

# Consultation

## RIIO-ED2 Draft Determinations WPD Annex

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The next electricity distribution price control (RIIO-ED2) will cover the five-year period to 31 March 2028. In December 2021 the Distribution Network Operators (DNOs) submitted their Business Plans to Ofgem setting out proposed expenditure for RIIO-ED2. We have now assessed these plans and this document, and others published alongside it, set out our Draft Determinations for DNO allowances under the RIIO-ED2 price control for consultation. Responses are sought to the questions posed in these documents by 25 August 2022. Following our consideration of these responses we will confirm our Final Determinations by December 2022.

The full suite of Draft Determinations documents outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses before confirming our Final Determinations. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at

Ofgem.gov.uk/consultations. If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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## 1. Introduction

### Purpose of this document

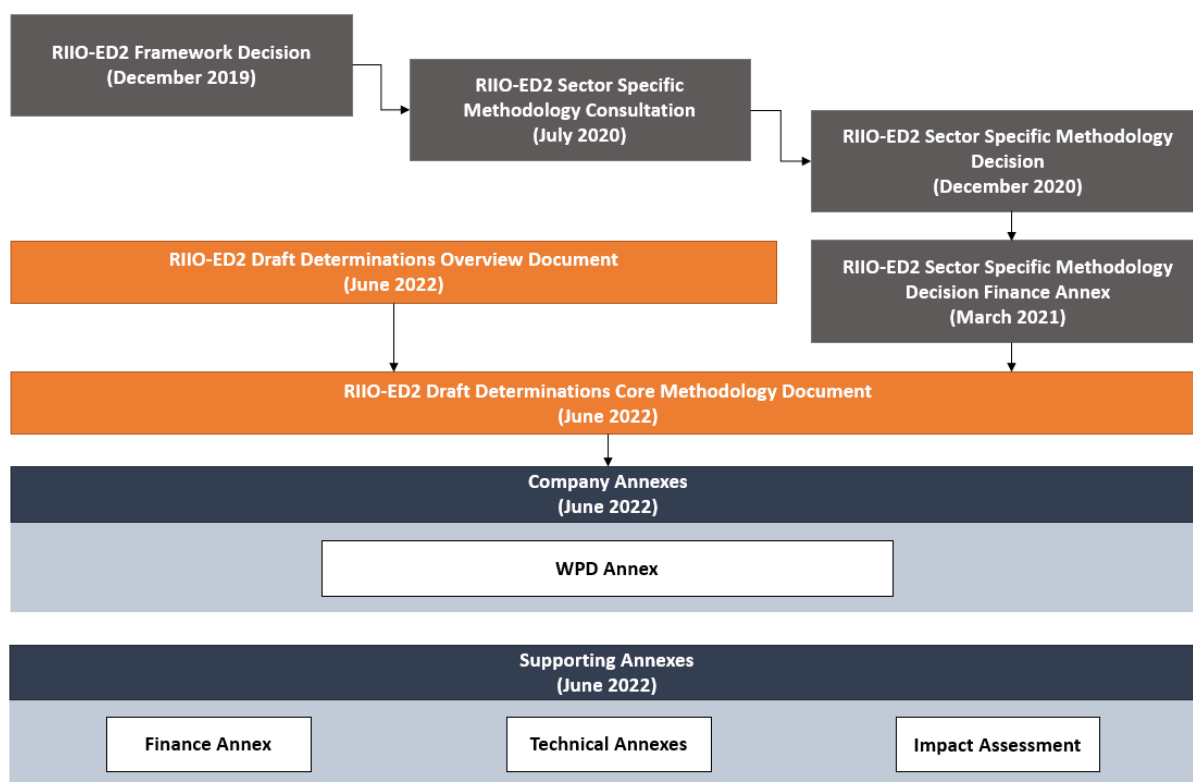
- 1.1 This document sets out our Draft Determinations for the Electricity Distribution (ED) price control (RIIO-ED2) for the areas that are specific to WPD. The RIIO-ED2 price control will cover the five-year period from 1 April 2023 to 31 March 2028. All figures are in 2020/21 prices except where otherwise stated.
- 1.2 The purpose of this document is to focus on those elements of our consultation position for the price control settlement which specifically affect WPD's licence areas including West Midlands (WMID), East Midlands (EMID), South Wales (SWALES), and South West (SWEST).
- 1.3 This document sets out any proposals that are specific to WPD, including:
  - assessment of business plan incentive (BPI), including consumer value propositions (CVPs)
  - baseline cost allowances
  - parameters for common outputs
  - bespoke Output Delivery Incentives (ODIs)<sup>1</sup>
  - bespoke Price Control Deliverables (PCDs)
  - Uncertainty Mechanisms (UMs)
  - Network Innovation Allowance (NIA) funding.
- 1.4 This document is intended to be read alongside the RIIO-ED2 Draft Determinations Core Methodology Document and RIIO-ED2 Draft Determinations Overview Document. Figure 1 sets out where you can find information about other areas of our RIIO-ED2 Draft Determinations.

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<sup>1</sup> In this document, we refer to 'ODI-F' which is a financial incentive and 'ODI-R' which is a reputational incentive

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**Figure 1: Draft Determinations document map**



## What are the company specific elements of WPD’s Draft Determinations?

- 1.5 This section sets out a high-level summary of the elements of our Draft Determinations which are specific to WPD.
- 1.6 Table 1 summarises our assessment of WPD across the four stages of the BPI and where you can find additional information about our consultation position for each stage.

**Table 1: Summary of proposed WPD BPI performance**

BPI stage	Ofgem proposed position	Further detail
Stage 1 Minimum Requirements	Pass	Overview Document for approach to assessment and rationale
Stage 2 Consumer Value Propositions	£3.6m	Chapter 2 of this document
Stage 3 Penalty	No penalty	Chapter 3 of this document
Stage 4 Reward	No reward	Chapter 3 of this document

Cap calculation	N/A	Overview Document for approach to assessment and rationale
Overall	£3.6m reward	

- 1.7 The cost confidence assessment we have undertaken as part of this process results in a proposed Totex<sup>2</sup> Incentive Mechanism (TIM) incentive rate for WPD of 50%. For further details on the TIM, see Chapter 9 of the Overview Document.
- 1.8 We present a summary of our proposed baseline Totex for WPD in Table 2. This reflects our view of efficient costs including ongoing efficiency over RIIO-ED2. For further details, please refer to Chapter 7 of the Core Methodology Document.

**Table 2: WPD RIIO-ED2 submitted Totex versus proposed Totex (£m, 2020/21)<sup>3</sup>**

Cost area	WPD submitted Totex	Ofgem proposed Totex	Difference	Difference
Load related capex	946	766	-180	-19.1%
Non-load related capex	2,082	1,677	-405	-19.4%
Non-operating capex	517	418	-98	-19.1%
Network operating costs	1,103	891	-212	-19.2%
Closely associated indirects	1,506	1,219	-287	-19.1%
Business support costs	753	609	-144	-19.1%
Totex	6,908	5,581	-1,327	-19.2%

- 1.9 The common outputs that we are proposing for all DNOs in RIIO-ED2 are set out in Table 3 with further details provided in the Core Methodology Document. Table 3 also sets out the bespoke outputs that we are proposing to apply to WPD in RIIO-ED2 (further details are contained within Chapter 2).

**Table 3: Summary of proposed common and bespoke outputs applicable to WPD**

Output name	Output Type	Further detail
<b>Common outputs for the ED Sector</b>		
Annual environmental report	ODI-R	Chapter 3, Core Methodology Document

<sup>2</sup> Totex is shorthand term for total expenditure.

<sup>3</sup> Submitted Totex is net costs, including our cost exclusions and reallocations and excluding Real Price Effects (RPEs), ongoing efficiency, non-controllable costs, and pass-through costs (except New Transmission Capacity Charges, NTCC). Proposed Totex is net costs, excluding RPEs, non-controllable costs, pass-through costs (except NTCC), but includes Ofgem's view of ongoing efficiency and is before post-modelling adjustments for uncertainty mechanisms.

Distribution System Operator (DSO) incentive	ODI-F	Chapter 4 Core Methodology Document
Digitalisation licence condition	Licence Condition (LC)	Chapter 4 Core Methodology Document
Technology Business Management taxonomy for classifying digital/IT spend	ODI-R	Chapter 4 Core Methodology Document
Innovation project to modernise regulatory reporting	ODI-R	Chapter 4 Core Methodology Document
Customer satisfaction survey	ODI-F	Chapter 5, Core Methodology Document
Complaints metric	ODI-F	Chapter 5, Core Methodology Document
Time to connect	ODI-F	Chapter 5, Core Methodology Document
Guaranteed standards of performance - Connections	LC	Chapter 5, Core Methodology Document
Major connections incentive	ODI-F	Chapter 5, Core Methodology Document and Chapter 2 of this document
Treating domestic customers fairly	LC	Chapter 5, Core Methodology Document
Consumer vulnerability incentive	ODI-F	Chapter 5, Core Methodology Document and Chapter 2 of this document
Vulnerability annual report	ODI-R	Chapter 5, Core Methodology Document
Interruptions incentive scheme	ODI-F	Chapter 6, Core Methodology Document and Chapter 2 of this document
Guaranteed standards of performance - reliability	LC	Chapter 6, Core Methodology Document
Network asset risk metric (NARM)	PCD, ODI-F	Chapter 6, Core Methodology Document and Chapter 2 of this document
Cyber resilience IT	PCD	Chapter 6, Core Methodology Document and Confidential WPD annex
Cyber resilience operational technology (OT)	PCD	Chapter 6, Core Methodology Document and Confidential WPD annex
<b>Proposed bespoke outputs to WPD</b>		
WPD is a net zero business by 2028	CVP no reward	Chapter 2 of this document
Proactively partner with every local authority in our region to help them develop ambitions local area energy plans	CVP no reward	Chapter 2 of this document
Community energy engineers	CVP no reward	Chapter 2 of this document
Smart energy action plans	CVP reward	Chapter 2 of this document



1.10 The common UMs that we are proposing for all DNOs in RIIO-ED2 are set out in Table 4 with further details in the Core methodology Document. We are not proposing to accept any bespoke UMs for WPD.

