and detail how data should be presented to achieve greater consistency and comparability, and to be able to better understand ambition and monitor progress towards targets. Baringa has noted that Ofgem could require a summary table at the front of annual Environmental Reports with ED1/ED2 targets and actual performance over a rolling 7-year period, supported by graphs and summaries by subject area.**

Collaboration will be a key factor in the success of the EAPs to drive more rigour, transparency, and performance comparability across companies. **Ofgem should encourage the ENA, DNOs, and other sectors, such as transmission, gas distribution and the ESO, to coordinate in identifying best practice, innovations, and standardise standards for setting targets, measurability, and reporting. Ofgem should also consider the incentive framework for the environmental initiatives of the DNOs to ensure that DNOs are rewarded for outcomes involving collaboration and are not dis-incentivised from doing so through a more competitive regime.**

Certain areas of the EAPs are of such high importance for implementation that we believe that they should be financially incentivised rather than reputationally incentivised. **Ofgem should ensure that the issues of losses and SF6 are appropriately financially incentivised to ensure that delivery against targets is achieved.**

3. A smart, flexible energy system

3.1 Modernising Energy Data

We urge Ofgem to review the Energy Digitalisation Taskforce’s recommendations about how to improve energy data’s ability to offer consumer benefit. We think the Ofgem networks team will need to work across teams internally to consider options to improve the way consumers can use energy data from suppliers and networks to inform their energy consumption, energy efficiency options and investments in low carbon technologies to enable net zero. Without a clear data strategy that facilitates consumer engagement it will delay the delivery of net zero.

Energy networks should be obliged to support:

- **Streamline asset registration** Accelerate the deployment of the central energy asset register, focusing on Auto Registration and setting the foundation for future sector data flows
- **Develop a simple customer consent dashboard** Build appropriate and simple consent methodology which is crucial for consumer protection and to build trust in what and how the energy sector is using consumer data
- **Utilise smart meter data for public good** Adopt the PIAG⁴³ recommendations on access to de-personalised smart meter data for a public interest purpose with appropriate privacy protections
- **Recognise data based, virtual solutions** Progressively adopt and embrace data-based solutions in place of pre-determined technical solutions to unlock and accelerate innovation

We would also highlight the Minister’s open letter to regulators⁴⁴ that highlights that *“vulnerable consumers face similar issues across all sectors including difficulties with accessing sufficient information, finding the best deals, and making payments”*. It further states *“UKRN has an important role in facilitating meaningful co-operation between regulators on cross-cutting initiatives, such as improving the use of data to help identify vulnerable consumers”*.

We welcome that Ofgem, along with 4 other regulators, have committed to UKRN’s statement on “Encouraging innovative use of data to improve outcomes

⁴³ [Smart Energy Data Public Interest Advisory Group](#)

⁴⁴ BEIS, [Strategic priorities and cross-sectoral opportunities for the utilities sectors: open letter to regulators](#), January 2022

for consumers". Ofgem should be leading this activity given that energy bills are rising substantially and those least able to afford the increase are likely to already be in, or moving into a vulnerable circumstance.

We believe network companies should be required to deliver a more joined-up priority service register that will utilise data from energy companies. We have outlined the model that the companies should follow [here](#). Currently the different proposed initiatives overlap and duplicate without providing a holistic approach to delivery that will allow a national solution to emerge. We believe that the progress networks have made should be consolidated to reduce duplication, provide better visibility and overall better support consumers in vulnerable circumstances.

3.2 Distribution System Operation (DSO) transition

The delivery of effective DSO measures within ED2 and beyond will be necessary for the United Kingdom to achieve net zero. The DNOs have a vital part to play to ensure that capacity is appropriately managed on the energy system to meet increasing need and to ensure that this is undertaken at lowest cost for consumers.

We have addressed forecasting risks and mitigants at 4.1.

3.2.1 Mitigants for potential conflicts of interest including DNO/DSO separation

All DNOs have proposed a number of measures that aim to address any actual or perceived conflicts of interest between the roles of the DNO and DSO. These include stated policies of 'flexibility first' (by most DNOs) or 'flexibility and energy efficiency first' (UKPN p149) which aim to ensure that traditional reinforcement is not the automatic first choice for meeting capacity requirements.

Other proposed measures by DNOs to address potential conflict issues include: operational reorganisation to have a separate DSO directorate; audits of decision-making; open and transparent reporting of procurement, dispatch, and settlement decisions; and independent and often externally-staffed DSO panels to assure processes or to act as appeal bodies from flexibility providers or others. UKPN has gone further and aims to have a fully legally independent and

separate DSO using an Operational Agreement to allocate roles between the bodies.

Most of the DNOs have stated that there is no justification for a legal or fully functional separation of DNO and DSO operations and, in fact, state that such separation “would be damaging for customers’ interests” (NPG p68) on the grounds that synergies would be lost. NPG also notes that further separation may weaken the incentives in the regulatory framework to optimise investment (NPG p68). It could, however, be argued that the disproportionate size of the DNO functions (and associated revenues) compared to the DSO functions could result in less incentive to deliver DSO activities compared to driving efficiencies within the DNO functions. SPEN argues against a DNO/DSO split (p52) on the following grounds: that it would blur responsibilities; the unknown extent of the potential costs of full separation when the benefits case has not yet been made; that it would serve as a distraction in delivering net zero, and that customers had not asked for it.

We have noted in past consultations our desire to see further exploration of the merits of further functional or legal separation of DNO and DSO operations which may mitigate any actual or perceived conflicts of interest. We therefore welcome the forthcoming Ofgem DSO Governance consultation in 2022 to gather views on this topic. The full costs and benefits of any separation would need to be considered carefully, as well as licence condition responsibility and allocation, understanding where the assets should be best located, and how other resources should be split in the event of separation.

We believe that UKPN’s proposals to legally separate DNO and DSO functions have merit. There may be many positive aspects of separation including fostering competition. For instance, UKPN (p143) notes that they have made a commitment for the independent DSO to facilitate the procurement process for construction of major load and connections-driven investment which will allow competitors to bid against the DNO on a level playing field.

We note in the UKPN business plan that they have already identified potential issues arising from separation, and have discussed the possible need for an appeals process between the DNO and DSO (p148). There are also potential losses of synergies, e.g. by having delivery of some of the vulnerability strategy split between the DNO and the DSO (UKPN p146). UKPN notes that by separating the DNO and DSO functions during the ED2 process, the clarification of licence condition responsibilities between the 2 bodies could be developed as well as allocating the roles and resources appropriately. It will be necessary to preserve existing synergies as much as possible where these are beneficial for

consumers. **It was, however, not readily apparent how much the cost of the new DSO body would be, including full separation costs. This is an area that Ofgem should scrutinise to ensure the costs are reasonable for the planned new DSO organisation.**

Notwithstanding UKPN's proposals, **we support the wider forthcoming Ofgem DSO Governance consultation on the topic to ensure that all views are captured and considered. Following the consultation, it may be relevant for a DNO to trial a separation of functions to identify positives and drawbacks. The selection of the trial DNO could be made on the basis of the readiness of the DNO for separation as well as the benefits identified, and the costs to separate.**

We also recommend that Ofgem considers which of the many mitigants, proposed by the other DNOs which are not considering full legal separation, should be adopted as best practice for ED2. These best practice proposals include: separate DSO directorates and reporting lines to the executive, external audits of decision-making; the input or oversight by externally-staffed independent DSO panels; and full transparency and reporting of procurement, dispatch, and settlement.

