

**Draft Determination Consultation
Wales & West Utilities (WWU)
Customer Engagement Group (CEG) Response**

The Draft Determination (DD) for Wales & West Utilities (WWU) on Business Plans for the period 2021-2026 was published in July 2020.

The RII0-2 guidance advice provided by Ofgem was that the Business Plans would be customer driven, with sophisticated methods of customer engagement used by all companies to assess what customers valued. Ofgem stated that this engagement process would inform the Business Planning process, and, most importantly, support their Business Plan assessment. To facilitate this Ofgem introduced different models of stakeholder engagement that involved both companies and Ofgem establishing groups to challenge the Business Plans proposed by the network companies for the next round of price controls. Ofgem stated they hoped this would raise the bar for engagement, and the quality of the Business Plans, and enable more flexible regulation reflecting regional differences.

As WWU CEG our role has been to ensure that stakeholder engagement is a core element of RII0-2; and within this context our CEG challenged WWU to robustly demonstrate that customer insight was at the heart of their planning process. WWU responded by effectively demonstrating that customers key concerns were:

- The maintenance of a safe and reliable gas network, including improving services for, and commitment to, vulnerable customers, with specific emphasis on improvements in the Priority Services Register (PSR), carbon monoxide (CO) awareness, and communication.
- Delivery of an environmentally sustainable network including delivering a low-carbon, reliable energy source for the future, whilst improving environmental impact now.
- Providing a high-quality affordable service which responds to customer needs, meeting the needs of consumers and network users, and delivering value for money (notably, bill reduction was not a key driver).

The stage of Open Hearings by Ofgem on the Business Plans was curtailed by the Covid-19 crisis, which meant the DD were published without this additional layer of input.

As a CEG we are disappointed with the lack of reference, and the apparent lack of consideration, to customers and customer engagement in the DD. The DD seemed to focus on an analytic cost assessment rather than being driven, or at the very least influenced, by customer insight, and in our view not supporting a sustainable Business Plan which includes long term investment for a resilient network, which was supported by customers.

The CEG are unable to reconcile any correlation between the engagement process, which drove the outcomes of the subsequent final version of WWU's Business Plan, and the policy drivers which Ofgem have adopted to produce their DD. The customer engagement work was hugely resource intensive for all parties and is something which customers ultimately pay for. For this to be disregarded to the extent it seems to have been in the DD, makes us question the emphasis Ofgem put on this area in the first place, and the establishment of CEGs and a central Challenge Group (CG) to hold companies to account. In addition, we are very concerned at the lack of customer engagement work undertaken or referenced by Ofgem to support the proposed policy direction and DD, with its emphasis on bill reduction as the apparent key driver.

We are also mindful that if companies adapt their Business Plans to meet Ofgem requirements in the DD then they may be doing so without customer support. As a minimum will Ofgem mandate ongoing acceptability testing of Business Plans that customers have been consulted on are significantly changed? As an example, in WWU's case, cutting allowances by 16% may mean the company is unable to meet customer expectations. How will this be tested to consider whether it is acceptable?

In addition, CEG have major concerns around the investment made by companies into customer engagement, the results of which don't seem to have been acknowledged in the DD. Much of the

CEGs work concentrated on holding the company to account to ensure customer views were appropriately incorporated into the plans, but also because of the huge amount of resource invested in the customer engagement work.

If customer research does not inform/drive decisions, then the process will have been a huge waste of resources, and one that customers ultimately pay for. In addition, future customer engagement will be harder to justify at board level, negating the principles on which this process was originally based.

We include an appendix which highlights some areas where there is a clear disconnect between consumer and stakeholder priorities, and Ofgem's proposal. We would like to see evidence from Ofgem around how they have used customer engagement to inform their determinations and how customer engagement work will inform the rest of the RIIO-2 process and beyond.

Dr Mike Brooker on behalf of WWU CEG

Appendix

Network

The CEG notes the significant proposed impact on Repex (21% cost reduction). In suggesting this reduction, we assume that Ofgem have considered the deliverability of the programme and any potential impact on the HSE obligations. Further, we note that the analysis was based on a single regression model and, given the critical nature of mains replacement programme, question whether this assessment is sufficiently robust. Having spent many hours challenging the company on their mains replacement programme, we are disappointed that the Tier 2B element has been disallowed. On reading the DD, it is not clear to the CEG as to why the Cost Benefit Analysis undertaken by the company was not sufficient. Further, the CEG have concerns that disallowing this activity will lead to greater inefficiencies in the mains replacement programme, to the detriment of customers and the environment.

The CEG welcome the endorsement by Ofgem regarding their challenge on efficiency. However, we hope that an explicit efficiency mechanism is developed that encourages innovation and ensures that the Company acts in the best interests of the customer.

IT and Cyber

IT and Telecoms are an important part of the operational needs of WWU in terms of systems and first-class customer service. CEG was surprised that, of the £31.8m investment sought by WWU, only £5.1 m was approved with consideration for a 're-opener' in the future for further investment. CEG consider that this is likely to interfere with the momentum towards more efficient delivery of the gas distribution system and customer service and thus merits review by Ofgem.