**Table 4: Summary of proposed common and bespoke UMs applicable to WPD**

UM Name	UM type	Further detail
<b>Common UMs to the ED sector</b>		
Coordinated Adjustment Mechanism	Re-opener	Overview, Chapter 5 of SSMD <sup>4</sup>
Real Price Effects	Indexation	Annex 2, Chapter 4 of SSMD
Ofgem licence fee	Pass-through	Annex 2, Chapter 8 of SSMD
Business rates	Pass-through	Annex 2, Chapter 8 of SSMD
Transmission Connection Point Charges	Pass-through	Annex 2, Chapter 8 of SSMD
Pension deficit repair mechanism	Pass-through	Annex 2, Chapter 8 of SSMD
Ring-fence costs	Pass-through	Annex 2, Chapter 8 of SSMD
Miscellaneous pass-through	Pass-through	Annex 2, Chapter 8 of SSMD
Environmental legislation	Re-opener	Chapter 3, Core Methodology Document
Visual amenity	Use-It-Or-Lose-It (UIOLI)	Chapter 3, Core Methodology Document
Polychlorinated biphenyls	Volume driver	Chapter 3, Core Methodology Document
Load Related Expenditure (LRE) – Secondary Reinforcement	Volume driver	Chapter 3, Core Methodology Document
LRE – Low Voltage (LV) Services	Volume driver	Chapter 3, Core Methodology Document
LRE - General	Re-opener	Chapter 3, Core Methodology Document
Net Zero	Re-opener	Chapter 3, Core Methodology Document
Digitalisation	Re-opener	Chapter 4, Core Methodology Document
DSO	Re-opener	Chapter 4, Core Methodology Document
Worst Served Customers	UIOLI	Chapter 6, Core Methodology Document
Severe Weather 1-in-20	Pass-through	Chapter 6, Core Methodology Document
Storm Arwen	Re-opener	Chapter 6, Overview Document
Physical security	Re-opener	Chapter 6, Core Methodology Document
Electricity system restoration	Re-opener	Chapter 6, Core Methodology Document
Cyber resilience OT and IT	Re-opener	Chapter 6, Core Methodology Document and Confidential WPD annex

<sup>4</sup> For more details on our Sector Specific Methodology Decision (SSMD) <https://www.ofgem.gov.uk/publications/riio-ed2-sector-specific-methodology-decision>.

Cyber Resilience OT	UIOLI	Chapter 6, Core Methodology Document and Confidential WPD annex
Smart meter information technology costs	Pass-through	Chapter 7, Core Methodology Document
Smart meter communications costs	Pass-through	Chapter 7, Core Methodology Document
Streetworks costs	Re-opener	Chapter 7, Core Methodology Document
Rail electrification	Re-opener	Chapter 7, Core Methodology Document
High Value Projects	Re-opener	Chapter 7, Core Methodology Document
Cost of debt indexation	Indexation	Chapter 2, Finance Annex
Cost of equity indexation	Indexation	Chapter 3, Finance Annex
Tax review	Re-opener	Chapter 7, Finance Annex
Inflation indexation of Regulatory Asset Value (RAV)	Indexation	Chapter 9, Finance Annex
Electric Vehicle Provider of Last Resort	To be confirmed	Chapter 6, Overview Document
<b>Bespoke UMS to WPD</b>		
N/A	N/A	N/A

1.11 Table 5 sets out our NIA proposals for WPD (further details can be found in Chapter 5). Our general approach to the NIA is set out in Chapter 3 of our Core Methodology Document.

**Table 5: Summary of proposed NIA applicable to WPD**

<b>Consultation position on WPD NIA</b>
£17.7m initial allowances, to be reviewed in 2025.

1.12 Table 6 summarises the financing arrangements that we are proposing to apply to WPD and all other DNOs. Please refer to Chapter 4 of the Finance Annex for more detail on these areas.

**Table 6: Summary of financing arrangements applicable to WPD**

Finance parameter	WPD (WMID, EMID, SWEST) Rate	Source
Notional gearing	60%	See Table 19 in Finance Annex
Cost of equity allowance	4.75%	
Cost of debt allowance	2.26%	
WACC allowance	3.26%	

Finance parameter	WPD (SWALES) Rate	Source
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Notional gearing	60%	See Table 19 in Finance Annex
Cost of equity allowance	4.75%	
Cost of debt allowance	2.32%	
WACC allowance	3.29%	

## 2. Setting Outputs

### Introduction

2.1 This chapter sets out our Draft Determinations for output areas that specifically apply to WPD. In this chapter we provide our proposals on:

- the WPD-specific parameters for common outputs, detailed in our Core Methodology Document, which we propose to apply to all DNOs
- the bespoke outputs and CVPs proposed in WPD’s Business Plan.

### Common outputs

2.2 The WPD-specific parameters for the common outputs which we are proposing for all DNOs in RIIO-ED2 are set out in the tables below. Further details on these outputs and our consultation position are set out in the Core Methodology Document.

### Interruptions Incentive Scheme (IIS)

2.3 Tables 7-10 summarise WPD’s unplanned Customer Interruptions (CI) and Customer Minutes Lost (CML) targets and revenue cap and collar.

2.4 The unplanned targets are calculated under a common methodology that uses each DNO’s own historical performance to determine their targets, which means they are bespoke for each DNO. This methodology ensures the DNOs are incentivised to improve their performance (or avoid it deteriorating) but recognises that there are factors that will affect each DNO’s current performance and the cost and impact of any changes.

2.5 Please refer to Chapter 6 of the Core Methodology Document for our consultation position and rationale. Planned CI and CML targets will be updated at Final Determinations, once 2021/22 performance data has been finalised.

**Table 7: Consultation position – IIS – unplanned CI targets**

	2023/24	2024/25	2025/26	2026/27	2027/28
WMID	49.1	48.3	47.6	47.4	47.1
EMID	39.2	38.7	38.1	37.9	37.7

SWALES	40.5	40.3	40.1	39.9	39.7
SWEST	49.5	49.3	49.0	48.8	48.5

**Table 1: Consultation position – IIS – unplanned CML targets**

	2023/24	2024/25	2025/26	2026/27	2027/28
WMID	25.7	25.5	25.4	25.3	25.2
EMID	21.7	21.6	21.5	21.4	21.3
SWALES	20.3	20.2	20.1	20.0	19.9
SWEST	32.2	32.1	31.9	31.7	31.6

**Table 9: Consultation position – IIS – revenue cap (£m)**

	2023/24	2024/25	2025/26	2026/27	2027/28
WMID	11.1	11.1	11.1	11.1	11.1
EMID	11.3	11.3	11.3	11.3	11.3
SWALES	5.7	5.7	5.7	5.7	5.7
SWEST	8.6	8.6	8.6	8.6	8.6

**Table 10: Consultation position – IIS – revenue collar (£m)**

	2023/24	2024/25	2025/26	2026/27	2027/28
WMID	27.9	27.9	27.9	27.9	27.9
EMID	28.4	28.4	28.4	28.4	28.4
SWALES	14.2	14.2	14.2	14.2	14.2
SWEST	21.4	21.4	21.4	21.4	21.4

### **NARM PCD and ODI-F**

2.6 Table 11 summarises our proposals for WPD's Network Asset Risk Metric (NARM) baseline network risk output for RIIO-ED2. Please refer to Chapter 6 of the Core Methodology Document for our consultation position and rationale.

**Table 11 Consultation position – NARM PCD and ODI-F – Baseline Network Risk Outputs (£R, 2020/21 prices)**

Network	Draft Determinations Proposed Baseline Network Risk Output
WMID	519,787,560
EMID	404,654,338
SWALES	362,711,582
SWEST	627,171,211

## Consumer Vulnerability Incentive (ODI-F)

2.7 Tables 12 and 13 summarise our proposals for WPD's vulnerability incentive targets for the value of fuel poverty services delivered and the value of low carbon support services delivered, with financial targets set out in net present value (NPV).

**Table 12: Consultation position - Consumer Vulnerability Incentive (ODI-F): the value of fuel poverty services delivered (NPV, £m)**

	Year 2 target	Year 5 target
DNO bespoke target	21.3	50.97

**Table 13: Consultation position - Consumer Vulnerability Incentive (ODI-F): the value of low carbon support services delivered (NPV, £m)**

	Year 2 target	Year 5 target
DNO bespoke target	21.3	50.97

2.8 The NPVs proposed by WPD in tables 12 and 13 are the forecasted values based on the delivery of its vulnerability strategy.

2.9 We have reviewed the targets proposed and the supporting rationale. That review is ongoing, and we will work with all DNOs to ensure that the DNOs' targets are complete, comparable and independently assured using the common Social Value Framework ahead of Final Determinations.

2.10 Our approach to bespoke target setting and further detail on these metrics can be found in Chapter 5 of our Core Methodology Document.

## Major Connections Incentive

2.11 The Major Connections Incentive will be an ODI-F with a maximum penalty exposure of 0.9% base revenue and applied to performance in the Major Connections Customer Satisfaction Survey.<sup>5</sup> Please see "Creating consistency in baselines for ODI incentive rates, caps, or collars" in section 10 of the Finance Annex for our proposal to translate this incentive to 0.35% RoRE.

2.12 The penalty is calculated by applying approximately a 0.1% penalty rate per Relevant Market Segment (RMS), and will be applied based on the number of RMS

<sup>5</sup> See the Major Connections Incentive section of the Core Methodology Document for more details.

where effective competition has not been demonstrated.<sup>6</sup> Based on the outcomes of the Distribution Price Control Review 5 ('DPCR5') Competition Test and our minded-to proposals on the competition review, for:

- WPD's WMID region, there would be a maximum penalty of 0.2% of base revenue
- WPD's EMID region, there would be a maximum penalty of 0.2% of base revenue
- WPD's SWALES region, there would be a maximum penalty of 0.6% of base revenue
- WPD's SWEST region, there would be a maximum penalty of 0.6% of base revenue.