3.2.2 DSO costs and benefits

Narrative descriptions of ambitions will not be sufficient to determine the extent of their targeted aims, and will not, in themselves, permit analysis of cost-efficiency and cost/benefit analysis. It has proved difficult to ascertain whether the DNOs have proposed ambitious and cost-efficient DSO plans given the wide disparity between stated costs for DSO functions. There is a similarly wide variation in estimated savings for consumers that DNOs have laid out in their business plans. It is probable that DNOs have allocated costs to the respective DNO and DSO functions differently (e.g. where IT, Operational Technology (OT), or personnel costs reside). Following are examples of DSO costs where they are clearly identified from the business plans: ENWL £36.5 million (p35), NPG £92 million (p62) , SPEN £185.1 million (p48), SSEN £73.1million (p112).

Many DNOs have described their savings from DSO activities in terms of direct benefits to consumers as well as wider societal benefits. However, it is not readily apparent why there are wide disparities between the more narrowly-drawn direct benefits. The differences appear to be due to calculation methodology choices such as the scenario chosen (e.g. high uptake of LCTs or

not), how much of deferred expenditure to include, whether flexible connections are included, and over what period the savings may be made). In the business plans, these savings are stated to be: ENWL over £248 million savings in load-related expenditure (p35), NPG £156 million by avoiding conventional reinforcement options (p62), SPEN £370 million over the next 45 years with deferral in ED2 resulting in between £36 million and £145 million in deferred expenditure depending on the scenario (ps40, 48), SSEN £46.3 million in deferring reinforcement and avoiding capital expenditure (p112), UKPN at least £410 million in avoided and deferred load-related expenditure in ED2 (p142), and WPD £94 million in avoided reinforcement (p68).

We recommend that Ofgem considers carefully the calculation methods for stated consumer savings and how allocations of costs have been made between DNO and DSO functions to determine whether the DSO plans are cost-efficient, ambitious, and provide value for consumers.

3.2.3 Full range of options for delivering DSO need to be considered

When we reviewed the draft plans, it appeared that few of the DNOs (with some exceptions) had assessed the full range of options for being able to deliver DSO, with a preference for reinforcement and flexibility options. This was often termed as a ‘flexibility first’ strategy. The final plans show a welcome shift in thinking and the plans now describe a fuller range of options, including explanation of how they will use Active Network Management (ANM), flexible connections, and energy efficiency.

UKPN’s plan (p148-9) outlines its ‘flexibility and energy efficiency’ plans and notes that it will “run an open whole system planning process. We will consult on scenarios for system needs and will compare flexibility and whole system solutions sourced from the market with asset-based solutions provided by the DNO (and in future by third party network operators).” UKPN’s approach, which takes a whole system view, appears to be among the leading positions on how to deliver DSO.

We also note the proposed use of flexibility by some DNOs to ensure higher reliability for consumers. For instance, WPD (p64) is intending to establish a DSO Energy Management Centre that will enable short term flexibility products to be used during power cuts. This should reduce the duration of power cuts and have other system benefits. Not all DNOs appear to have considered the use of flexibility for this purpose.

We recommend that Ofgem considers whether a DNO has outlined within its plan how it will address capacity and reliability issues using DSO resources, and whether the full range of whole system options has been incorporated in their plans, including using ANM, flexible connections, flexibility providers, and energy efficiency.

3.2.4 A DNO's role in supporting local authorities and devolved governments in the drive to net zero

DNOs have rightly spent considerable time in undertaking stakeholder engagement with local authorities and devolved governments in designing their business plans, especially given the accelerated net zero targets proposed by many of these bodies. DNOs have proposed a number of measures to ensure that ongoing engagement and support for local authorities and similar bodies is undertaken in ED2. These measures aim to assist these bodies to better understand whole systems and energy implications to meet local net zero requirements and to develop better Local Area Energy Plans (LAEPs) and Local Heat and Energy Efficiency Strategies (LHEES). These DNO activities are usually centred within the DSO function, given the forecasting and network planning activities of this part of a DNO's operations.

The DNOs have proposed a variety of measures including hosting regular forums or surgeries for local authorities (e.g. NPG (p37), SSEN (p125), WPD (p22)), and new teams to support local authorities with their development of LAEPs and LHEES (e.g. SPEN (p8, p40), SSEN (p16), WPD (p28)).

We welcome the additional support that DNOs are planning to provide to local authorities to develop more thorough plans and incorporate whole systems thinking. We believe that DNOs are well placed to support local authorities and their communities to achieve net zero with speed and at lowest cost.

We recognise that there may well be good arguments for having different support activities in specific areas, however, there is a risk of a piecemeal approach to the process across Great Britain. This would mean that some local authorities would receive a substantially better service than others with the risk that consumers in less well-served areas may not ultimately gain the benefits from a DNO's knowledge and experience. This risk may be exacerbated as some of these local authority support plans are presented as CVPs. **We address CVPs at 6.1, however, we note here that if a local authority support measure has value but does not meet the criteria for a CVP, it may be worthwhile for**

Ofgem to consider funding the scheme under baseline funding rather than lose the scheme in its entirety.

We recommend that Ofgem considers whether those schemes that offer the best practice services at good value should be a required element for all DNOs to ensure consistency across Great Britain in meeting the needs of local authorities in developing LAEPs and LHEES.

We recommend that Ofgem and the government put in place an overarching framework addressing the support needs of LAEPs and LHEES to ensure consistency and best practice across the sector.

3.2.5 Use of voltage control measures to optimise the system - CLASS

A number of the DNOs have proposed using voltage control measures in ED2, some of which are continuations or extensions of activities in ED1. The measures largely fall into 2 categories, high voltage (HV) and low voltage (LV). We have addressed the issue of the LV measures within the section on vulnerability as they have been largely presented as measures to address vulnerability issues.

The HV measure is known as CLASS. SSEN notes that CLASS “can provide significant benefits to consumers by reducing costs for the ESO and consumers” (p119) but that they await the outcome of the Ofgem consultation regarding its regulatory treatment before confirming whether they will use CLASS. ENWL is already using CLASS and has asked for continuation of its use in ED2 although they are not asking for further funding but will pay for this expenditure itself (p93-4). Revenues received by ENWL from ESO by using the voltage control service is intended to be split with consumers in line with the respective sharing factor (assumed to be 50% for ED2).

The outcome of the Ofgem consultation is key to understanding the value of CLASS to consumers. We support making good use of existing DNO assets. However we do not believe using regulated assets to bid into a competitive market is likely to deliver best value for customers. Allowing an appropriate regulated rate of return for CLASS should represent a better deal.

