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Dear Sir or Madam

Thank you for the opportunity to respond to the RIIO-2 draft determinations consultation. Please find below E.ON and npower's response.

Executive Summary:

E.ON and npower are pleased to see a very customer centric set of draft determinations for RIIO2. With Net Zero now at the forefront of every energy industry company's mind, it is more important than ever that customers bills are spent wisely and deliver as much value across the network as possible. With such significant levels of political and social uncertainty in how we are going to deliver Net Zero, we are especially pleased to see more focus on uncertainty mechanisms and how to deliver a Net Zero network in the face of that uncertainty. We are also pleased to see that Ofgem has thought long and hard about the suitable return that relative low risk businesses (such as networks) should be achieving, even in the face of all this uncertainty. Whilst there is much that E.ON/npower supports within the core document, there are a few areas where we have concerns. We believe that:

- Digitisation strategies should have clear Ofgem guidance on the whole system roadmap to digitisation to ensure interoperability and benefits of scale.
- There should be simpler and more penal ODI on carbon emissions.
- Ofgem should consider the issues that reopeners can cause suppliers regarding long term tariff price setting.
- There is a need for a generic reopener around changes to policy, legislation and standards
- The opening of a Net Zero reopener should be allowed under sector wide consensus.

Specifically, regarding the draft determination for the ESO, we would like to see more emphasis placed on the ESO to bring the whole market together to deliver flexibility across the network, ensuring that the full value of flexibility is captured and shared between customers and asset owners. The price control framework should include incentives that ensure delivery of ‘fit for purpose’ balancing services that treat transmission and distribution generation equally as soon as possible. The industry has been promised a new suite of services through SNaPS and the product roadmaps, but we still await trials for the first product (dynamic containment). These should also work seamlessly with local flexibility markets to encourage these markets to mature quickly. Without this, customers will end up paying significantly higher costs in the long term. This should be ESO’s top priority for the two years covered by BP1.

Core document questions

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

We believe that UGs and CEGs have been very successful at challenging companies both in terms of their business plans and customer engagement. An enduring role for these groups during the price control would ensure that companies always retain a customer centric viewpoint . UGs and CEGs should be asked to produce reports on companies' business plan progress as well as uncertainty mechanisms/re-openers that will affect the delivery of the original business plan. These reports should be made available to all interested parties (customers should be able to request them), but commercially sensitive information would obviously have to be removed or redacted. Ofgem should clearly have access to the full report.

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

As stated in Q1, UGs and CEGs are representing customers with regard to challenging business plans and investments. Therefore, it seems entirely sensible to allow Groups to assess and critique company responses through uncertainty mechanisms and reopeners where they have a meaningful impact on customer bills.

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

From a supplier (and hence an end customer) perspective we believe that there would be immense value in receiving independent reports on companies' performances, possibly on an annual basis. Suppliers would then be able to analysis the potential future level of company incentives i.e. is the company on track to hit (or outperform) its business plan targets so that long term (>1 year) fixed contracts can take this into account.

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

Group continuity should lead to better understanding and hence more insightful reports on company performance. Cutting and changing groups will lead to a lag in new members being up to speed with the issues facing any particular company and therefore membership should be kept as constant as is possible.

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

We believe that the digitisation of the energy system (as well as simple access to network data) are vital components of delivering the overarching financial benefit of a truly flexible energy system (as quantified by Imperial College and the CCC[1]). However, to our mind, the two license obligations proposed (production of a digitisation strategy every two years and a digitisation plan every six months, follow energy data best practise) do not give specific enough guidance on the whole system roadmap to digitisation. Allowing each company to have their own individual strategy will not deliver benefits of scale or compatibility e.g. different platforms/IT systems will make it difficult for systems to communicate with each other. We believe a centralised obligation (such as ECO) where companies work within the parameters laid out by Ofgem would be a better route to a fully digitised system.