### **Common outputs consultation question**

WPD-Q1. What are your views on the company specific parameters we have proposed for the common outputs that we have set out above?

## **Bespoke outputs**

- 2.13 For RIIO-2, we invited DNOs to propose additional bespoke outputs as part of their Business Plans reflecting the needs of, and feedback from, their stakeholders and consumers.
- 2.14 We said that companies were required to support their bespoke outputs with robust justification. In our Business Plan Guidance (BPG)<sup>7</sup>, we asked for this justification to ensure that the potential consumer benefits put forward under bespoke proposals were significant enough to merit introducing any additional cost and / or regulatory complexity associated with them.
- 2.15 In making our Draft Determinations for RIIO-ED2 outputs, we have sought to strike a balance between these trade-offs for each bespoke proposal. You can find the background and our assessment approach in our Overview Document.
- 2.16 WPD has submitted 50 outputs. This includes 37 bespoke ODI-Rs, 3 ODIs, 3 PCDs, 1 licence obligation and 6 CVPs. We provide a summary of each bespoke output

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<sup>6</sup> For more details on which RMS have demonstrated evidence of effective competition, see [here](#) for our minded-to proposals.

<sup>7</sup> <https://www.ofgem.gov.uk/publications/riio-ed2-business-plan-guidance>

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below, with the full details of each bespoke output put forward by WPD found in its Business Plan submission<sup>8</sup>. We set out our assessment of each output and detail which of them we are proposing to accept and apply to WPD in RIIO-ED2.

### Bespoke Output Delivery Incentives

- 2.17 WPD included in their Business Plan submission a proposal for 44 bespoke ODIs. We welcome WPD’s commitment to reporting on delivering against its RIIO-ED2 Business Plan aligned with their obligations under Standard Licence Condition 50 (Business Plan commitment reporting).
- 2.18 However, we do not consider that reporting on the proposed core commitments requires bespoke ODI-Rs and do not believe that their introduction is proportionate. We encourage WPD to maintain transparency of delivery with its stakeholders on its RIIO-ED2 performance through its own reporting procedures. We therefore propose to not include all core commitments for these reasons excluding core commitment 16, 22, 26, 30, 33 and 34, which are addressed separately in Table 14 below. For the remaining list of core commitments proposed by WPD that are not included for the reasons above, please see Appendix 2.

**Table 14: WPD's Bespoke ODI proposals**

Output name and description	Consultation position
<b>Core commitment 16 (ODI-R):</b> Keep bills for customers low by delivering an additional stretch efficiency saving of £95m through RIIO-ED2 (on top of £723m of efficiencies already included in the plan) by utilising innovation to improve our processes and show a positive carbon impact.	<b>Reject:</b> We consider that the ODI-R is not measurable and reportable because WPD has not provided a methodology to measure benefits from innovation projects that would allow monitoring of performance. Overall, we consider that network companies need to work together to establish a robust and consistent framework to measure benefits from innovation projects (see Chapter 3 of the Core Methodology Document).
<b>Core commitment 22 (Licence Obligation (LO)):</b> Maintain high quality data to allow us to deliver bespoke support to customers in vulnerable situations by proactively contacting over two million Priority Services Register (PSR) customers once every two	<b>Reject:</b> The vulnerability baseline expectations <sup>9</sup> include the expectation that DNOs effectively maintain their PSR database with customer data checks every 24 months. The Consumer Vulnerability Incentive proposes to drive the delivery of this expectation, we therefore do not consider that an LO is required. Further detail on the vulnerability

<sup>8</sup> <https://yourpowerfuture.westernpower.co.uk/riioed2-business-plan>

<sup>9</sup> RIIO-ED2 SSMD Annex 1, Appendix 3 [RIIO-ED2 Sector Specific Methodology Decision | Ofgem](#)



years to remind them of WPD's services and update their records (with 60% via direct telephone call).	incentive framework can be found in Chapter 5 of the Core Methodology document.
<b>Core commitment 26: (ODI):</b> Deliver exceptional service levels by achieving overall average customer satisfaction of 93% or higher by the end of RIIO-ED2, with separate reporting for emerging technology customers.	<b>Reject:</b> We welcome WPD's efforts to improve service for its customers. We consider this reporting metric to be unnecessary as customer satisfaction scores are already monitored and incentivised by Ofgem through the Customer Satisfaction Incentive (CSI) and the Complaints Metric (CM) (for further information see Chapter 5 of the Core Methodology Document). WPD may want to retain the proposed monitoring as a separate KPI for its stakeholders.
<b>Core commitment 30: (ODI):</b> When things go wrong ensure we put things right very quickly, by resolving at least 90% of complaints within one day and 99% of complaints within 25 days.	<b>Reject:</b> We welcome WPD's efforts to improve service for its customers. We consider this reporting metric to be unnecessary as the time taken to resolve complaints is already monitored and incentivised by Ofgem through the CSI and CM (for further information see Chapter 5 of the Core Methodology Document). WPD may want to retain the proposed monitoring as a separate KPI for its stakeholders.
<b>Core commitment 33: (ODI):</b> Deliver improved network reliability whereon average power cuts are better than one interruption every two years lasting less than 22minutes (12% reduction in customer interruptions (frequency) and 16% reduction in customer minutes lost (duration)), utilising vulnerable customer data to prioritise network improvement schemes.	<b>Reject:</b> We are proposing to continue with the Interruptions incentive Scheme (IIS), which will set DNO specific targets for CIs and CMLs. Our consultation position on the IIS is set out in Chapter 6 of our Core Methodology Document.
<b>Core commitment 34:</b> Improve the service for at least 8,260 Worst Served Customers by undertaking 70 schemes.	<b>Reject:</b> We are proposing a common UIOLI allowance for each DNO to make service improvements for their Worst Served Customers. Our consultation position is set out in Chapter 6 of our Core Methodology Document.

### Consultation question

WPD-Q2. What are your views on our proposals on WPD's bespoke output delivery incentives?

### Bespoke price control deliverables

2.19 Table 15 below summarises the bespoke PCD proposals that WPD submitted as part of its Business Plan and outlines our consultation position.

**Table 15: WPD's bespoke price control deliverables**

Output name and description	Consultation position
<b>[PCD-1] Transition 89% of commercial van fleet to be non-carbon vehicles by 2028.</b>	<b>Accept with adjusted scope, delivery mechanism, and costs:</b> We are not satisfied this proposal has provided sufficient evidence to support the accelerated removal of vehicles ahead of their end-of-life. We propose to adjust the volumes to only fund the replacement of vehicles at end-of-life. Additionally, we have found that WPD provided insufficient evidence as to why delivery is at risk and how clawback of unspent allowances could be administered. We propose to fund this through baseline, subject to cost assessment, with reporting in the Annual Environmental Report.
<b>[PCD-2] Modernising WPD's radio-based telecoms system</b>	<b>Reject:</b> While we support the work outlined by WPD, we believe that the timing for this investment is premature. We consider the appropriate delivery of this programme would be RIIO-ED3, once the relevant decisions on spectrum allocation and ownership have been confirmed by Ofcom.

### Consultation question

WPD-Q3. What are your views on our proposals for WPD's bespoke price control deliverables?

## Consumer Value Propositions

2.20 Table 16 below summarises the CVP proposals that WPD submitted as part of its Business Plan and our consultation position in relation to each. Where necessary, we have provided detail on our rationale for our consultation position in the section following the table.

**Table 16: WPD's CVP proposals**

Output name and description	Consultation position
<b>[CVP-1] WPD is a net zero business by 2028:</b> Ensure WPD is a net zero business by 2028 and adopts a stretching SBT of 1.5-degree.	<b>Accept with no reward:</b> WPD will be required to demonstrate it is developing its Environmental Action Plan (EAP) in line with the SBTi 1.5-degree trajectory. We are not satisfied the proposal goes above the baseline expectations for its EAP. We propose to fund its EAP through baseline, subject to cost assessment, with no CVP reward.
<b>[CVP-2] Proactively partner with every local authority in WPD's</b>	<b>Accept with no reward:</b> We are proposing to accept this activity in baseline funding but provide

<p><b>region to help develop ambitious Local Area Energy Plans:</b> to facilitate an efficient and timely decarbonisation of the energy system.</p>	<p>no reward. We are not satisfied that WPD has provided sufficient evidence to demonstrate this proposal goes beyond baseline expectations in terms of proactive rather than reactive DNO engagement with local authorities. We propose to fund the activity in baseline however, as the activity should deliver positive benefits for consumers.</p>
<p><b>[CVP-3] Community energy engineers:</b> Establish community energy engineers to support the development and delivery of community-based energy schemes to drive the UK's achievement of net zero.</p>	<p><b>Accept with no reward:</b> We are not satisfied this proposal has provided sufficient evidence that the activity would clearly go beyond WPD's baseline expectations. We consider it is the role of the DNOs to have technical resources in place to engage with communities as a Business-As-Usual (BAU) responsibility in RIIO-ED2. Additionally, we do not consider that WPD has created a sufficiently robust methodology to evaluate the benefits associated with these surgeries and to evidence meaningful interventions and engagement. We propose to fund this activity through baseline with no CVP reward.</p>
<p><b>[CVP-4] Decarbonised communities:</b> Building decarbonised communities and local energy schemes by funding solar on schools and communities in areas of high economic deprivation.</p>	<p><b>Reject:</b> We are not satisfied WPD has sufficiently evidenced why they are best placed to deliver this support. Further, we are not satisfied that WPD's methodology for evaluating this CVP is sufficiently robust, nor are we are satisfied that WPD provided sufficient information on a clawback methodology should there be under or non-delivery. In addition, we do not consider it appropriate to provide CVP rewards when an activity is funded by shareholders.</p>
<p><b>[CVP-5] Smart energy action plans:</b> Offering 1.2 million PSR customers a bespoke smart energy action plan every two years which provides customers with knowledge and tools to enable them to participate in, and benefit from, the energy system transition.</p>	<p><b>Accept:</b> We are satisfied that WPD's proposal has demonstrated an approach to providing services to vulnerable consumers that clearly goes beyond the baseline expectations. We are satisfied that WPD has provided sufficient evidence to demonstrate the associated additional value to consumers. Please see further information under the heading 'Smart energy action plans'.</p>
<p><b>[CVP-6] £1 million 'Community Matters' fund:</b> Deliver an annual £1m 'Community Matters' Fund, funded entirely by shareholders, to achieve positive community outcomes in relation to vulnerability, environment and education.</p>	<p><b>Reject:</b> We consider that this CVP proposal constitutes corporate social responsibility (CSR) activities. We consider CSR to be BAU for DNOs. We also do not support shareholder funded CVPs where any associated reward would be funded by consumers. For these reasons, this proposal should not receive a CVP reward.</p>

### Smart energy action plans

2.21 In its Business Plan, WPD proposed a CVP initiative to offer 1.2 million PSR customers a bespoke smart energy action plan every two years. The action plan would provide PSR customers with access to domestic flexibility and / or

aggregation services, connection aid and advice for low carbon technology (LCT) adoption, link customers to relevant community energy schemes and promote energy savings and efficiency measures. WPD has requested £5m to deliver this proposal.