3.2.6 Promotion of flexible connections contracts for Active Network Management (ANM)

DNOs are proposing to continue and extend the offering of flexible connections contracts to customers. These contracts permit the DNO to curtail supply on occasion, according to the contract terms, at times of peak demand to better manage the system and otherwise avoid reinforcement. The customer receives a lower connection charge for agreeing to curtailment. Examples of these proposals: ENWL (p41) “increasing numbers of flexible connections” for ANM; NPG (p141) Customer outcome CN2 “Facilitate the mass uptake of LCTs, flexible connections...to support the drive to net zero”; SPEN (p77) “offer increasing amounts of flexible connections where appropriate for customers needs”; SSEN (p112) “Grow our flexible connections to 3.7GW of capacity”; UKPN (p81) “Further extending the offering of flexible connections to any customer who may benefit from such an offering”; WPD (p43) “In RIIO-ED2, we will significantly lower the threshold for connections to receive a flexible offer”.

These proposals may be beneficial, in some respects, as the customer gains from a lower charge to connect, and the DNO can better use ANM to manage capacity at peak times and avoid reinforcement. However, customers need to be made aware of the potential rights that they are signing away, and that the Access and Forward Looking Charges Significant Code Review (Access SCR) may mean that customers may be better awaiting its implementation to gain the potential benefit of cheaper connections.

In addition, by entering into such agreements, it is possible that those customers may not be able to offer services to other parties (depending on the contract terms), like the ESO, or between each other. This may mean that the overall costs of managing Great Britain’s energy system could be higher.

We recommend that Ofgem looks closely at the DNOs’ plans to continue and extend the use of flexible connections contracts to ensure that customers are not disadvantaged and that the proposals are beneficial in terms of the energy system as a whole.

3.2.7 DSO incentive metrics

We note the extensive engagement and work that DNOs have undertaken to present metrics for the important DSO incentive mechanism. We understand that this is still a work in progress to be concluded via Ofgem working groups and that the metrics presented within the business plans will be reviewed as

part of the process to reach a final incentive mechanism for DSO. We will be continuing to monitor the Ofgem working group progress in reaching a final incentive framework. As previously stated at 3.2.1, where we discuss the potential merits of DSO separation, it is possible that a separate DSO may help to focus management attention on the potential for DSO incentive rewards and drive appropriate behaviours. In a combined entity, the DSO expenditure and likely reward size is likely to be considerably smaller compared to other incentives, such as the Totex Incentive Mechanism, and so may drive company behaviours that may not focus upon the DSO activities.

3.3 Innovation

DNOs have referenced and described innovations that their DNO has initiated and developed into business as usual, as well as the embedded financial and other benefits that have accrued from this innovation. Some companies have noted active review and incorporation of other DNOs' or other sectors' innovation projects or highlighted collaborative projects and their benefits to consumers (e.g. SPEN p29). It was disappointing that more DNOs did not outline more fully the benefits from innovations that other companies or sectors have developed.

Consumers have contributed to the funding for these past innovation projects and it is essential that best value is obtained from these investments by all DNOs.

We recommend that Ofgem reviews the innovation proposals of DNOs to ensure that every company has incorporated innovations into BAU from their own projects and also how they may have ensured best value for consumers through using innovations developed by other companies or sectors. Embedding innovation should be a priority before permitting new innovation funding.

4. Keeping consumers' bills low

4.1 Managing uncertainty

The management of the various uncertainties that face DNOs during ED2 will be a vital tool to ensure that companies have the funding that is needed, when it is needed, while also protecting consumers from overpayment and the risk of stranded assets.

One of the key uncertainty mechanisms will be to ensure that load related expenditure (LRE) is facilitated effectively. We note that some companies have gone to great lengths to examine how load uncertainty between the Future Energy Scenarios (FES) represents a variance in the amount consumers may have to pay in the ED2 period. We welcome this approach and note that there should be a high bar for confidence for activity included in baseline allowances.

Companies have highlighted the divergence in potential consumer demand shown in the FES net zero scenarios to explain the use of uncertainty mechanisms. As examples, WPD states that the difference between its best and high estimate for load related expenditure is £1,249 million, while UKPN suggests it could potentially require £928 million in UMs. These are huge increases in investments on top of already sizable increases in baseline funding.

This will require clear use of accepted best practice in utilising allowances to efficiently modernise their network monitoring and control operating costs of more reactive network development. However, this is not a financing risk and considering it as such and supplementing cost of capital above evidence of cost is the worst way for consumers in dealing with demand uncertainty, because it distorts strategic investment incentives.

The quality and transparency of network investment strategies should be considered by Ofgem as important factors. Customers, stakeholders and other bodies that interact with the DNO, especially in the provision of flexibility services, will be able to better plan their own response and investment options if they have not only visibility of the network, including constraints, but also understand the likely investment parameters. This may include understanding the timescale of future investment so that they can plan their flexibility service offers. This transparency of the investment strategy should ensure that the networks become more cost-efficient, and enable better forecasting especially in respect of flexibility market provision.

4.1.1 Forecasting risk

DNOs as a whole do not have a sound record in forecasting for demand in ED1. As noted in the Ofgem ED1 Annual Report⁴⁵ (p9), DNOs had a combined forecast underspend for ED1 representing about 3% of total allowances (about £949 million), although the Green Recovery Scheme⁴⁶, which has accelerated spending for projects from ED2 to ED1, may reduce these underspends. The underspend for Load Related Expenditure (LRE) is “significantly under allowance” (Ofgem ED1 Annual Report (p9)), and was £2.2 billion or 29% under the expected expenditure. Ofgem points to the following reasons for the underspends including “schemes/projects being delayed or deferred; negotiating contracts with commercial incentives to deliver efficiencies; IT Transformation Programmes and innovative techniques being used to minimise costs” (Ofgem ED1 Annual Report (p9)).

There are likely to be increased challenges in forecasting for ED2 and beyond given the following factors: the acceleration for net zero targets; new innovation and technologies; changes to national, devolved, or local government policy; the potential use of hydrogen; developing flexibility markets; economic pressures from Covid-19 and the cost of living squeeze; and unknown responses by consumers in adopting time of use tariffs, EVs, heat pumps, and the use of other possible demand side response measures.

DNOs have made considerable efforts in the development of their Distribution Future Energy Scenarios (DFESs) which they have used in network planning. The requirement by Ofgem was to compare these DNO DFESs to the national ESO FES and the 6th Carbon Budget forecasts of the Climate Change Committee (CCC).

Currently, the varied use of the different DFESs by companies means that we believe that there is significant risk of some companies’ planned ED2 activities being poorly targeted to meet the evolving trajectory of the energy transition. We believe that different companies are categorising investments in baseline and UMs in different ways, which would be highly problematic. We strongly encourage a standardised approach that minimises the risk to companies of not being recompensed for poor investment, and for consumers being charged for poorly targeted investments that are accepted by Ofgem but do not efficiently contribute to service benefits.

⁴⁵ Ofgem, [RIIO-ED1 Annual Report 2019-20](#), March 2021

⁴⁶ Ofgem, [Green Recovery Scheme decision](#), May 2021

We urge Ofgem not to put weight on the more fixed ‘best guess’ snapshot energy scenario models produced for the ED2 business plan; nor on those that do not provide an accountable update of their projections over time against clear metrics. We have concerns about their accuracy; if the values in the model are not retested iteratively and the forecasts are judged on their efficacy, even the most detailed snapshot viewpoints will be poorly aligned with what an effective network investment approach will look like in 2028. Thus networks need to be assessed and rewarded on how well they are making investment decisions over time.