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

Whilst we have concerns over the scope of the license obligations (see Q5), we believe that 2 years/6 months are suitable frequencies for the digitisation strategies and action plans.

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

No comment

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

As stated in Q1, we believe that the UGs and CEGs have been instrumental in getting a more customer-centric view into the companies. Therefore, we are highly supportive of an enduring role for Groups to challenge companies on their customer engagement commitments. Customer engagement should not be a 'box ticking' exercise and all efforts to ensure that it is valuable to both customers and the companies should be supported.

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

[1] Imperial College/CCC report

We are concerned that the methodology for measuring BCF (business carbon footprint) is too complex (especially around the topic of losses). We would like to see a clearer and more transparent reporting of carbon which allows a simple comparison between companies (both at transmission and distribution level) that can then feed into a financial ODI with penalties and rewards. Without a strong financial incentive on carbon, we feel that companies will be allowed to deprioritise this important issue.

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

No comment

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

We believe that it is important for all regulated companies to have efficiency at the forefront of their minds – both to mimic the competitive pressures that commercial companies face everyday from innovative new entrants and also to ensure that customers are getting the best value for money that they can. Through the totex mechanism, companies also benefit from finding cheaper ways of delivering their service. Therefore we wholeheartedly agree with the proposed efficiency challenge. The scope of any efficiency challenge should be all and any costs that companies have a degree of control over (capex, opex etc). The only caveat we would add to this is that customer service and customer outputs e.g. Customer Interruptions, Customer Lost Minutes, Net Promoter Score etc should not be affected by cost savings.

E.ON/npower however do not have any evidence to suggest that 1.2% p.a. (capex) and 1.4% p.a. (opex) savings are the correct levels.

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

As a supplier who forecasts transmission and distribution charges for gas and electricity for up to three years forward to include in long term tariffs, reopeners can cause significant issues (such as reopening contracts or even costs that cannot be passed through). Therefore, we would request that Ofgem be mindful of the downstream issues caused by reopeners. However, we also acknowledge that it is very difficult for companies to forecast their costs for the entire five years of a price control when so much is uncertain and so see the necessity of having this as an option.

A common approach for reopeners (rather than company specific reopeners) is a better option in that suppliers will then only have to make changes once for all customers rather than multiple changes for different sets of customers.

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

It is unclear whether this question refers to the Coordinated Adjustment Mechanism solely or to all reopeners in general. If it is the former, then Ofgem have not applied a materiality threshold, a financial incentive or a foreseeable criterion and so we do not see the point of the question. Therefore, we have answered in the context of reopeners in general.

We believe that the resource cost of reopeners means that it is unlikely that companies will bring forward spurious claims, but the introduction of a definitive materiality threshold will give the retail industry confidence that charges will not be subject to multiple, small scale unexpected changes.

We also believe that reopeners on the whole are considered by companies because of material changes that were not foreseen when their business plans were written. If these changes mean additional costs will be incurred by the companies to deliver their business plans, then there is no need for a financial incentive over and above the totex mechanism. If the change means reduced costs will be incurred, then we would expect Ofgem to step in with a reopener application (or make use of a RAM). Therefore, we do not see any need for a financial incentive.

A foreseeable criterion basically reduces to the question of whether the company should have included the costs in their business plan. If any of the companies in the same sector did include costs to cover the changes that outturned then it could be argued that all companies in the same sector should have foreseen these costs. Therefore, we believe a foreseeable criterion is a good proposal to include when considering any reopener application.

In terms of who should trigger and make an application, we see no reason why both companies and Ofgem should be prevented from triggering and making applications to cover both sides of any uncertainty. This offers customers the best mitigation against over and under forecasting of costs.

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

As stated in Q12, suppliers believe that as few as possible reopeners should be used to prevent disruption to customers tariffs. Therefore, we think that one application a year is sufficient. We do not have any strong reasons for preferring one date over another.