Consultation position

**Table 17: Consultation Position Smart Energy Action Plans**

CVP parameter	Consultation position
Deliverable	Delivery of the smart energy action plans proposal to offer 1.2m PSR customers bespoke action plans every two years.
CVP value	£7.1m
CVP reward	£3.6m
Reporting and clawback	Reporting of CVP delivery through the Annual Vulnerability Report. Clawback at the end of period – based on the outcomes delivered, % value forecast not delivered will be applied to the CVP reward and returned to customers.

Rationale for consultation position

- 2.22 We propose to accept this CVP to reward WPD for its ambition to support 1.2 million PSR customers with bespoke smart energy action plans every two years. We consider that this proposal goes beyond the vulnerability baseline expectations by targeting customers in vulnerable circumstances, who are at risk of being left behind by the energy transition to net zero, with bespoke advice and support at the large scale proposed.
- 2.23 However, our acceptance of this proposal is subject to establishing a suitable reward methodology and we request that WPD provide further information on how a suitable reward could be agreed. We note that the associated reward is high compared to the cost to deliver the proposal and we intend to work with WPD to better understand the forecast value proposed.
- 2.24 We consider that WPD has provided sufficient evidence to demonstrate that this proposal exceeds WPD's baseline expectations to effectively support those at risk of being left behind in the transition to net zero. We support WPD's intention to only utilise existing customer touchpoints in its PSR data cleanse process in its targeting of 600,000 customers every year.

- 2.25 WPD's CEG is supportive of the proposal but notes the need for clearer success measures, to ensure the effectiveness of WPD's interventions are clear. We agree with this view. That said, we consider that WPD's measurement of customer satisfaction and feedback on the smart energy action plan and an outcomes-based measurement of the value delivered by the initiative will reveal its success.
- 2.26 The Challenge Group (CG) offered partial support for the proposal, in particular noting their view that the changes made to the assumptions on the total benefits of the initiative in the final Business Plan submission seem more reasonable. The CG noted that any reward should be contingent on real-world tests which demonstrate that the assumptions of uptake and benefits are realistic. We note that since submission, WPD has explained that pilots will be underway in 2022 to ensure that the stated benefits can be delivered from the outset in RIIO-ED2.
- 2.27 While we are keen to understand the benefits of this initiative in more detail and work with WPD on a suitable CVP reward based upon these, we acknowledge the value of this proposal and therefore propose to accept this CVP and reward WPD, subject to establishing a suitable CVP reward.

### **Consultation question**

WPD-Q4. What are your views on our proposals for WPD's CVPs?

## 3. Setting baseline allowances

### Introduction

3.1 This chapter sets out our Draft Determinations on baseline allowances for the different cost areas within WPD’s Business Plan submission. We intend this chapter to be read alongside other parts of our Draft Determinations that set out our overall approach to RIIO-ED2.

### Baseline allowances

3.2 Baseline Totex referenced in this chapter comprises forecast controllable costs<sup>10</sup> and is inclusive of our proposed ongoing efficiency challenge, unless stated otherwise. Furthermore, the figures presented in this chapter do not include real price effects (RPEs) to allow comparison with DNOs' submissions.

3.3 Tables 18, 19, 20 and 21 compare WPD’s submitted baseline Totex for each of its networks with our Draft Determinations position at a disaggregated cost activity level.

**Table 18: WMID RIIO-ED2 submitted Totex versus proposed Totex by cost activity (£m, 2020/21 price base)**

WMID	Cost activity	Submitted Totex	Proposed Totex	Difference	Difference
Capex <sup>11</sup>	Connections	44	36	-8	-18.2%
Capex	New Transmission Capacity Charges	3	2	-1	-18.6%
Capex	Primary Reinforcement	66	55	-12	-17.6%
Capex	Secondary Reinforcement	120	98	-22	-18.2%
Capex	Fault Level Reinforcement	10	8	-2	-18.6%
Capex	Civil Works Condition Driven	27	22	-5	-18.1%
Capex	Black Start	-	-	-	-
Capex	Legal & Safety	9	8	-2	-18.3%
Capex	Quality of Supply (QoS) & North of Scotland Resilience	5	-	-5	-100.0%
Capex	Flood Mitigation	1	1	-0	-18.0%

<sup>10</sup> Non-controllable costs, while included in overall allowed revenue recoverable by DNOs, are not included in baseline Totex and are treated separately. See Chapter 7 of the Core Methodology Document for more details on what is and isn’t included in the numbers presented here.

<sup>11</sup> Capex is a shorthand term for capital expenditure and Opex is a shorthand term for operational expenditure

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Capex	Physical Security	-	-	-	-
Capex	Rising and Lateral Mains	1	1	-0	-18.4%
Capex	Overhead Line Clearances	29	24	-5	-18.0%
Capex	Losses	1	1	-0	-18.1%
Capex	Environmental Reporting	9	7	-1	-17.3%
Capex	Operational IT and telecoms	56	46	-10	-18.3%
Capex	Worst Served Customers	2	1	-0	-18.1%
Capex	Visual Amenity	2	2	-0	-18.1%
Capex	Diversions (excl Rail)	64	52	-12	-18.1%
Capex	Diversions Rail Electrification	-	-	-	-
Capex	Civil Works Asset Replacement Driven	12	10	-2	-18.1%
Capex	Asset Replacement NARM	220	180	-40	-18.4%
Capex	Asset Replacement Non-NARM	92	75	-17	-18.1%
Capex	Asset Refurbishment Non-NARM	37	30	-7	-18.1%
Capex	Asset Refurbishment NARM	9	8	-2	-18.1%
Capex	IT and Telecoms (Non-Op)	71	59	-13	-18.0%
Capex	Non-Op Property	12	10	-2	-17.9%
Capex	Vehicles and Transport (Non-Op)	31	26	-6	-17.6%
Capex	Small Tools and Equipment	16	13	-3	-18.1%
Capex	High Value Projects (HVP) RIIO-ED2	-	-	-	-
Capex	Shetland	-	-	-	-
Opex	Tree Cutting	61	50	-11	-18.1%
Opex	Faults	123	101	-22	-18.1%
Opex	Severe Weather 1 in 20	9	-	-9	-100.0%
Opex	Occurrences Not Incentivised (ONIs)	45	37	-8	-18.1%
Opex	Inspections	21	17	-4	-18.1%
Opex	Repair and Maintenance	48	39	-9	-18.1%
Opex	Dismantlement	0	0	-0	-18.1%
Opex	Remote Generation Opex	-	-	-	-
Opex	Substation Electricity	11	9	-2	-18.1%
Opex	Smart Metering Rollout	5	5	-1	-16.6%
Opex	Total Closely associated indirects (CAI)	456	374	-83	-18.1%
Opex	Total Business Support	222	182	-40	-18.1%

Cost activities sub-total <sup>12</sup>	1,952	1,586	-365	-18.7%
Excluded cost activities <sup>13</sup>	-14	-		-
Total Totex (modelled component)	1,937	1,586	-351	-18.1%
Technically assessed Totex	2	1	-0	-8.2%
Total Totex	1,939	1,588	-351	-18.1%

**Table 19: EMID RIIO-ED2 submitted Totex versus proposed Totex by cost activity (£m, 2020/21 price base)**

EMID	Cost activity	Submitted Totex	Proposed Totex	Difference	Difference
Capex	Connections	123	101	-22	-17.8%
Capex	New Transmission Capacity Charges	6	5	-1	-18.3%
Capex	Primary Reinforcement	57	47	-10	-17.5%
Capex	Secondary Reinforcement	101	83	-18	-17.8%
Capex	Fault Level Reinforcement	36	30	-6	-17.0%
Capex	Civil Works Condition Driven	20	17	-4	-17.7%
Capex	Black Start	-	-	-	-
Capex	Legal & Safety	7	6	-1	-18.2%
Capex	QoS & North of Scotland Resilience	8	-	-8	-100.0%
Capex	Flood Mitigation	6	5	-1	-17.8%
Capex	Physical Security	-	-	-	-
Capex	Rising and Lateral Mains	1	0	-0	-17.6%
Capex	Overhead Line Clearances	17	14	-3	-17.6%
Capex	Losses	1	1	-0	-17.7%
Capex	Environmental Reporting	8	6	-1	-16.9%
Capex	Operational IT and telecoms	75	61	-13	-17.9%
Capex	Worst Served Customers	0	0	-0	-17.7%
Capex	Visual Amenity	1	1	-0	-17.7%
Capex	Diversions (excl Rail)	82	67	-14	-17.8%
Capex	Diversions Rail Electrification	-	-	-	-
Capex	Civil Works Asset Replacement Driven	23	19	-4	-17.7%
Capex	Asset Replacement NARM	220	181	-39	-17.7%

<sup>12</sup> Proposed Totex for Worst Served Customers and Visual Amenity are shown here including ongoing efficiency for comparability with other activities, but ongoing efficiency is removed from these two activities as a post-modelling step. See Worst Served Customers and Visual Amenity sections in Chapter 7 of the Core Methodology Document for the proposed Totex values excluding ongoing efficiency.