Although there are multiple DFESs, we think there is a clear optimal approach to a company determining the triangulation of their position amongst these scenarios. The key question is which scenario represents the most efficient network investment approach that will deliver a net zero compliant scenario and can be flexed by the company during the ED2 period to meet the other likely scenarios. This represents a confident low regret minimum spend compatible with net zero during the price control period. This approach means a company's investment strategy faces a low risk of being scaled down, ensuring improved confidence in RAV growth.

There may be justification for deviating slightly from this approach if the minimum investment to enable a level of flex in network capabilities in the ED2 period between scenarios is not possible from the most efficient scenario and if the most efficient scenario is highly unlikely. This may be impacted by geographical network requirements but also by a network company's confidence in its ability to deliver its activity in response to increased demand. Where it is due to company capabilities, it would seem some form of penalty should be applied. Also, if there is a high degree of confidence in not having to flex to a high demand scenario this may also be excluded. However, this will require a demonstrated ability of a company to forecast and model demand beyond the FES model that suggests they are feasible.

LRE could be especially subject to such inaccuracies as has been seen in ED1. As such, we have advocated⁴⁷ for the use of UMs to provide protection for consumers from DNOs benefitting substantially from over-forecasting expenditure requirements while also providing protection for companies so that they receive funding when it is shown to be needed.

⁴⁷ Citizens Advice, [Meeting net zero - Options for network company highly anticipatory investments in a post-COVID-19 environment](#), August 2020

4.1.2 Design of Uncertainty Mechanisms (UMs)

The key element of an uncertainty mechanism design is that it is demonstrably part of a measurable and accountable investment strategy that is focused on delivering value for consumers. This means that a company needs to provide to Ofgem evidence of forecasting, planning, iterating, managing and delivering changes over time in a way that is aligned with both short and long term consumer needs.

We value UMs that are closely linked to overarching load related strategies and where the trigger for future expenditure is clear and appropriately selected. The widest use of solution options to deliver load demand must be used to ensure the most long-term cost-effective solution. We therefore support the wider flexibility and energy efficiency first strategies that have a wide brief for delivering demand capacity. We note, however, that all whole systems solutions should be considered beyond these particular but important options which may involve players beyond the DNOs and their current customers and stakeholders. Asset utilisation should be maximised before considering spending bill-payers' funds on other solutions, meaning UMs linked to utilisation make sense. We also anticipate that forecasting for the networks will improve over time, so that more efficient options become clearer. UMs should accommodate these changes in forecasts as well as the continuing development of flexibility markets.

We also value those investment strategies that have a clear focus upon facilitating the further development of flexibility provision, particularly in the field of domestic flexibility resources, which will be a growing area of resilience and capacity. The use of independent audits of investment decisions, and regular reporting to Ofgem will also support confidence in load related investment strategy for stakeholders.

We have summarised a number of steps that we believe that Ofgem should be taking to ensure their are efficient network investment strategies in ED2, including incentive design:

- Companies to provide Ofgem a standardised view of network and service utilisation
- Companies rewarded for using flexibility and energy efficiency to maximise the utilisation of their network, as well as wider whole systems solutions that may be beyond current relationships
- Companies to work with stakeholders to provide transparency about its evolving planning and decision making during ED2

- Companies to provide regular network demand modelling updates to Ofgem and to be rewarded or penalised on the accuracy of their demand modelling
- Companies to be rewarded or penalised based on their service capability to respond as planned to requirements of their demand modelling
- Companies rewarded or penalised for the efficiency of their long term reinforcement utilisation trajectories

We outline below particular comments on the UMs proposed by companies.

4.1.2.1 Load Related Expenditure (LRE) UM design

The design of the important common LRE UM is still being developed by Ofgem with the DNOs. In the final business plans, DNOs have proposed a range of mechanisms to meet the LRE needs that may be above their totex baseline forecasts. **It will be important for Ofgem to firstly ensure that the requests for baseline funding for LRE are confident and based on robust forecasting, justification, and full optioneering before considering allowing further funding via the LRE UMs.**

DNOs have proposed differing LRE UMs, sometimes referring to them as meeting 'strategic investment' needs. Most DNOs have proposed UMs covering primary LRE, secondary LRE, and service unlooping, although not all DNOs have followed this exact model so that the proposed UMs are not easily compared. ENWL (p157 and Annex 29) has proposed managing LRE expenditure through 3 types of UM: one for high value projects; a load-related reopener based on a revision of the current ED1 reopener which could accommodate additional unknown potential load related costs relating to Access SCR changes; and a separate volume driver to cover unlooping and others service related costs. SPEN (Annex 5B.1, p8) outlines its 3 UMs, which differ in design from ENWL's, including a refutation of the continuation of the ED1 reopener mechanism. NPG (p198 and Annex 7.4) outlines its preferred UMs for LRE, including using a volume driver based on the number of EVs and heat pumps (Low Carbon Technologies (LCTs)) in use. UKPN (p180) advocates the use of a capacity volume driver for certain aspects such as HV and LV circuit capacity rather than an LCT volume driver. SSEN (Annex 17.1, p74) is also advocating the use of a capacity volume driver. WPD (p160-1) advocates for the use of a number of UMs involving elements of reopeners, volume drivers aligned to the length of assets installed and linked to capacity. WPD (p161) notes the use of a UM which can switch between flexibility and reinforcement which may address some of the concerns

surrounding ensuring all options are considered in UMs, although this UM does not appear to consider every whole system solution.

We welcome UM proposals that ensured that unused funding was returned to consumers. Depending on the design of the UM, DNOs could potentially benefit by retaining unused funds or benefit from the Totex Incentive Mechanism (TIM) where consumers would only have a percentage of unused funding returned. For any UMs where the TIM does apply (such as reopeners) lower company sharing factors could apply to reflect the potentially reduced level of scrutiny but maintain an efficiency incentive.

It has not proved possible to: fully evaluate the merits and drawbacks of the many complex UMs proposed for LRE; understand their interactions with each other, other UMs for other plan areas, and any interactions with the TIM; comprehend full implications for consumers; or ascertain which of the various UM combinations offers the best solution for meeting LRE strategic investment. Complex financial modeling is likely to be needed to be able to adequately compare proposals. Some details of proposals were redacted which also created difficulties in understanding their detailed operation. **We have therefore listed below some key areas for Ofgem to consider when assessing, modeling, and developing the UMs for LRE:**

- Some DNOs have proposed the use of reopeners or models based on the existing ED1 reopener mechanism. There may be merit in using reopeners, especially if it is a familiar mechanism, however, a reopener model may be slower to implement than a more automatic volume driver mechanism, especially given the likely speed of change to consumer behaviour and uptake of LCTs in ED2.
- Volume drivers which use an external independent measure to trigger their operation are preferable to those where the DNO has control over the measure triggering the UM operation. For instance, at first glance, the use of LCT volume drivers appears preferable to capacity drivers, where DNOs manage the capacity and therefore can potentially initiate the trigger. The LCT volume driver, however, would need to ensure that all alternatives have been considered before undertaking traditional reinforcement and it may be that a mechanistic link to the uptake of LCTs will not appropriately represent the true increased need for network action. Capacity drivers may better reflect the need to take action on part of a network, but are potentially subject to control by networks in triggering their operation. It will be necessary to ensure that any volume driver minimises the risk of undue control by DNOs to prematurely trigger

the driver, and that the data presented to trigger the volume driver, such as utilisation levels, is as transparent as possible and well justified.