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

Ofgem have already begun the process of adding a whole system obligation into electricity distribution companies' licenses[2]. Therefore, we believe that the inclusion of the Co-ordinated Adjustment Mechanism straight away is the next logical step. Without it, DNOs will have little or no incentive to deliver actions or processes that would help the wider system, but which would cost the DNO themselves.

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

No comment

Q17. Do you agree with our proposal for the Non-operational IT and Telecoms capex re-opener?

No comment

Q18. Do you agree with our approach to using a re-opener mechanism for changes to government physical security policy?

No comment

Q19. Do you agree with our approach regarding legislation, policy and standards?

We acknowledge that at the time of writing business plans, it would have been very difficult for companies to assign a cost associated with potential changes in legislation, policy and standards. Therefore, it does seem harsh that Ofgem are not considering a generic reopener for significant changes due to legislation and policy change. An example of this is the Access and Forward-Looking Charges SCR. At the time of writing their final business plan submissions, companies will still have no firm idea of what is coming out of this Ofgem reform. To ask companies to assign a detailed cost against a very qualitative (but major) reform change does not seem fair. Therefore, despite the fact the reopeners can cause suppliers issues, we would be in favour of allowing companies a reopener associated with changes to legislation and policy. With the inclusion of materiality thresholds and foreseeable criterion we believe a sensible compromise can be achieved.

Q20. Do you agree with our overall approach to meeting Net Zero at lowest cost to consumers? Specifically, do you agree with our approach to fund known and justified Net Zero investment needs in the baseline, and to use uncertainty

[2] https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-proposed-whole-electricity-system-licence-condition-d177a-electricity-distributors-and-transmission-owners

mechanisms to provide funding in-period for Net Zero investment when the need becomes clearer?

We believe that a two-stage approach to funding Net Zero based on the certainty of need is the right approach. Strategic investment should require as high a level of certainty and justification as possible before customers are asked to fund it. However, this needs to be balanced against the probable higher cost of multiple incremental investment i.e. 'touch it once' should be cheaper than reinforcing minimally multiple times. Ofgem need to develop a clear and transparent mechanism to make this decision such that customers can be confident that their bills are being kept as low as possible whilst delivering net zero.

Q21. Do you think the package of cross sector and sector-specific UMs provides the appropriate balance to ensure there is sufficient flexibility and coverage to facilitate the potential need for additional Net Zero funding during RIIO-2?

We agree that by having a package of uncertainty mechanisms rather than a single Net Zero uncertainty mechanism will allow the different companies to focus on the various aspects of Net Zero that will impact them the most. For example, the heat policy reopener will allow the gas network companies sufficient flexibility to tackle whatever comes out of the Govt's heat strategy without impacting the electricity TSOs whilst the generation connection volume drivers will cover the issue of the unknown volume of generation going forward in a clearer manner than a traditional reopener. However, we ask that Ofgem keep in mind the impact that all reopeners (or volume drivers) have on setting long term tariffs for customers.

Q22. Do you have any views on our proposed approach to a Net Zero re-opener?

Whilst we are in favour of a Net Zero reopener, we believe that the industry itself has a better understanding of the impact of any policy, technology or legislative change. Therefore, we would prefer to see companies from the same sector being able to jointly agree that a Net Zero reopener should be initiated. This would obviously need to meet the criteria of the materiality threshold and a foreseeable criterion as well. If initiation of the reopener were an 'Ofgem only' option, then we suspect that Ofgem could see significant resource being taken up listening to each company's representation and having to ascertain its suitability as a reopener. By allowing the industry to come to a common agreement, only the most significant issues will come up to be agreed by Ofgem.

Q23. Do you agree with our proposals for the RIIO-2 Strategic Innovation Fund?

Whilst we approve of a Net Zero specific innovation fund, it is not clear to us how DNOs will be able to participate. Many Net Zero issues will centre around better coordination between transmission and distribution. This is another example where the Coordinated Adjustment Mechanism will need to be reflect in RIIO ED1 i.e. unless DNOs can see a direct financial benefit from participating in a SIF project, they are unlikely to incur costs that are necessary for the innovation project to be successful.