<sup>13</sup> QoS & North of Scotland Resilience, Diversions Rail Electrification and Severe Weather 1 in 20 cost activities are excluded from the modelled component of Totex. See Chapter 7 of the Core Methodology Document for details.



Capex	Asset Replacement Non-NARM	70	58	-12	-17.7%
Capex	Asset Refurbishment Non-NARM	20	17	-4	-17.8%
Capex	Asset Refurbishment NARM	9	7	-2	-17.8%
Capex	IT and Telecoms (Non-Op)	78	64	-14	-17.6%
Capex	Non-Op Property	11	9	-2	-17.5%
Capex	Vehicles and Transport (Non-Op)	39	32	-7	-17.3%
Capex	Small Tools and Equipment	18	15	-3	-17.7%
Capex	HVP RIIO-ED2	-	-	-	-
Capex	Shetland	-	-	-	-
Opex	Tree Cutting	61	50	-11	-17.7%
Opex	Faults	142	117	-25	-17.7%
Opex	Severe Weather 1 in 20	9	-	-9	-100.0%
Opex	Occurrences Not Incentivised (ONIs)	34	28	-6	-17.8%
Opex	Inspections	22	18	-4	-17.7%
Opex	Repair and Maintenance	49	41	-9	-17.7%
Opex	Dismantlement	0	0	-0	-17.7%
Opex	Remote Generation Opex	-	-	-	-
Opex	Substation Electricity	19	16	-3	-17.7%
Opex	Smart Metering Rollout	5	4	-1	-16.2%
Opex	Total Closely associated indirects (CAI)	476	392	-85	-17.8%
Opex	Total Business Support	225	185	-40	-17.7%
Cost activities sub-total <sup>14</sup>		2,078	1,696	-382	-18.4%
Excluded cost activities <sup>15</sup>		-17	-		-
Total Totex (modelled component)		2,061	1,696	-365	-17.7%
Technically assessed Totex		2	1	-0	-8.2%
Total Totex		2,062	1,697	-365	-17.7%

**Table 20: SWALES RIIO-ED2 submitted Totex versus proposed Totex by cost activity (£m, 2020/21 price base)**

SWALES	Cost activity	Submitted Totex	Proposed Totex	Difference	Difference
Capex	Connections	28	23	-5	-16.9%

<sup>14</sup> Proposed Totex for Worst Served Customers and Visual Amenity are shown here including ongoing efficiency for comparability with other activities, but ongoing efficiency is removed from these two activities as a post-modelling step. See Worst Served Customers and Visual Amenity sections in Chapter 7 of the Core Methodology Document for the proposed Totex values excluding ongoing efficiency.

<sup>15</sup> QoS & North of Scotland Resilience, Diversions Rail Electrification and Severe Weather 1 in 20 cost activities are excluded from the modelled component of Totex. See Chapter 7 of the Core Methodology Document for details.

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Capex	New Transmission Capacity Charges	5	4	-1	-18.3%
Capex	Primary Reinforcement	59	49	-10	-16.5%
Capex	Secondary Reinforcement	70	58	-12	-17.2%
Capex	Fault Level Reinforcement	3	2	-0	-14.9%
Capex	Civil Works Condition Driven	11	9	-2	-16.8%
Capex	Black Start	-	-	-	-
Capex	Legal & Safety	12	10	-2	-16.7%
Capex	QoS & North of Scotland Resilience	1	-	-1	-100.0%
Capex	Flood Mitigation	2	2	-0	-16.7%
Capex	Physical Security	-	-	-	-
Capex	Rising and Lateral Mains	1	0	-0	-17.1%
Capex	Overhead Line Clearances	18	15	-3	-16.7%
Capex	Losses	1	1	-0	-16.8%
Capex	Environmental Reporting	4	4	-1	-16.0%
Capex	Operational IT and telecoms	44	36	-7	-17.0%
Capex	Worst Served Customers	2	1	-0	-16.8%
Capex	Visual Amenity	1	1	-0	-16.8%
Capex	Diversions (excl Rail)	31	26	-5	-16.7%
Capex	Diversions Rail Electrification	-	-	-	-
Capex	Civil Works Asset Replacement Driven	9	7	-1	-16.6%
Capex	Asset Replacement NARM	129	107	-21	-16.7%
Capex	Asset Replacement Non-NARM	37	31	-6	-16.8%
Capex	Asset Refurbishment Non-NARM	16	13	-3	-16.8%
Capex	Asset Refurbishment NARM	14	12	-2	-16.8%
Capex	IT and Telecoms (Non-Op)	54	45	-9	-16.7%
Capex	Non-Op Property	9	8	-2	-16.3%
Capex	Vehicles and Transport (Non-Op)	27	23	-4	-15.8%
Capex	Small Tools and Equipment	7	6	-1	-16.8%
Capex	HVP RIIO-ED2	30	25	-5	-17.8%
Capex	Shetland	-	-	-	-
Opex	Tree Cutting	50	42	-8	-16.8%
Opex	Faults	54	45	-9	-16.8%
Opex	Severe Weather 1 in 20	5	-	-5	-100.0%
Opex	Occurrences Not Incentivised (ONIs)	17	14	-3	-16.8%
Opex	Inspections	15	13	-3	-16.8%

Opex	Repair and Maintenance	27	23	-5	-16.8%
Opex	Dismantlement	0	0	-0	-16.8%
Opex	Remote Generation Opex	0	0	-0	-16.8%
Opex	Substation Electricity	7	6	-1	-16.7%
Opex	Smart Metering Rollout	3	3	-0	-15.2%
Opex	Total Closely associated indirects (CAI)	232	193	-39	-16.8%
Opex	Total Business Support	115	95	-19	-16.7%
Cost activities sub-total <sup>16</sup>		1,150	952	-198	-17.2%
Excluded cost activities <sup>17</sup>		-6	-		-
Total Totex (modelled component)		1,144	952	-192	-16.8%
Technically assessed Totex		1	1	-0	-8.2%
Total Totex		1,144	953	-192	-16.8%

**Table 21: SWEST RIIO-ED2 submitted Totex versus proposed Totex by cost activity (£m, 2020/21 price base)**

SWEST	Cost activity	Submitted Totex	Proposed Totex	Difference	Difference
Capex	Connections	41	31	-10	-23.9%
Capex	New Transmission Capacity Charges	4	3	-1	-25.6%
Capex	Primary Reinforcement	79	60	-19	-23.7%
Capex	Secondary Reinforcement	83	63	-20	-24.1%
Capex	Fault Level Reinforcement	11	8	-2	-22.8%
Capex	Civil Works Condition Driven	10	8	-2	-23.8%
Capex	Black Start	-	-	-	-
Capex	Legal & Safety	16	12	-4	-23.8%
Capex	QoS & North of Scotland Resilience	12	-	-12	-100.0%
Capex	Flood Mitigation	2	1	-0	-23.5%
Capex	Physical Security	-	-	-	-
Capex	Rising and Lateral Mains	0	0	-0	-24.2%
Capex	Overhead Line Clearances	58	44	-14	-23.8%
Capex	Losses	1	1	-0	-23.8%
Capex	Environmental Reporting	8	6	-2	-23.1%

<sup>16</sup> Proposed Totex for Worst Served Customers and Visual Amenity are shown here including ongoing efficiency for comparability with other activities, but ongoing efficiency is removed from these two activities as a post-modelling step. See Worst Served Customers and Visual Amenity sections in Chapter 7 of the Core Methodology Document for the proposed Totex values excluding ongoing efficiency.

<sup>17</sup> QoS & North of Scotland Resilience, Diversions Rail Electrification and Severe Weather 1 in 20 cost activities are excluded from the modelled component of Totex. See Chapter 7 of the Core Methodology Document for details.

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Capex	Operational IT and telecoms	61	46	-15	-23.9%
Capex	Worst Served Customers	1	1	-0	-23.8%
Capex	Visual Amenity	2	2	-1	-23.8%
Capex	Diversions (excl Rail)	68	52	-16	-23.8%
Capex	Diversions Rail Electrification	-	-	-	-
Capex	Civil Works Asset Replacement Driven	17	13	-4	-24.0%
Capex	Asset Replacement NARM	234	178	-56	-23.9%
Capex	Asset Replacement Non-NARM	78	59	-19	-23.8%
Capex	Asset Refurbishment Non-NARM	21	16	-5	-23.8%
Capex	Asset Refurbishment NARM	13	10	-3	-23.8%
Capex	IT and Telecoms (Non-Op)	65	50	-15	-23.7%
Capex	Non-Op Property	33	25	-8	-23.4%
Capex	Vehicles and Transport (Non-Op)	32	25	-7	-23.1%
Capex	Small Tools and Equipment	13	10	-3	-23.8%
Capex	HVP RIIO-ED2	-	-	-	-
Capex	Shetland	-	-	-	-
Opex	Tree Cutting	74	56	-18	-23.8%
Opex	Faults	108	83	-26	-23.8%
Opex	Severe Weather 1 in 20	8	-	-8	-100.0%
Opex	Occurrences Not Incentivised (ONIs)	27	21	-6	-23.8%
Opex	Inspections	20	16	-5	-23.8%
Opex	Repair and Maintenance	34	26	-8	-23.8%
Opex	Dismantlement	0	0	-0	-23.8%
Opex	Remote Generation Opex	5	4	-1	-23.2%
Opex	Substation Electricity	10	8	-2	-23.7%
Opex	Smart Metering Rollout	3	2	-1	-22.3%
Opex	Total Closely associated indirects (CAI)	342	261	-81	-23.8%
Opex	Total Business Support	187	143	-44	-23.7%
Cost activities sub-total <sup>18</sup>		1,780	1,342	-438	-24.6%
Excluded cost activities <sup>19</sup>		-19	-		-

<sup>18</sup> Proposed Totex for Worst Served Customers and Visual Amenity are shown here including ongoing efficiency for comparability with other activities, but ongoing efficiency is removed from these two activities as a post-modelling step. See Worst Served Customers and Visual Amenity sections in Chapter 7 of the Core Methodology Document for the proposed Totex values excluding ongoing efficiency.