- DNOs have often stated that the unit costs used in the UMs for LRE should be set on an ex-ante basis. While this offers comfort to DNOs in planning network costs, this may not offer protection for consumers where options to meet capacity issues may be changing, and the costs of alternatives, such as flexibility, may reduce. It may, therefore, be beneficial for UM costs to be adjusted during ED2 to ensure that only accurate allowances are provided to DNOs.
- UMs should be designed so that under-delivery has a clawback arrangement so that companies do not benefit by retaining funds when forecasts prove too high. DNOs should also not benefit from the TIM sharing factor (if in operation for the UM) in the situations where there may have been overly-high forecasts, or where ex-ante cost allowances in UMs were set too high at the outset, or where unit costs have fallen during the price control period.
- There is a potential risk that the UMs for delivering LRE may have unforeseen interactions with each other, interactions with other UMs for other plan elements (see 4.1.3 below), and with the TIM. The complexity of the operation of the UMs may mean that companies may unduly benefit from unforeseen interactions. Ofgem will need to be mindful of these potential interactions to protect consumers from over-rewarding companies.
- Customer Engagement Groups (CEGs) (and potentially the RIIO-ED2 Challenge Group (CG)) have had more time to discuss UMs with the DNOs and scrutinise the UM proposals. Their views will be valuable in assessing the relative merits and drawbacks of the UMs for LRE, although a review of the CEG reports has revealed that not all aspects of these UM mechanisms have been considered by CEGs. This is understandable given the volume of UMs presented for review and the likely need for complex financial modeling to fully understand and evaluate their merits.
- Ofgem will need to ensure that they have appropriately resourced the department undertaking the assessment and modeling of the LRE UMs and the other UMs for non-LRE aspects of the plans. There will also be a need to ensure that there are sufficient resources on an ongoing basis throughout ED2 to: recalibrate costs of any UMs; refine operation; ensure that any potential negative UM interactions are identified and rectified; and to ensure an agile response for reopeners and other UMs that require regulator scrutiny for implementation.

4.1.3 Other UMs for managing risk

The Ofgem ED2 Sector Specific Methodology Decision⁴⁸ notes that companies will be expected to use a large number of common UMs, many of which are based upon similar proven mechanisms in ED1. DNOs have often proposed revisions to these common existing UMs, as well as providing proposals for the new ED2 common UMs. DNOs have also proposed bespoke UMs where there is a project or line of work that can be segregated from the totex expenditure and where there is uncertainty in volume or cost. As with the LRE UMs above, it has proved difficult to fully assess and compare the merits of these UMs, given their number, variety, and complexity. As a matter of principle, the use of UMs is welcomed to protect consumers from the risk of overpaying DNOs for work that later proves to be unnecessary. UMs also provide security for the companies in the event of larger volumes of activity than expected or to provide funding for projects where it is not clear that they may proceed at the outset.

It will be necessary for Ofgem to scrutinise the proposals for these other UMs, including the bespoke UMs, to assess their merits and drawbacks, model their action, and identify any potential negative interactions with other UMs, the totex allowance, and the Totex Incentive Mechanism. **We have listed above at 4.1.2, a number of areas that would be valuable for Ofgem to consider for the LRE UM. Many of these recommendations will also be relevant for assessing these varied common and bespoke UMs.**

4.2 Bill impact

We noted in our review of draft plans⁴⁹ that it was difficult to compare bill impacts due to the different calculation methods used by the DNOs, and also how they presented their data. We asked for more consistency. For the final plans, there does appear to be more alignment in terms of DNOs consistently using Ofgem's financial parameters as the first presented bill impacts. However, it has still proved difficult to compare likely bill impacts for ED2 given the different scenarios and levels of expenditure that each company has used for calculating baseline funding (and therefore the headline bill impact). Some

⁴⁸ Ofgem, [RIIO-ED2 Sector Specific Methodology Decision: Annex 2 Keeping bills low for consumers](#), December 2020

⁴⁹ [Citizens Advice views on the electricity distribution network companies' draft business plans for RIIO-ED2](#), September 2020

companies did explain how the bill impact might change if all UMs were in operation but it has not proved possible to easily compare across companies.

We recommend that Ofgem carefully scrutinises the bill impacts and their methodologies to understand how bill-payers may be affected in different scenarios (including if all UMs were in operation), and to compare companies to identify ambition in cost-efficiency and delivery.

5. Finance

5.1 Efficient financing of business plans

The company business plan submissions to the regulator provide a view on how they would like the ED2 price control to function and a view on what they could deliver under their preferred price control. We agree with the common emphasis in the business plans that it is vital for companies to be able to finance the networks and services that will enable a transition to net zero for consumers. This needs to be achieved at an efficient cost for consumers because in 2022 consumers are already seeing ‘generational high’ energy bills that are set to increase into 2023⁵⁰. There are a number of reasons why these business plans could result in consumers funding inefficient costs:

- Systematic outperformance against incentives
- An allowance for the cost of capital set at level above that reflecting the cost of financing

5.2 Addressing systematic outperformance

We believe the likely removal of the outperformance wedge will add unnecessary costs to consumers in ED2. **We urge Ofgem to look at alternative routes to the wedge to address outperformance given the CMA’s position in the RIIO-2 appeal.**

5.2.1 Evidence of outperformance

We are concerned that ED2 will allow companies high returns across the board in ED2 as in ED1. Across RIIO and ED1, across electricity transmission⁵¹, gas transmission⁵², gas distribution⁵³ and electricity distribution,⁵⁴ current expectations are that nearly all companies have or will outperform compared to

⁵⁰ Citizens Advice, [Soaring price cap set to leave energy bills as a proportion of benefits levels at ‘generational high’](#), January 2022

⁵¹ Ofgem, [RIIO-ET1 Network Performance Summary 2019-20](#), 2021

⁵² Ofgem, [RIIO-GT Network Performance Summary 2019-20](#), 2021

⁵³ Ofgem, [RIIO-GD1 Network Performance Summary 2019-20](#), 2021

⁵⁴ Ofgem, [RIIO-ED1 Network Performance Summary 2019-20](#), 2021

their allowed Cost of Equity. In a well-calibrated price control settlement, we would expect to see companies' performance distributed around the allowed Cost of Equity. That companies are generally distributed above the allowed Cost of Equity demonstrates the structural outperformance.

The returns that companies made in ED1 are seen by numerous public bodies⁵⁵ as being inefficient for consumers through setting generous cost of capital metrics and by setting incorrect parameters for investment efficiency and output targets.

5.2.2 Source of outperformance

A company can take different approaches over which network and service investments to make by utilising the various different price control incentives and rewards to make a profit. This means the source of outperformance varies. The level of company discretion in investment choices and poorly calibrated metrics combine to provide opportunity for outperformance where these decisions are not properly aligned to consumer interest.