Q24. Do you have any comments on the additional issues that we seek to consider over the coming year ahead of introducing the Strategic Innovation Fund?

No comment

Q25. Do you agree with our approach to benchmarking RIIO-2 NIA requests against RIIO-1 NIA funding?

It is it not clear to us why RIIO1 NIA funding should act as a suitable benchmarking for RIIO2 NIA requests given that the scope of the NIA has changed over the period. We believe that each companies NIA requests ought to be considered and benchmarked against each other such that the requests with the largest benefit to the whole system (or vulnerable customers) with a proven track record in delivery are chosen up to a total level that Ofgem are happy to add to customer bills.

Q26. Do you agree with our proposal that all companies' NIA funding should be conditional on the introduction of an improved reporting framework?

Yes, we believe that under RIIO1 there has not been enough evidence of successful projects being incorporated into BAU. We believe that any reporting framework should include next steps (to include in BAU and rollout across the wider industry where relevant) with deliverables that can be tracked by an independent body (such as the UGs and CEGs).

Q27. What are your thoughts on our proposals to strengthen the RIIO-2 NIA framework?

We think that Ofgem’s identification of more public reporting, shared learning, proof of external interlinkages, increased collaboration (including with third parties) and transparency are all key in strengthening the industry’s view of the benefits of the NIA funding scheme and we wholeheartedly support all its efforts in this direction.

Q28. Do you have any additional suggestions for quality assurance measures that could be introduced to ensure the robustness of RIIO-2 NIA projects?

No comment

Q29. Do you agree with our proposals to allow network companies and the ESO to carry over any unspent NIA funds from the final year of RIIO-1 into the first year of RIIO-2?

We agree that a cliff edge in funding between RIIO1 and RIIO2 (caused by a 'use it or lose it' policy) would be more harmful to customers than allowing companies to carry over unspent NIA funds from 2020 into 2021. Therefore we are supportive of this proposal.

Q30. Do you agree with our proposal that all work relating to data as part of innovation projects funded via the NIA and SIF will be expected to follow Data Best Practice?

Yes. We believe that all findings from innovation funding should be 'presumed open' as the remit for SIF especially is to consider whole system benefits that can help deliver Net Zero at the lowest cost possible. Without data sharing, this will not be possible.

Q31. Do you agree with our proposed position on late competition?

No comment

Q32. Do you agree with our proposed approach on early competition?

No comment

Q33. Do you agree with our view that SHET, SPT, SGN and WWU passed all of the Minimum Requirements, and as such are considered to have passed Stage 1 of the BPI?

No comment

Q34. Do you agree with our rationale for why NGET and NGGT should be considered to have failed Stage 1 of the BPI?

No comment

Q35. Do you agree with our rationale for why Cadent and NGN are considered to have passed Stage 1 of the BPI?

No comment

Q36. Do you agree with our overall approach regarding treatment of CVP proposals?

Customer Value Propositions should be a key area for companies to work towards. Whilst we appreciate that business as usual already offers high customer value, all companies should be working towards finding better value methods of delivering for customers. If Ofgem believe that the only way to incentivise companies to do this is via the business plan incentive, then we support this approach.

Q37. Do you agree with our proposed clawback mechanism to treat received CVP rewards?

Non delivery of any aspect of the business plan (CVP or not) should be subject to penalty and clawback as this is customers' money that has been given to companies to deliver a value proposition. There should be no incentive for companies not to work hard to deliver on their promises.

Q38. Do you have any views on the interlinkages explained throughout this chapter?

No comment

Q39. Are there other interlinkages within our RIIO-2 package that you think are relevant to the three pillars identified in this chapter?

No comment

Q40. Do you have any views on our proposal to include a statement of policy in Final Determinations that in appropriate circumstances, we will carry out a post appeals review and potentially revisit wider aspects of RIIO-2 in the event of a successful appeal to the CMA that had material knock on consequences for the price control settlement?