<sup>19</sup> QoS & North of Scotland Resilience, Diversions Rail Electrification and Severe Weather 1 in 20 cost activities are excluded from the modelled component of Totex. See Chapter 7 of the Core Methodology Document for details.

Total Totex (modelled component)	1,761	1,342	-419	-23.8%
Technically assessed Totex	1	1	-0	-8.2%
Total Totex	1,762	1,343	-419	-23.8%

## Technically assessed costs

3.4 For technically assessed costs, we have made the following adjustments, listed in Table 22 below. Our proposed view of bespoke outputs is presented in Chapter 2. Further detail on other items is provided later in this chapter.

**Table 22: Consultation position – technically assessed costs**

Proposal name	Draft Determinations proposal		
	Submitted	Proposed (1)	Confidence
	£m	£m	
CVP5: Offer 1.2 million PSR customers a bespoke smart energy action plan every two years	5.0	5.0	High
(1) Proposed costs do not include efficiency challenge			

3.5 In relation to CVP5: Offer 1.2 million PSR customers a bespoke smart energy action plan every two years, we consider that the costs can be treated as high confidence. WPD outlined that its RIIO-ED1 fuel poverty support programme has been used to forecast the spend for this proposal for RIIO-ED2. WPD plans to utilise some existing contact centre staff to deliver a range of vulnerability services, including to deliver the smart energy action plans. As such, we consider WPD well placed to deliver this proposal and have confidence in its delivery.

## Engineering Justification Papers review

3.6 We have reviewed each of the individual Engineering Justification Papers (EJP) submitted by WPD, as well as the relevant supporting documentation. We assessed the EJPs in accordance with paragraph 2.23 of the Engineering Justification Papers for RIIO-ED2 Guidance document.<sup>20</sup>

<sup>20</sup>

[https://www.ofgem.gov.uk/sites/default/files/docs/2021/02/riio\\_ed2\\_engineering\\_justification\\_paper\\_guidance.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2021/02/riio_ed2_engineering_justification_paper_guidance.pdf)

- 3.7 As discussed in Chapter 7 of our Core Methodology Document, our assessment provided a view on each EJP which was aggregated to one of three outcomes: Justified, Partially Justified or Unjustified.
- 3.8 Our review of the EJPs is one of several assessment tools that has contributed to our overall assessment and proposed costs and volumes. The positions set out in this specific section should be considered in the wider context of the cost assessment methodology set out in Chapter 7 of the Core Methodology Document.
- 3.9 WPD submitted a total of 193 EJPs to substantiate their RIIO-ED2 submission.
- 3.10 We are supportive of WPD’s broad range of EJPs, which cover a significant proportion of its Business Plan. We consider WPD has provided sufficient evidence to demonstrate the needs case for investment for the majority of proposed investment areas.
- 3.11 WPD have, in the majority of cases, considered and assessed an appropriate range of options when selecting the proposed investments. WPD has submitted a high number of Information technology (IT), telecoms and operational technology (OT) EJPs, however we don’t consider that WPD has sufficiently demonstrated consideration of coordination across these EJPs and the associated projects.
- 3.12 We note that the proposed volumes across a wide range of WPD’s Non-Load Related (NLRE) EJPs have not been sufficiently evidenced, and therefore we have deemed a number of these EJPs to be Partially Justified.
- 3.13 A summary of our WPD EJP Review is presented in Table 23. We have provided more detail on EJPs of significant value where our review determined the EJP to be Partially Justified or Unjustified in Appendix 1.

**Table 23 – Summary of WPD’s EJP Review**

<b>EJP Review Outcome</b>	<b>No. of EJPs</b>
Justified	89
Partially Justified	50
Unjustified	48

Other (not reviewed by Engineering Hub) <sup>21</sup>	6
Total EJPs	193

### Load Related Investment Proposals

- 3.14 We consider WPD has provided sufficient evidence to demonstrate the needs case, conducted a robust options development and assessment process for the majority of the primary reinforcement investments proposed.
- 3.15 While the need for some investments is based on selected DFES, the assumptions presented by WPD are reasonable and give us confidence that the investment will be needed under a range of potential future outcomes. However, there are some instances where the need for investment in the RIIO-ED2 period is not sufficiently demonstrated against the scenarios presented and the optioneering process appears limited, both in selection of preferred options and the proposed delivery plans.
- 3.16 We note that the majority of schemes, even those with delivery proposed earlier in the RIIO-ED2 period, are at an early stage of development which gives rise to some concerns regarding cost certainty. Where needs case and optioneering is not considered to be sufficiently evidenced, EJPs have been classified as Unjustified.
- 3.17 We consider WPD has provided sufficient evidence to demonstrate a need for investment in relation to secondary reinforcement, and at a basic level, the investment types proposed by WPD appear appropriate. However, volumes and costs are highly dependent on actual demand and generation development and the unavoidable use of forecasts naturally creates a degree of uncertainty.
- 3.18 Within its submission and subsequent Supplementary Questions (SQs) responses, WPD provided a high-level overview of the modelling and forecasting methodologies that it has used to estimate the RIIO-ED2 volumes. However, WPD has not provided sufficient evidence to justify the deliverability and accuracy of the proposed investment in this area. This leads to a risk that the outturn volumes will differ from those proposed within WPD's submission.

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<sup>21</sup> Where the EJP was considered out of scope of our engineering assessment, eg the EJP primarily designed for specialist review other than engineering resource.

3.19 Our LRE engineering review and recommendations have helped inform the LRE Draft Determinations proposals. The overall Draft Determination proposals reflect the wider assessment undertaken, including the processes described in Chapters 3 and 7 of the Core Methodology document.

### **Non-Load Related Investment Proposals**

3.20 Generally, we consider WPD has provided sufficient evidence to demonstrate the needs case for investment for the proposed condition-based asset replacement and refurbishment EJPs. However, there are numerous examples where the methodology for determining volumes was not clear and we did not gain sufficient clarity through subsequent SQ responses provided by WPD.

3.21 We acknowledge that WPD has utilised a number of different methodologies to determine its volume proposals for each asset category. However, we would have expected further evidence to have been provided to demonstrate how these methodologies were considered together to determine the proposed volumes.

3.22 This is particularly important in asset categories where WPD proposed volumes that exceed previous run rates without also providing sufficient explanation as to what explains this step change in requirements.

3.23 Based on the information provided by WPD, its plans in these areas are at an early stage and only generic information regarding optioneering and delivery strategy was provided.

3.24 In addition, we consider that in some cases WPD's Business Plan includes insufficient detail on specific assets that it proposes to intervene on during RIIO-ED2, in particular for assets with significant unit costs, eg EHV transformers. We would have expected WPD to have presented a more detailed needs case, optioneering and deliverability details for these interventions on an asset-by-asset basis, as opposed to relying on modelling, or portfolio-level optioneering. This would allow us to better understand how WPD's portfolio modelling translates into specific asset interventions on their network. Where this is the case, we have classified the EJPs as Unjustified.

3.25 WPD's other non-load related EJPs cover a wide range of topic areas, including replacement of internal combustion engine (ICE) vehicles with electric vehicles (EV), depot refurbishments and IT investments. The EJPs within this area are also



varied in terms of the level of justification for the proposed investments. However, we note that several of the EJPs do not show a sufficient level of maturity to justify the proposed investment; with insufficient evidence provided for aspects such as planning considerations, deliverability and DNO-wide coordination, in particular noting that a number of these investments are proposed to be delivered in the early years of RIIO-ED2.

- 3.26 We also consider that several of these EJPs, mostly in relation to IT investment, provide insufficient detail of the specific outputs that will be delivered on completion of the individual projects, and the quantitative benefits that these will provide to consumers.

### Totex Incentive Mechanism

- 3.27 Our cost confidence assessment results in a proposed Totex Incentive Mechanism (TIM) incentive rate for WPD of 50.0%. For further details on the TIM, see Chapter 9 in the Core Methodology Document.

### BPI Stage 3

- 3.28 We propose that WPD does not incur any penalty following our BPI Stage 3 assessment as we do not consider it submitted any lower confidence costs.

### BPI Stage 4

- 3.29 We propose that WPD will earn no reward following our BPI stage 4 assessment.
- 3.30 Table 24 sets out our proposals on high confidence cost categories and allowances (before the application of RPEs and ongoing efficiency).

**Table 24: Draft Determinations on BPI Stage 4**

Cost category	Company's view (£m)	Ofgem view (£m)	BPI reward
Modelled costs	6,904.4	6,136.7	N/A
CVP5: Offer 1.2 million PSR customers a bespoke smart energy action plan every two years	5.0	4.9	N/A

**Consultation question**

WPD-Q5. What are your views on our proposals for the outcome of Stages 3 and 4 of the BPI for WPD?

## 4. Adjusting baseline allowances for uncertainty

### Introduction

- 4.1 In this chapter we set out our consultation positions on the bespoke UMs that WPD proposed in its Business Plan.
- 4.2 We set out more detail on the common UMs in our Core Methodology Document and Overview Document, including the broader consultation position and rationale.

### WPD bespoke UMs

- 4.3 We invited the DNOs to propose bespoke UMs with suitable justification in our Sector Specific Methodology Document (SSMD)<sup>22</sup>. We have considered the extent to which the supporting information justifies the key criteria outlined in the BPG<sup>23</sup>:
- materiality and likelihood of the uncertainty
  - how the risk is apportioned between consumers and the network company
  - the operation of the mechanism
  - how any drawbacks may be mitigated to deliver value for money and efficient delivery.
- 4.4 We also considered whether the uncertainty was regionally specific, or sector wide, to assess whether a common UM could be more appropriate. You can find the background and our assessment approach in Chapter 6 of our Overview Document.
- 4.5 Table 25 below summarises the bespoke UM proposals that WPD submitted and outlines our consultation position.
- 4.6 For full details on the bespoke UMs, refer to WPD's Business Plan<sup>24</sup>.