Company discretion in investment is a strength and a weakness of the RIIO model. It is a positive because it enables companies, as well positioned actors, to take efficient decisions in the best interests of consumers in response to wider environmental factors. However, where incentives are not designed correctly it allows companies to choose outcomes that are poorly aligned to overall investment efficiency.

The regulator is faced with information asymmetry⁵⁶ in establishing how the balance of price control design and incentive levels will align with consumer needs ahead of time. The regulator needs to take account of external factors such as changes in network usage. As a result, we support ex post mechanisms such as the Return Adjustment Mechanism (RAM) to improve confidence in fair returns. **Ofgem should consider tightening the RAM, compared to GD2 and T2, especially if the outperformance wedge is not applied.**

⁵⁵ National Audit Office, [Electricity Networks](#), Summary paragraph 20: "Under Ofgem's current regulatory framework, electricity network companies have provided a good service, but it has cost consumers more than it should have".

House of Commons Energy and Climate Change Committee (2015) [Energy network costs: transparent and fair?](#), p28, January 2020: "RIIO has not gone far enough in providing value for money for consumers of energy. We are particularly concerned by the greater than expected profits by the network companies after the first year of the new framework."

⁵⁶ Citizens Advice, [Application for Permission to Intervene in Energy Licence Modification Appeals](#), April 2021

5.2.3 Tackling outperformance at source

Incentives that are designed to tackle outperformance 'at source' by defining narrow parameters of anticipated performance risks remove the potential scope and incentive for companies to be flexible and prioritise decisions in a way that reflects overall consumer value. These targets will also rely heavily on effective calibration. A broad incentive for companies to act on emerging priorities for consumers will be vital if network companies are going to respond to the demand uncertainty that characterises the ED2 period. Tackling outperformance at source and via narrow technical parameters is therefore not only highly difficult but also unlikely to be in consumers' interest, particularly in periods of higher load demand uncertainty.

We think that the scope for outperformance will be determined by the overall makeup of the ED2 price control and Ofgem can reduce outperformance by better incentivising rather than limiting company discretion in delivering net zero. This must be based on companies providing flexible, robust and accountable investment strategies.

5.3 Cost of equity

The range of rates claimed to be required by companies (4.96% from WPD - 5.9% from SSEN) and the likely removal of the outperformance wedge, will add unnecessary costs to consumers in ED2. Ofgem should also consider known areas of potential generosity in cost of capital that add unnecessary costs and can distort investment strategy incentives.

5.3.1 Total Market Returns (TMR)

We strongly disagree with the production of TMR ranges using long-run historical equity returns, while using more recent data to inform the point estimate within the range. The TMR means total returns on all assets, not just equities. Indeed, returns on equities may significantly overstate returns on all assets (owing to greater riskiness of equities versus other asset classes). Hence, Ofgem should not just look at equity returns alone. In addition, Ofgem should use the longest possible time series for estimating the TMR, not biased by shorter more recent periods.

This is accepted by CMA as a suitable area for regulators to consider why TMR are overstated and should be addressed in ED2:

"Moreover, while such factors might suggest a slightly higher TMR, we agree with Citizens Advice's argument that, theoretically, the TMR should reflect the return on all assets in the economy, and that there is some evidence suggesting that total returns across all asset classes are lower than those on equities alone, and potentially materially lower."⁵⁷

5.3.2 Market Asset Ratios

The growing evidence of Market to Asset Ratios premiums in equity transactions in energy and water networks should be judged as a basis for reducing the point estimate for calculating equity. For energy companies this evidence demonstrates a market expectation that returns above the cost of capital look set to continue based on the underlying value of the regulated proposition for investors.

The CMA states:

"Citizens Advice considers that recent high MAR premiums are particularly compelling 'real world' evidence that supports the CMA's view that it is unlikely that such premiums are the result of company-specific factors alone..."

"Taking the recent transactions involving Bristol Water and WPD as an example, we noted that only some of KPMG's 'complicating' factors should reasonably apply. Industrial buyers operating in the same regulated sector, as is the case in both of these transactions, it would seem irrational to assume a significantly different 'view of the world' in order to justify a higher premium. In these cases, past outperformance levels of the purchased companies have varied, there are no sizeable unregulated activities to complicate the analysis and we saw no reason why expectations of allowances in future controls should justify a materially different view of the value of the assets. Specifically, with regard to expectations of growth, we noted that this should only create positive value if allowed returns are higher than required returns. As a result, KPMG's explanation of premiums (when applied to these examples) appeared to rest on various versions of 'private values' associated with synergies, scarce assets or overpayment (the 'winner's curse'). Of these, synergies appeared to be the most relevant consideration. However, in an asset-heavy utility where the bulk of costs relates to operating activities, we would not expect such

⁵⁷ CMA, [Final determination: Volume 2A: Joined Grounds: Cost of equity](#), P5.200, October 2021

savings to be, in isolation, material enough to justify the large premiums that have been paid. It was our opinion that a buyer's expression of private values could reasonably be interpreted as including a view on whether the regulator's allowed return is sufficient. Put an alternative way, we would have to give weight to a significant amount of 'other' justifications to conclude that the purchasers in these transactions had made no assumptions about either expected outperformance or the sufficiency of the allowed return on equity."⁵⁸

Given this view on emerging evidence, we think Ofgem should reconsider whether a downward adjustment is made to the cost of equity if the point estimate is too high relative to the cost implied by MARs evidence.

5.3.3 Beta estimation (including the period affected by Covid-19) and index investing

The chief evidence from the period affected by Covid-19 is that comparable regulated companies exhibit very low systematic/non-diversifiable risk. This is evident because Covid-19 is one of the few examples of a genuine global systematic/non-systematic risk facing investors. The other chief example in recent history is the 2007-08 global financial crisis. In both periods, UK water and energy company equities showed limited correlation with the overall equities market. Indeed, energy and water company equities reacted much more like government bonds than the average equity markets during these periods, namely, that they exhibited low betas. This reflected the clear expectation among investors that water and energy companies are far safer/less risky assets than equities on average, i.e. much more akin to government bonds.

In contrast, during time periods where no material global shocks are apparent (e.g. periods outside the Covid-19 pandemic and 2007-08 global financial crisis), equity market prices tend to be much more affected by factors that are unrelated to common risk factors. In particular, equity price correlations are substantially driven by buying and selling of shares as part of collective investment funds, which invariably track (or closely track) market indices (such as the FTSE All Share Index). Indeed, substantial academic research shows that the growth of collective investment funds is the chief driver of equity price correlation, thereby leading to substantial over-estimation of beta as a measure of underlying systematic risk. This was acknowledged by the CMA RIIO-2 decision:

⁵⁸ CMA, [Final determination: Volume 2A: Joined Grounds: Cost of equity](#), P5.682, October 2021

"We recognise the submission made by Citizens Advice with regard to index investing and note its views on the negative impact that this may have on shorter term betas."⁵⁹

We ask that Ofgem in ED2 (and Ofwat in PR24) consider the options for adjusting their beta assumptions based on the impact of index investing.