No comment

Q41. Do you have any views on the proposed pre-action correspondence, including on the proposed timing for sending such to Ofgem?

No comment

Q42. Do you think we need specific mechanisms in RIIO-2 to manage the potential longer-term impacts of COVID-19? If yes, what might these mechanisms be?

No comment

ESO document questions:

ESOQ1. Do you agree with our proposal to incorporate EMR into the ESO's wider outputs incentives scheme?

We think that incorporating EMR incentives and outputs into the wider ESO scheme is in principle a good idea as it removes a degree of bureaucracy that comes at a cost to the customer. This does not mean that ESO should not be required to still produce metrics on its performance where they can help inform stakeholders, but that a separate bureaucratic process of proving that the ESO has meet all its outputs can be amalgamated into the wider process.

ESOQ2. Do you agree that it is appropriate to maintain the ring-fence between the EMR DB and the ESO in its current form?

We believe that the ring fence between the EMR DB and the ESO is no longer required due to the legal separation (and potential full separation) from NGET. Where there is no clear conflict of interest, the most cost effective option (which would appear to be consolidation of the two areas) should be the priority to keep costs as low as possible.

ESOQ3. Do you agree we should regulate system restoration costs in a consistent manner to other external balancing costs?

System restoration costs are different to other external balancing costs in that they are more akin to an insurance policy than other balancing actions. However, the changes to BSUoS currently being investigated by the BSUoS taskforce suggest that BSUoS is likely to become a cost recovery charge rather than a cost reflective charge. Therefore, incorporating system restoration costs with other external balancing costs becomes a more sensible option, reducing the work needed to regulate all system costs.

We also agree that the legal separation of ESO from NGET means that the potential 10% disallowance of Black Start costs could dominate ESOs incentive framework, making it focus too much on this aspect of system operation.

ESOQ4. Do you agree with our approach to setting up-front performance expectations?

We are in full agreement with Ofgem (and the ESO) that setting upfront performance expectations is key to a successful incentive scheme. The ESO (and the rest of industry) need to have an ex ante understanding of what 'on track' performance means in terms of incentive pay-out. Therefore, Ofgem need to be clear whether the ESO's proposed plan is sufficiently ambitious from the outset and that an 'exceeds' performance can achieve the £15m upside, that a 'meets expectations' will receive a defined (and positive) pay-out and that 'failing' will incur the full -£6m penalty.

ESOQ5. Do you agree that a financial reward or penalty should be determined every two-years, to align with the period over which we set expectations, costs and outputs?

We agree that the incentive scheme pay-out should be set at the end of the two-year period rather than allowing banking every six months. This is because industry participants often only see the benefit of schemes run by ESO at the culmination of the project. For example, if the ESO sets a timeline for reform of its balancing services for two years, it is no good to the industry if the ESO hits its one year targets on internal preparations but fails to deliver the final products until three years. Therefore, we believe that incentives should be based on a 'pay on delivery' basis. However, we are fully in support of informing the ESO as to the trajectory that their performance is following.

ESOQ6. Do you agree with our proposed approach to within-scheme feedback, including the timings and approach to performance panel sessions?

All the proposals suggested by Ofgem regarding the within-scheme feedback and the consensual scoring appear to be sensible and should help ESO have more clarity as to the reward their current performance will deliver. This is on the assumption that Ofgem will not significantly modify the score or how it relates to reward at a later point.

ESOQ7. Do you agree with our proposed evaluation criteria for RIIO-2?

Whilst we agree that a heavily mechanistic incentive scheme is unlikely to capture the full performance of the ESO across all timescales, we believe that applying some sort of weighting to the performance metrics of reach role will help give the ESO some indication of where its overall performance might outturn. However, we do agree that applying metrics that cannot be transparently and accurately measured is pointless and should not be pursued at the expense of more qualitative measures (even if the ESO will only get an update every six months as to this part of the scheme).