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<sup>22</sup> RIIO-ED2 SSMD, paragraph 5.37 [RIIO-ED2 Sector Specific Methodology Decision | Ofgem](#)

<sup>23</sup> Paragraph 5.44 of our BPG <https://www.ofgem.gov.uk/publications/riio-ed2-business-plan-guidance>.

<sup>24</sup> <https://yourpowerfuture.westernpower.co.uk/riioed2-business-plan>

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**Table 25: WPD bespoke UMs**

UM name	Consultation position
Primary LRE uncertainty mechanism	<b>Reject:</b> we consider this is addressed by our common LRE UM. Please refer to Chapter 3 of the Core Methodology Document for more information.
Secondary LRE uncertainty mechanism	<b>Reject:</b> we consider this is addressed by our common LRE UM. Please refer to Chapter 3 of the Core Methodology Document for more information.
Service unlooping uncertainty mechanism	<b>Reject:</b> we consider this is addressed by our common LRE UM. Please refer to Chapter 3 of the Core Methodology Document for more information.

**Consultation question**

WPD-Q6. What are your views on our proposals on WPD’s bespoke UMs?

## 5. Innovation

5.1 Our SSMD<sup>25</sup> and the Core Methodology Document set out the criteria that we have used to assess NIA funding requests. The Core Methodology Document also details our proposals for the RIIO-ED2 NIA Framework and extension of the existing Strategic Innovation Fund to the DNOs.

### Network Innovation Allowance

5.2 WPD proposed it should be awarded £30m of NIA over 5 years, equivalent to £6m per year which was close to its maximum annual NIA spent in RIIO-ED1. This was less than what WPD had been allowed to spend annually.

5.3 We set out below our Draft Determinations on WPD’s RIIO-ED2 NIA funding.

#### Consultation position

**Table 26: NIA Consultation Position**

Name of the measure	DNO proposal	Consultation position
Level of NIA funding	£30m over 5 years	£17.7m initial allowance, to be reviewed in 2025.

#### Rationale for consultation position

5.4 We propose that WPD should be awarded £17.7m initially (see Core Methodology Document paragraph 3.131 on our proposal to review in 2025 whether more NIA funding is required). WPD's proposed award is equivalent to three years' worth of 80% of its annual RIIO-ED2 NIA request. This is an initial 3-year allocation of NIA allowances, calibrated based on assessment against the NIA criteria and the subsequent benchmarking of allowances (see Core Methodology Document paragraph 3.133 on our approach to benchmarking).

5.5 We consider that WPD satisfactorily met four of our five NIA criteria:

- WPD proposed areas in which to target its innovation spending which we agreed are suitable for ringfenced innovation stimulus funds.

<sup>25</sup> RIIO-ED2 SSMD Overview document, paragraph 4.96 [RIIO-ED2 Sector Specific Methodology Decision | Ofgem](#)

- The evidence provided by WPD gives us comfort that it is planning in RIIO-ED2 to undertake innovative initiatives using BAU funds. While the CEG stated WPD could improve on embedding innovation to the business, including at board-level, it found overall that WPD had a high degree of organisational self-awareness which established a strong platform for RIIO-ED2.
- WPD also showed that it intends to incorporate best practice in its proposals.
- In response to a supplementary question, WPD provided explanation of how it tracks innovation spend.
- However, WPD did not provide evidence that demonstrates it already has in place robust procedures to rollout innovation to BAU, which we consider must include a process to monitor benefits from innovation projects. WPD did previously populate the E6 table of the regulatory reporting packs in RIIO-ED1, which reports quantified benefits from innovation. However, in response to our recent request, WPD did not provide supporting evidence, such as in the form of models, that these estimates were based on a robust process. Moreover, its Business Plan submission did not describe the process for monitoring innovation benefits. WPD's CEG also noted that it had not seen an explanation of how efficiencies from innovation would be measured. As such, we are not satisfied that WPD has in place a robust process of measurement and monitoring innovation benefits at present.

### **Consultation question**

WPD-Q7. What are your views on the level of proposed NIA funding for WPD?

## Appendix 1 - Key Engineering Recommendations

- A1.1 This appendix provides additional details regarding our assessment of specific EJPs.
- A1.2 Due to the high number of EJPs presented within the submission, we have not provided our view on each of WPD’s EJPs within this document. Instead, this appendix focuses on EJPs of significant value where our review determined the EJP to be Partially Justified or Unjustified.

**Table 27: Load Related Expenditure (LRE) - Key Engineering Recommendations**

Paper	Comments	Identified Risks
EJP111: Directional Power Flow at Primary Substations	<b>Partially Justified.</b> WPD provided a sufficient overview of the needs case on the basis that power flow monitoring is likely to be a pre-requisite for DSO/active distribution networks. In addition, more granular monitoring provides opportunity to increase asset utilisation. WPD demonstrated that they have undertaken some high-level optioneering, but there is limited justification for the volumes proposed within the proposal, in particular while noting the significant volume increase from RIIO-ED1 into RIIO-ED2. Insufficient assurance is provided in WPD’s ability to efficiently deliver these volumes across RIIO-ED2.	Due to the lack of justification for the specific volumes, there is a risk that the out-turn volumes will differ from the volumes that WPD proposed in its submission, as well as WPD’s ability to efficiently deliver the volume increase during RIIO-ED2.
EJP112: Secondary Reinforcement Programme	<b>Partially Justified.</b> The submission provides relevant background on the needs case with an overview of expected LCT uptake as well as how WPD has utilised Distribution Future Energy Scenarios (DFES) and its WPD Best View scenario. The Network Investment Forecast Tool (NIFT) is used to identify which networks would break without investment and forecast how WPD can accommodate future connections. A high-level overview of the modelling is provided, but with insufficient detail to justify the magnitude of the proposed investment. WPD provided an overview of the options that are considered within its analysis and modelling, with some details of how these inform the outputs. WPD provided details of the volumes that it expects to address during RIIO-ED2, with these broken down across licence areas on an asset basis.	There remains a deliverability risk for the works, mainly based on the significant increase in volumes/expenditure from RIIO-ED1 through to RIIO-ED2, and the insufficient detail provided to justify the specific volumes that have been proposed.

EJP122: Coventry 132kV Fault level Reinforcement	<b>Unjustified.</b> The EJP does not demonstrate the need for the investment with sufficient detail, with insufficient data and evidence used to demonstrate the overall needs case. The optioneering presented by WPD does not include sufficient detail on why options have been discounted relatively early in the process, leaving only one alternative solution for the cost benefit analysis.	Due to the lack of justification provided for the needs case, there is a risk that the proposed investment would not be required during RIIO-ED2.
EJP144: Upper Boat - Mountain Ash, Dowlais and Merthyr East 132kV Circuit Reinforcement	<b>Unjustified.</b> The needs case for the investment is not sufficiently justified within the submission, with insufficient evidence provided to demonstrate the need to exceed P2/7 requirements.	Due to the lack of justification provided for the needs case, there is a risk that the proposed investment would not be required during RIIO-ED2.
EJP179: Pembroke 132kV Network Reinforcement	<b>Unjustified.</b> The needs case for the investment is based on a proposed upgrade of network, despite the fact that the network will remain P2/7 compliant throughout RIIO-ED2. The submission provides insufficient justification for this intervention. The submission discusses some proposed distributed generation. However, limited details are provided of projects with sufficient maturity to drive the need for the investment.	Due to the lack of justification provided for the needs case, there is a risk that the proposed investment would not be required during RIIO-ED2.

**Table 28: Non-Load Related Expenditure (NLRE): Non-NARM - Key Engineering Recommendations**

Paper	Comments	Identified Risks
EJP001: Replacement of Internal Combustion Engine (ICE) Vehicles with Pure Electric Vehicles (EVs) and Charger Installation	<b>Partially Justified.</b> WPD presented a high-level needs case for the investment, with the reduction of emissions being the primary investment driver. The EJP sets out WPD's plans to reduce fuel emissions by replacing ICE vehicles with EVs. However, limited data is used to justify the expected benefits to consumers from the investment. In addition, we do not believe that the proposed volumes are justified at this stage, given that many vehicles will be taken out of service before their end of life.	Due to the lack of justification for the specific volumes, there is a risk that the out-turn volumes will differ from the volumes that WPD proposed in its submission.
EJP004, 005, 006: Exeter, Torquay and Plymouth Depot Refurbishment	<b>Partially Justified.</b> WPD present sufficient needs case and optioneering for the three different EJPs. The EJP includes a proposed schedule for the projects, as well as a detailed cost overview. However, the EJPs provide insufficient details on the planning consent requirements and	Due to the lack of maturity in the project development for each site, there is a deliverability risk during RIIO-ED2.



	measures in place to ensure efficient delivery.	
EJP016: Diversion - Conversion of Wayleaves to Easements, Easements and Injurious Affection Claims	<b>Partially Justified.</b> WPD presented a justified needs case for the investment, making use of data and accompanying analysis to forecast into RIIO-ED2. The optioneering is limited, however WPD presented sufficient evidence that the proposed strategy is effective. Wayleaves and diversions are inherently subject to a high degree of uncertainty.	Due to the expected uncertainty within this area during RIIO-ED2, there is a risk that the proposed volumes will differ during the period.
EJP032: LTE Network Build & Growth	<b>Partially Justified.</b> The EJP includes a sufficient needs case, presenting the need to replace the UHF radio network with a private long term evolution (LTE) network. The EJP demonstrates sufficient rationale for the proposed engineering approach, however, significant uncertainty remains in relation to the investment as the timing of the release of the spectrum is unknown, as well as who would own the infrastructure.	Due to the timing and ownership uncertainty in relation to this EJP, there is a deliverability risk during RIIO-ED2.
EJP037: Remote Terminal Unit Replacement Programme	<b>Partially Justified.</b> Clear needs case presented to replace the RTUs at the end of their life. WPD demonstrated sufficient consideration of options and related investment drivers. However, WPD provided insufficient detail on exactly when each asset will reach end of life, and how this has informed the planning of the delivery. Insufficient data is used to justify this aspect of the proposal.	Due to the lack of justification for the specific volumes, there is a risk that the out-turn volumes will differ from the volumes that WPD proposed in its submission.
EJP042 & EJP043: LV and HV Underground Cable Replacement Programme	<b>Partially Justified.</b> Sufficient justification provided for the investment's needs case. The optioneering is high-level but provides a sufficient overview of the relevant options. The proposed volumes are based on a combination of analysis with engineering judgement. However, there is a significant increase in volumes when compared to RIIO-ED1 run rates, with insufficient justification and explanation provided for this.	Due to the lack of justification for the specific volumes, there is a risk that the outturn volumes will differ from the volumes that WPD proposed in its submission, in particular when noting the increase in volumes during RIIO-ED2.
EJP065: LV Cut Outs Replacement Programme	<b>Partially Justified.</b> Sufficient justification provided for the investment's needs case. However, the optioneering is high-level, with insufficient justification for how this has informed the proposed volumes. WPD provided insufficient detail of the data that is used to determine the condition of cut-outs. There is insufficient explanation of how volumes have been derived.	Due to the insufficient optioneering, and the lack of justification for the volumes, there is a deliverability and volume risk associated with this proposed investment.
EJP066 & EJP067: LV	<b>Partially Justified.</b> Sufficient justification provided for the investment's needs case.	Due to the lack of justification for the specific