Overall, this means that Ofgem should attach far greater weight to the period affected by Covid-19 – as a measure of the true systematic risk facing energy company investors – than on other periods.

5.3.4 Debt costs

Structuring the RAM around RoRE and limiting it to totex and ODI performance means that the RAM may not provide the level of protection to consumers which Ofgem is trying to achieve. This is because it does not limit actual shareholder returns: the RoRE uses a notional gearing structure rather than the actual gearing of companies and so excludes any outperformance or underperformance that companies see as a result of raising debt at a lower or higher cost than assumed in the allowed rate of return. In the SSMD Ofgem explains their rationale for not including debt sharing:

"We therefore believe it would not be appropriate to share out-or-underperformance of debt costs without also imposing much greater restrictions on capital and corporate structures. This would require standardisation of structures across the sector to create a level playing field in which debt costs could be assessed on a like-for-like basis. This would represent more intrusive regulation and could require changes to legislation and significant restructuring costs. It is also important to recognise that, because of the volume of embedded fixed rate and inflation linked debt in the sector which has long dated maturities, decisions that were made in previous price controls will impact debt performance in RII0-2. Therefore, any introduction of sharing would risk imposing retrospective sharing of risk for decisions that were made expecting no sharing of this risk and/or return. This would represent a significant departure from our previous stance and, if introduced now, may raise questions over regulatory stability."

Whilst we strongly support the use of indexation as a basis for setting an efficient level cost of debt, we are concerned that companies' debt positions

⁵⁹ CMA, [Final determination: Volume 2A: Joined Grounds: Cost of equity](#), P5.494, October 2021

both impact their financeability and allow outperformance. We therefore ask Ofgem to consider amending RAM to include performance on financing costs.

Given the impact of the timing that debt is incurred reflects a significant part of its cost we want to see Ofgem incentivise decisions to raise finance at a time that reflects consideration of companies' need to deliver consumer investments at a particular time. The accepted financial structures and the required investment schedules that different networks face is a legacy which should not impact the financability of investments perceived to be required to meet consumer needs.

As we noted in our views on the draft business plans, concerns exist that actual embedded debt costs will vary significantly from the allowed cost of debt, based on Ofgem's working assumptions. We remain of the view that the implications of this need full consideration, noting that a number of key aspects of the current approach to the cost of debt need to be maintained in the interests of consumers. In particular we would highlight:

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

5.4 Risks claimed by companies in ED2 to justify higher equity costs

5.4.1 Uncertainty over load growth

We welcome Ofgem's use of uncertainty mechanisms which enables companies to make returns only on those investments that are delivered. They seek to remove the risk to consumers where over estimation of demand leads to unnecessary costs. They provide the mechanisms to enable companies to respond to rapid load demand growth and protect consumers from costs of investments not made. However, for investments that are made by companies, uncertainty mechanisms chiefly have had the effect of shifting risks from investors to consumers, especially of demand and cost risks including costs of net zero⁶⁰. The risk allocation mechanisms substantially limit the risks facing investors, especially of non-diversifiable risks to equity or beta, the only risks that are necessary or appropriate to compensate investors for (above and beyond the risk-free rate). Further, the residual risks facing energy company

⁶⁰ Ibid, p12

investors – invariably only reflect diversifiable risk for which it is neither necessary nor appropriate to compensate investors. This reflects that the main investors in the UK energy companies are all highly diversified global investment institutions, of which UK energy companies represent a very small fraction of their total assets. They are themselves typically held by other institutions or retail investors, which are also highly diversified against individual company and other idiosyncratic risks.

Contrary to this argument, network companies suggest that the scale of investment during ED2, and the level of money in UMs represents additional investor risk, despite the funding mechanisms giving high confidence over funding for this investment. The networks say that uncertain load requirements are an investor risk without a compelling explanation of how this increases costs of finance. One area where costs are likely to increase is around the uncertainty centred on timing of investment, but, given the long periods companies go between funding rounds, this is likely to be minor.

If you follow the rationale that more investment at similar or better terms than the RAV - which numerous companies commit publicly to seeking to grow - adds to risk, then it would follow that limiting opportunity to grow their RAV would have to conversely make investment less risky. Given the evidence of market to asset ratio premiums, linked by the companies themselves to future RAV growth⁶¹, - this seems implausible.

5.4.2 New metrics

Network companies argue new CAPM metrics such as CPIH and Iboxx Utilities used by Ofgem create new investor risks. However, companies are aware of Ofgem's discretion in adjusting the choice of metrics used and Ofgem has also clearly signposted these coming changes over a number of years. Finally, if a company is well run then it should be actively considering the metrics that will best reflect their comparison and assessment.

At every price control companies may be asked to take on new activities to meet consumer needs. Adjusting the metrics that are used to better ensure consumer value of efficient costs is clearly within scope and not related to the risks linked to not receiving allowed returns.

⁶¹ National Grid, [Proposed acquisition of Western Power Distribution and Strategic Portfolio Repositioning](#), March 2021

5.4.3 Access SCR

The companies have produced assessments on how Access SCR reforms will impact their costs during the ED2 period. There is huge variation and range in the assessments of the potential costs. For the companies it is critical that they are able to demonstrate their ability to anticipate and prepare for variation in load demand and Access SCR shows how they tackle this challenge. We think that the quality of these assessments is an important indicator for Ofgem about how they anticipate costs.

As the impacts of costs of Access SCR on companies will be via volume drivers and a company's capacity and ability to respond to load demand uncertainty the risk is the same as responded to above. We don't think it can be seen to reflect investor risk.

5.5 Ongoing efficiency

We note that the DNOs have proposed ongoing efficiency targets of 0.5% per annum for NPG (p188), SPEN (p11), and WPD (p154), 0.7% for SSEN (p155), and 1.0% per annum for ENWL (p110) and UKPN (p184). We believe that DNOs should be ambitious in their aims for ongoing efficiencies and we do not support the justifications for below a 1% per annum target. Given the level of efficiency in corollary markets for generation, low carbon technologies and energy services it is likely that network management, including demand flexibility will become significantly cheaper as new products and new participants enable system savings. Also, given the amount of spend increase in ED2 the opportunities for synergies between investments should be expected by consumers as standard. This 1% ongoing efficiency target is in line with the Competition and Markets Authority decision⁶² where they stated that the Gas and Electricity Markets Authority (GEMA) was not wrong in setting an approximately 1% efficiency target for the RIIO-2 companies.

⁶² CMA, [Summary of final determination](#), October 2021, p8

6. The Business Plan Incentive

6.1 Consumer Value Propositions (CVPs)

Ofgem's ED2 Business Plan Guidance⁶³ (p72) lays down parameters for CVPs noting that they are to be in certain categories, namely providing services to vulnerable consumers, for major connections customers, in environmental matters beyond EAPs, for DSO activities, and in whole system approaches. All CVPs must demonstrate that the proposal goes beyond the minimum requirements and beyond the functions typically undertaken by an energy network company. There should also be an outline of how these proposals benefit consumers.

We have addressed the issue of low voltage control measures (e.g. Smart Street, BEET, etc.) in the vulnerability section above at 2.2.1 as they were referenced by the DNOs in that context. The high voltage CLASS CVP is commented upon in the DSO context at 3.2.5.