The criteria (business plan delivery, performance metrics, stakeholder feedback and demonstration of plan benefits) seem to cover all the areas that the ESO ought to be targeted on, though the demonstration of plan benefits might also get caught up in stakeholder feedback. If the ESO is challenged to reduce system costs (and hence customer bills) by facilitating new and existing markets and recommending system infrastructure changes, then the benefits of the ESO's work will be felt by industry players. This needs to be captured in the stakeholder feedback.

As stated in ESOQ6, we agree that the scheme updates from the performance panel should be frequent and six months would seem to be a sensible level such that the ESO can look to affect scores over this period of time.

ESOQ8. Do you agree with our proposals on the incentive scheme value?

We believe that an asymmetric incentive scheme value is the right way to incentivise the ESO to push themselves in looking for innovative ways of delivering overall system savings. A maximum return on regulatory equity (RoRE) of 16% would seem an appropriate level given the returns other regulatory bodies could make under RIIO2.

ESOQ9. Do you think that our proposals will capture the full scope of minimum obligations/standards associated with the ESO's Business Plan activities?

We agree that the ESO license obligations should look to cover the activities within the ESO's Business Plan. We would be especially be keen to see license obligations covering whole system coordination, across new balancing and flexibility markets at all levels of the network as well as facilitating the move to a Net Zero energy system. The ESO's business plan is ambitious and as much of it that can be should be included in license obligations to ensure its delivery.

ESOQ10. Do you agree with our proposed changes to the ESO Roles Framework guidance?

Yes, we believe that by aligning the Roles Framework guidance with the incentive scheme gives the ESO the clearest indication of how to achieve an 'exceeding expectations' score and therefore not only deliver savings for the industry and customers, but also maximise its own financial position.

ESOQ11. Do you agree with our grading of the ESO's RIIO-2 aims and Delivery Schedule for 2021-23?

No comment

ESOQ12. What are the priorities for the ESO to achieve by March 2023 to exceed your expectations?

Our priorities for the ESO are to successfully deliver the reform of ancillary markets that has been promised since 2017. SNaPS and the Product Roadmaps have promised to deliver new markets for flexible assets, but the lack of progress and repeated iterations of trials has meant delays for any industry participant who wants to help customers develop flexible assets. A full suite of new balancing products that industry can use and that is open to as many customers and technologies as possible would exceed our expectations.

ESOQ13. Do you agree that these are the right performance metrics to assess ESO's performance?

Whilst these performance metrics appear to be well suited for Role 1, we believe that more metrics can be applied to Role 2 that would further assess ESO's performance. As stated in ESOQ12, we believe that a metric measuring ESO performance in reforming balancing markets would be useful (though this might be incorporated into the Business Plan delivery measure). On top of delivering new markets, a metric that measured successful participation by various parties (centralised, decentralised etc) could help support participation by the demand side. We note that a similar metric is included in the regular reporting section, but believe that this can be brought into the performance metric section by including the successful participation aspect i.e. to demonstrate that new parties who want to participate are not being adversely treated by the ESO.

ESOQ14. Do you agree that these benchmarks are sufficiently challenging?

No comment

ESOQ15. Do you have any comments on the revised methodologies we have proposed (in Appendix 3) for assessing ESO's performance on balancing costs and forecasting?

No comment

ESOQ16. Do you agree with our proposals for measuring stakeholder satisfaction?

We agree that an independent satisfaction survey would help deliver more assurance and confidence with industry that the findings are robust. Also, repeating surveys every six months will help the performance panel give clearer and more frequent guidance to the ESO as to which areas they need to focus upon to improve their satisfaction scores. Whilst we think that the three-year average satisfaction score from 2017-2019 is a good starting point, we would like to see the benchmark updated on a regular basis to encourage the ESO to push harder on achieving stakeholder satisfaction. An annual update should ensure that the ESO keeps challenging itself to improve (though we appreciate that this does have limits in terms of allowing the ESO to achieve 'exceeds' later). We also agree that trust is a good indicator of the relationship between the ESO and its stakeholders, but does not necessarily capture the correct stakeholder dynamic e.g. the ESO could spend time explaining why it has failed to deliver such that stakeholder's believe that it did everything under its control, but the outcome is still the same - that stakeholders are unable to 'go to market'.