There would seem to be no doubt within the DD that the motivation and direction of WWU proposals on IT, Telecoms and Cyber security are not in question. The term "excellent intentions" is used, but there are no allowances made for Cyber security and IT Capex is reduced to 20% of that applied for.

The DD refers to the reduction following an external consultancy – this was performed by Atkins Ltd. The approach was to validate verify that the cost model calculations were correct. However, they report that it was not possible to implement this approach because, in all Business Plans, including WWU, the project outlines as presented focussed on the why (stakeholder benefits), rather than the detail of their delivery. This was due to being asked for values in templates which made embedded results untraceable and the case impossible to validate. This would indicate that with some interaction between WWU and Ofgem the required information can be provided and a more accurate assessment made prior to final Determination. It was noted that WWU's systems applications are much older than their peers and it was clear that WWU must source investment funding to improve its service.

Cyber Security (for Energy Networks) will be a major national issue as we move towards a more integrated, complex, multi-vector system. It is surprising to see a reduction here, as this could potentially increase network vulnerability which is clearly not in consumers' interests.

Innovation

The WWU submission in this area reflected a high standard of strategic planning, coupled with practical and actionable measures that will result in demonstrable change in line with all relevant performance metrics. The CEG was therefore pleased to see the positive feedback from Ofgem regarding the WWU Innovation strategy.

The CEG questioned the company to understand whether there would be any negative implications of the minor changes suggested by Ofgem. The company confirmed that these changes were unlikely to have any negative impact on the ability of WWU to deliver on its' Business Plan.

Customer Service

Customer satisfaction scores:

It is not clear why Ofgem is proposing the creation of an asymmetric incentive mechanism by ignoring the GDN suggestion that the deadband should sit between the Upper and Lower Quartile scores. The current Ofgem proposal would mean that GDNs would face a penalty for scoring 9.37 for their emergency service. There was no customer feedback indicating a need to further invest to improve performance in this regard.

Consumer Value Proposition (CVP):

CVP was a very late addition from Ofgem to the Business Guidelines and CEG recognised that the company responded with some enthusiasm to the concept. The CEG was surprised and disappointed that the WWU CVP elements were rejected, given the strong overall performance of the company in this area. Connected to this is the positive impact of the Pathfinder model and the importance of its deployment. The CEG recommends that Ofgem reconsider a baseline allowance for this and a CVP reward, subject to further evidence being provided by WWU.

Environmental Action Plan (EAP)

The CEG was surprised that Ofgem is seeking increased ambition from the company in this area, despite customer and CEG support of the plan as outlined.

Vulnerability

While Ofgem accepted the WWU proposal on FPNES, the DD failed to reflect the importance of developing innovative responses to consumer vulnerability. This had been a priority and focus of work for the CEG and WWU, and, we had thought, a priority for Ofgem.

Ofgem seem to have disregarded that GDNs – without significant guidance or sight of the anticipated license condition on consumer vulnerability - need to grow into this role over the period of the price control.

The consequence of Ofgem's determination is that the 'use it or lose it' mechanism carries the weight of almost all activities supporting vulnerable consumers and communities. The cost of WWU plans in this area are greater than its 'use it or lose it' allowance. It means that not only will WWU be unable to deliver its current projects for vulnerable consumers there is no headroom for new activity as WWU (and other GDNs) grow into their responsibilities to vulnerable households or respond to developments around Covid-19 and bringing vulnerable consumers on the pathway to Net Zero.

This area was demonstrated to be a clear priority area for customers and the CEG.

We regard the proposals are a sign of a growing commitment of WWU and other GDNs to vulnerable consumers and that these projects should be funded to allow this crucial work to be delivered, and for WWU to embed provision for vulnerable consumers into their core strategic planning and business objectives.

Net Zero

Following on from the earlier discussion under 'Networks', if the Tier 2b mains replacement programme (under Repex) is disallowed, then there will also be negative 'Net Zero' implications in terms of (a) generating a Hydrogen -ready network (b) increased greenhouse-gas effect through fugitive network gas emissions. Neither is consistent with the value placed on Net Zero by customers and policymakers.

As CEG stated in the WWU Business Plan review, the success of achieving a Net Zero network is critically dependent upon the effectiveness of the Net Zero Uncertainty Mechanism (NZUM). As proposed in the DD, the NZUM process seems unnecessarily rigid, particularly given the overview provided by the proposed expert Net Zero Advisory Group (NZAG). CEG would welcome far greater flexibility in the process, particularly concerning trigger mechanisms, to ensure that Net Zero customer expectations are met.

CEG welcomes the value placed on multi-vector analysis to support Net Zero decision making in the DD, particularly acknowledging the sector-leading progress made by WWU through their Pathfinder modelling tool. CEG is very supportive of mechanisms for supporting further multi-vector modelling development, and cross-sector utilisation of Pathfinder, to increase confidence in the viability and value-for-money of Net Zero proposals.