We note below some overarching comments which Ofgem should consider in their review of CVPs.

CVP framework

The ED2 Business Plan Guidance states at 8.13 that "Ofgem will assess the proposals included within the CVP and determine whether the company should receive a reward... and if so, the size of the reward". The Guidance also states at 8.22 that "Ofgem expects to determine the size of the reward by multiplying the net consumer value by the company's totex efficiency incentive rate". Most companies have assumed a 50/50 sharing factor for ED2 in their calculations. We have noted that some CVPs have potentially sizeable rewards compared to the outlay. For instance, all of UKPN's CVPs together (p84) would have a cost of about £85 million with a potential benefit of about £188 million. If the reward is allocated at 50% of net benefit, the company reward could be as much as £51.5 million. WPD CVP4 (p28) for solar PV on schools has a cost of about £3 million and potential benefits of about £23 million. The reward for the company at 50% of net benefit could be £10 million.

⁶³ Ofgem, [RIIO-ED2 Business Plan Guidance](#), revised September 2021

UKPN has proposed (p83-4) a different funding arrangement where costs are shared 50/50 with customers which is stated to address fairness, and continue to have benefits shared 50/50. Notwithstanding UKPN's proposal to consider a different approach on costs, it is not clear that such large and disproportionate rewards for non-core and non-essential lines of business was initially the intention of Ofgem. **It does not appear to be appropriate that a DNO should benefit so substantially and disproportionately from such additional non-core activities. We would recommend that Ofgem reconsiders the extent of the reward for CVPs. Ofgem appears to have discretion to determine the size of the reward as noted above in the ED2 Business Guidance at 8.13, and the 50/50 sharing of the benefit as a reward is an 'expectation' only. It may be more appropriate to weight the sharing factor towards the customer for the CVP reward so that rewards for the DNOs are proportionately reduced and appear fairer.**

Corporate social responsibility

2 CVPs proposed by WPD (CVP4 solar PV on schools, CVP6 £1m Community Matters fund (p28)) are shareholder-funded. As a matter of principle, it does not appear suitable for projects funded by shareholders to receive CVP rewards. **These proposals may be more suitable to be considered as corporate social responsibility.**

Business as Usual (BAU) or CVP?

Some projects have been proposed by DNOs as CVPs when similar proposals have been included within baseline funding and as BAU by other DNOs. Examples include voltage control measures which are CVP1 and CVP2 for ENWL (p93) and CVP3 for NPG (p8), while it is in the base plan for SSEN (p119). Other areas where there are proposals for CVPs which also appear to have similar proposals in baseline proposals for other DNOs are: supporting local authorities for development of LAEPs or net zero goals or in whole systems optioneering (SSEN CVP1 (p16), WPD CVP2 (p28)); supporting community energy groups (WPD CVP3 (p28)); net zero ambitions for a DNO's own Business Carbon Footprint (WPD CVP1 (p28)).

It is probable that the variation in approach may reflect different levels of maturity for activities by some DNOs or different viewpoints when considering whether some activities should be BAU.

Ofgem should review the CVPs and their justifications to ensure that they are truly beyond BAU and to understand the rationale for why some DNOs

have proposed similar schemes which are within baseline funding while others have selected CVPs to deliver the service.

Best-placed and potential competition issues

As we noted in our review of the draft plans, we raised concerns about whether DNOs were always best-placed to undertake certain activities. Some CVPs may extend the roles of DNOs into areas where competitors may be concerned about the proposal, or where others may be better placed to fund and deliver such a proposal. We have already discussed these issues to some degree in our review of CVPs for customers in vulnerable circumstances but have also identified concerns for other CVPs. Examples include UKPN CVP2 (p83) which aims to socialise connection charges for EV charging points where there has been 'market failure' in provision. It could be argued that any market failure is a rational market response. Stimulating activity in those areas by using customer-funded socialisation of connection charges may be an inappropriate use of bill-payers' funds, and that another, more democratically accountable body, such as the local authority, should step in to correct any market failures. In addition, it may be preferable for proposals to socialise connection charges for certain customers to be reviewed as part of charging reforms where all stakeholders have time to consider the implications in depth via consultations.

As a contrast, the SPEN CVP2 (p158 and Annex 5C.2 p60) while appearing similar to the UKPN CVP has some subtle differences in operation. The SPEN CVP proposes for the DNO to advise councils on the best places to site EV charging points in areas where there is no market interest and therefore would identify cheaper connection points. The local or devolved authority may then tender for chargepoint providers to provide services using this data. The CVP activity appears to be well placed with a DNO and may not have the same potential impacts on competitors in providing this service. It is possible, however, that other DNOs may be supporting local authorities in such activities via their BAU proposals, as many DNOs have extended their services to these communities.

SSEN's CVP4 (p16) proposes to use sub-sea cables to run broadband fibre cabling to help better connect remote island communities. This appears to be a good extension of the use of existing assets to provide additional services to communities and appears to be relatively well supported by stakeholder engagement from local authorities and the Scottish Government (Annex S3, (p34). However, it is not clear whether competitor providers for internet services were approached. It may also be preferable for such activity to be funded by

democratically-accountable bodies such as local authorities or the Scottish Government rather than socialising internet connections via bill-payers.

SSEN's CVP1 (p16) proposes extensive support for local authorities in whole systems and WPD CVP2 (p28) proposes to proactively partner with local authorities to assist in the production of better LAEPs. All DNOs have proposed extension to their activities for local and devolved governments. It is not always clear why these CVP proposals are markedly different from other DNOs' BAU proposals.

Ofgem should scrutinise the CVPs to ensure that DNOs are the best-placed body to undertake the activity, and that the position of potential competitors is considered, for instance, by justification from stakeholder engagement. Ofgem should also consider whether funding such extension activities via socialisation on bills is appropriate and whether the activity would be better funded by democratically-accountable local authorities or devolved governments, or better assessed via charging reviews for socialisation of connections charges.

Clawback of funding for poor delivery

We welcome many DNOs' proposals for CVPs to have a mechanism to ensure that funding is returned to customers for non- or under-delivery. **Ofgem should ensure that all CVPs have clawback mechanisms in the event of poor delivery so that customers do not pay for services that are not delivered or only partially-delivered and where there are benefits which do not reach customers.**

CVP benefits and measuring outcomes

The DNOs have provided substantial detail to explain the methodology for calculating the benefits from these CVPs, as well as the methodologies which are to be used to measure outcomes. It is beyond our capacity to undertake a detailed review of all of these methodologies. However, where we have reviewed some areas in detail, for example consumer vulnerability, we have not always found that benefits measurement is consistent or that Ofgem could have a high level of confidence in the figures needed in order to provide rewards. **We recommend that Ofgem scrutinises the methodologies for calculating benefits and measuring outcomes to ensure that the claims for the benefits are robust, and that the outcome measures are appropriate and represent best practice.**

Customer Engagement Group (CEG) input

The CEGs will have had more time to review CVPs, their stakeholder engagement and justification, and the methodologies for evaluating benefits. **Ofgem should carefully review the CEG reports in relation to CVPs to understand their viewpoints and gain from the in-depth scrutiny that has been undertaken by the CEGs.**

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