ESOQ17. Do you agree with proposed approach to tracking plan benefits?

We believe that tracking plan benefits every six months is a suitably long enough period to capture the impact of changes that the ESO may have put in place since the last measurement of benefits.

ESOQ18. Do you agree with our suggested areas for regularly reported evidence?

We agree with all the areas suggested for regular reporting, especially around the long term targets associated with Role 3 where there are no performance metrics. Additional areas which could be included are ensuring all products can be revenue stacked where possible and standardisation of terms and conditions across all the products and services offered by ESO and DNO/DSOs.

ESOQ19. Do you agree with our overall approach to cost regulation for the ESO?

We believe that the movement away from a totex mechanism is the correct way to incentivise the ESO to focus on reducing overall system costs and not internal costs. However, by including a value for money criterion in the incentive scheme, this will mean that the ESO does not completely ignore delivering its plan at the least cost possible. The ESO's main objectives are a fine balance between find solutions that deliver significant system benefit, but not to create a large cost for the industry in doing so. Therefore, a pass-through cost mechanism with a separate incentive on value for money should hopefully provide this balance with regular reporting as part of the incentive scheme allowing Ofgem (and the ESO) to understand why costs may be materially different from the original business plan.

Given the ESO's much weaker financial balance sheet than under RIIO1, we believe that Ofgem must have a strong case to disallow costs, even if this is a backstop measure.

ESOQ20. Do you agree with our assessment of the ESO's totex?

No comment

ESOQ21. Do you agree with the method we have taken to set each role-specific cost benchmark, including the proportions of capex and business support allocated to each role?

No comment

ESOQ22. Do you agree with our proposed approach to updating the internal costs benchmark within the price control?

We believe that six months is a sensible period over which the ESO can progress projects such that their future spend can then be incorporated into the internal cost benchmark.

ESOQ23. Are our disallowance proposals proportionate and do they provide the ESO with sufficient ex ante certainty?

As stated in ESOQ19, whilst we agree that a backstop measure allowing Ofgem to disallow inefficient costs is a sensible precaution to ensure that customers are not paying over the odds for ESO services, we are also aware that this risk might make the ESO very risk adverse. Whilst Ofgem states that the disallowance proposal is a last resort, whilst it exists, it will have to be factored into all of ESO's planning. A cap of 10% RAV on disallowances (~£33m) should help to reassure investors, but this is substantially higher than the £15m upside that the incentive scheme offers. We believe that a similar level of downside risk ought to exist which suggests that a cap of 5% RAV might be more suitable and help the ESO focus less on disallowance proposals and more on how to lower system costs.

ESOQ24. Do our proposed changes to the reporting of changes to the ESO's shared services costs offer a sufficient level of consumer protection?

We would have preferred to see the separation of NGET and ESO IT services being aligned with the price controls such that customers are not exposed to the risk of NGET IT costs being passed through to the ESO (which can then be passed through to customers more easily). In the absence of this alignment, the Ofgem proposed changes should mitigate some of this risk, but we ask that Ofgem keep this issue high on their list of monitored activities.

ESOQ25. Do you agree with our method for setting a debt allowance for the ESO?

No comment

ESOQ26. Do you have evidence to suggest the equity allowance should be higher or lower for the ESO?

No comment

ESOQ27. Do you agree that our proposals for additional funding reflect the ESO's role during RIIO-2?

No comment

ESOQ28. Do you have a strong view on how the ESO should recover its costs for a WCF or whether the implied allowance is sufficiently accurate for the full RIIO-2 period?

No comment

ESOQ29. Do you agree that our proposed funding and financing arrangements allow the ESO to efficiently finance its activities?

No comment

ESOQ30. Do you agree with the level of proposed NIA funding for ESO? If not please outline why.

We agree with the level of proposal NIA funding for the ESO.

ESOQ31. Do you agree that ESO's NIA funding should be subject to the condition that all projects must involve partnership with other network companies, third party innovators and/or academics?

We agree that if the ESO is being tasked with reducing system wide costs then its innovation projects should involve representatives of all parties that will be affected and who can offer insight and ideas to the project.

ESOQ32. Do you believe our price control design is sufficiently flexible to account for uncertainty? Are there any relevant foreseeable future uncertainties which we have not identified here?

It is not clear that the proposed price control design will sufficiently allow for uncertainty due to variables such as consumer uptake. For example, the ESO have a value for money criterion for their incentive scheme. If uptake from smaller players in balancing markets does not evolve as quickly as the ESO would like, the actual benefit from allowing smaller participants access to these markets may not be as high as planned. It is unclear how the price control will deal with issues such as this that are not directly in the control of the ESO, but that the ESO is targeted to achieve.

ESOQ33. Do you have any views on whether we should introduce a different funding approach or uncertainty mechanism to account for the risk of material changes to the ESO's revenue collection role? Do you have any views on how this should be designed?

If BSUoS becomes a fixed charge, then the ESO will be exposed to additional risk that it currently doesn't face e.g. under recovery of actual balancing costs due to inaccurate forecasts. However, the timing of this decision is unlikely to come before the final determination. Therefore, it might be prudent to allow the ESO a reopener that allows them to recover financing costs from consumers.

ESOQ34. Do you agree with our assessment that the current approach, with the ESO's IT provided by National Grid Group is not appropriate for the future? Have we identified the correct concerns with the current model?

We agree that the current shared approach to IT is not appropriate for the ESO to take innovative and bold steps forward towards making the system ready for Net Zero. We share many of the current concerns highlighted in the determination, especially around conflicts of interest and the ability to control IT spend on ESO specific projects.

ESOQ35. Do you agree that the ESO needs full control of its IT provision? Are there other options that you think are preferable?

We agree that the ESO needs to be in sole charge of its IT provision. We have not seen any alternative options that we believe will deliver the benefits that sole control brings.

ESOQ36. Do you have a view on the proposed timing of implementing IT autonomy?

As stated in ESOQ24, we would have liked to have seen ESO IT autonomy being aligned with the price control. But under the current situation, we believe that full IT autonomy by April 2023 is achievable.

ESOQ37. Do you agree with our position that the ESO should recover its internal costs based on actual spend within year? Do you believe this change would create any new information/forecasting needs to allow industry to anticipate and manage this?

With the outcome of the BSUoS taskforce likely to suggest a fixed BSUoS charge, we believe that recover of internal costs based on actual spend will put the focus of forecasting this spend on the ESO. Depending on the length of the fixed period and the notice period, industry is likely to want to try and forecast the fixed BSUoS charge for multiple year contracts, so it will still need information and forecasting of these costs (under best endeavours) from the ESO.

ESOQ38. Do you have views on whether the NIA and other ESO pass-through items should be recovered via TNUOS or BSUOS?

We believe that ESO related NIA funding and ESO pass through items should be recovered through BSUoS whilst NGET et al NIA funding should be recovered via TNUoS in order to keep the methodology of passing money from the ESO to the TOs as simple as possible.

ESOQ39. Where or how can the ESO's existing reporting requirements be streamlined?

No comment

ESOQ40. Do the proposed timings for the BP2 process provide sufficient time for the ESO to develop and refine a robust plan, stakeholders to contribute to this and Ofgem to undertake the necessary assessment and decision making?

Whilst requiring business plans every two years is taxing on the ESO, we believe that it does provide sufficient time to engage with stakeholders and allow Ofgem to assess and make a determination.