Services (UG & OH) Replacement Programme	The optioneering is high-level but provides a sufficient overview of the relevant options. The proposed volumes are mainly based on the continuation of RIIO-ED1 run rates. However, WPD provided insufficient demonstration of lessons learned or efficiencies that will be applied to the RIIO-ED2 proposal.	volumes, there is a risk that the outturn volumes will differ from the volumes that WPD proposed in its submission.
EJP072: Tree Clearance	<b>Partially Justified.</b> The EJP demonstrates a clear needs case for the works. However, the optioneering and subsequent volume derivation indicates that insufficient alternatives were considered. The two alternative options that were listed and considered were to divert all impacted overhead line (OHL) circuits, and to underground all impacted OHL circuits. These would have led to unfeasible alternatives. The chosen option should consider sub-options to inform the most appropriate strategy to be followed during RIIO-ED2.	Due to the lack of justification for the specific volumes, there is a risk that the outturn volumes will differ from the volumes that WPD proposed in its submission.
EJP110: LV Network Monitoring	<b>Partially Justified.</b> The EJP provides sufficient explanation for the needs case. The optioneering provides sufficient justification for the proposed solution, including why the option with a more favourable NPV was discounted. However, insufficient justification is provided for the final volumes proposed within WPD's submission.	Due to the lack of justification for the specific volumes, there is a risk that the out-turn volumes will differ from the volumes that WPD proposed in its submission.

**Table 29: Non-Load Related Expenditure (NLRE): NARM - Key Engineering Recommendations**

Paper	Comments	Recommended Changes
EJP051: 132kV Overhead Tower Line Conductor and Fittings Replacement Programme	<b>Partially Justified.</b> Sufficient justification is provided for the investment's needs case, with the asset health, and its subsequent impact on the network acting as the main driver for the investment. The optioneering is high-level, providing some details on WPD's decision making in relation to replacing or refurbishing its assets, but provides a sufficient overview of the relevant options and the various modelling that was considered to determine the most efficient solution. The proposed volumes for the 132kV conductors are based on a list of circuits identified as being in poor condition by WPD's engineers – we believe that these are sufficiently justified. However, WPD's	We believed that WPD justified the proposal for the 132kV conductors, including the volumes. However, insufficient detail has been provided to justify the proposed 132kV fittings volumes, leading to a risk in the final outturn volumes for these assets.

	submission does not include sufficient detail or data to justify the proposed 132kV fittings volumes.	
EJP052: 132kV Overhead Tower Replacement Programme	<b>Partially Justified.</b> Sufficient justification provided for the investment’s needs case, with the asset health, and its subsequent impact on the network acting as the main driver for the investment. The optioneering is high-level, providing some details on WPD’s decision making in relation to replacing or refurbishing its assets, but provides a sufficient overview of the relevant options and the various modelling that was considered to determine the most efficient solution. However, WPD provided insufficient justification for the proposed volumes. We would expect that WPD should be able to provide a list of assets that are expected to be replaced to substantiate their proposal. However, this has not been provided.	Due to the lack of justification for the specific volumes, with limited detail provided in relation to specific assets, there is a risk that the outturn volumes will differ from the volumes that WPD proposed in its submission.
EJP059: 132kV Circuit Breaker Replacement Programme	<b>Partially Justified.</b> Sufficient justification provided for the investment’s needs case, with the asset health, and its subsequent impact on the network acting as the main driver for the investment. The optioneering is high-level, providing some details on WPD’s decision making in relation to replacing or refurbishing its assets, but provides a sufficient overview of the relevant options and the various modelling that was considered to determine the most efficient solution. However, WPD provided insufficient justification for the proposed volumes, with limited explanation provided for the need to intervene on some of the listed assets.	Due to the lack of justification for the specific volumes, there is a risk that the out-turn volumes will differ from the volumes that WPD proposed in their submission.
EJP062: HV Transformer Replacement Programme	<b>Partially Justified.</b> Sufficient justification provided for the investment’s needs case, with the asset health, and its subsequent impact on the network acting as the main driver for the investment. The optioneering is high-level, providing some details on WPD’s decision making in relation to replacing or refurbishing its assets, but provides a sufficient overview of the relevant options and the various modelling that was considered to determine the most efficient solution. 6.6/11kV Transformer (GM) – WPD provided insufficient justification for accommodating HI3 assets within volumes.	We believed that WPD justified the proposal for the pole mounted transformers, including the volumes. However, insufficient detail has been provided to justify the proposed ground mounted transformer volumes, leading to a risk that the final outturn volumes for these assets would differ from WPD’s proposal.

	6.6/11kV Transformer (PM) – sufficient explanation provided to justify the proposed volumes.	
EJP063 & EJP064: EHV and 132kV Transformer Replacement Programme	<b>Unjustified.</b> Sufficient justification provided for the investment’s needs case, with the asset health, and its subsequent impact on the network acting as the main driver for the investment. However, the optioneering is high-level, with insufficient justification for how this has informed the proposed volumes. We would expect an asset-by-asset breakdown of the proposed interventions, including the justification and the optioneering to be presented at an asset-level. However, this has not been provided in sufficient detail.	WPD provided insufficient detail on a granular level for the assets, leading to a deliverability risk for these assets, as well as a risk of outturn volumes differing from those proposed by WPD.

## Appendix 2 - WPD Bespoke Core commitments

Output name	Description
<b>Core commitment 1 (ODI-R)</b>	Drive the achievement of net zero across our regions sooner than 2050 in line with stakeholder plans (some areas as early as 2028), by ensuring network capacity is available.
<b>Core commitment 2 (ODI-R)</b>	Ensure customers are able to connect low carbon technologies quickly and easily, with the network being ready to support at least an additional 1.5 million electric vehicles and 600,000 heat pumps by 2028.
<b>Core commitment 3 (ODI-R)</b>	Make it easy for customers to adopt low carbon technologies and achieve net zero in their region much sooner than 2050, by driving the delivery of ambitious Local Area Energy Plans and proactively engaging all 130 local authorities each year via 90 local energy surgeries.
<b>Core commitment 4 (ODI-R)</b>	Deliver a network to meet the evolving needs of our customers by aligning our future energy forecasts with the plans of local regions and the Electricity System Operator, by updating WPD's Distribution Future Energy Scenarios every 12 months.
<b>Core commitment 5 (ODI-R)</b>	Keep bills as low as possible and minimise the requirement for load related reinforcement by adopting a 'flexibility first' approach in order to maximise the utilisation of the existing network.
<b>Core commitment 6 (ODI-R)</b>	Unlock capacity from the existing grid and therefore avoid the need for reinforcement, by stimulating the development of flexibility markets and implementing simple, fair and transparent rules for procuring flexibility services, with a six monthly tender and exceptional customer satisfaction for flexibility services.
<b>Core commitment 7 (ODI-R)</b>	Deliver solutions that achieve the greatest social benefit to customers by utilising a whole system approach for major reinforcement to improve network efficiency. We will undertake three regional collaboration trial schemes by 2025 involving gas, electricity, water, waste, transport and heating sectors.
<b>Core commitment 8 (ODI-R)</b>	Actively support the expansion of green, renewable energy generation and help local communities to decarbonise and lower their bills, by connecting at least 30 community energy groups to the network

	each year. We will hold 60 community energy surgeries per year and provide a dedicated WPD community energy representative to assist with connection and flexibility offers.
<b>Core commitment 9 (ODI-R)</b>	Support a growth in community energy schemes by facilitating their access to available funding streams.
<b>Core commitment 10 (ODI-R)</b>	Achieve net zero in our internal business carbon footprint by 2028 (excluding network losses) and follow a verified Science Based Target of 1.5°C to limit the climate impact of our activities.
<b>Core commitment 11 (ODI-R)</b>	Avoid damage to the environment by reducing the volume of oil leaked from fluid filled cables by 50% by 2028 and replacing 90km of the worst leaking circuits with non-oil alternatives putting WPD on target to remove all oil-filled cables by 2060.
<b>Core commitment 12 (ODI-R)</b>	Significantly reduce our impact on climate change by delivering a 20% reduction in SF6 losses and drive industry partners to develop technological alternatives to reduce overall volumes of SF6 on the system.
<b>Core commitment 13 (ODI-R)</b>	Significantly reduce the environmental impact of our operations by achieving zero waste to landfill by 2028 (excluding hazardous waste) and delivering an overall 30% reduction in tonnage of waste produced.
<b>Core commitment 14 (ODI-R)</b>	Improve visual amenity by removing at least 50km of overhead lines in Areas of Outstanding Natural Beauty and National Parks.
<b>Core commitment 15 (ODI-R)</b>	Achieve a 10% net gain in biodiversity (in line with nationally recognised assessment tools) for new major projects and for selected primary and grid substation sites.
<b>Core commitment 17 (ODI-R)</b>	Enhance access to data that is tailored to the individual needs of our customers, by making 60% of WPD's network data available via an interactive Application Programming Interface.
<b>Core commitment 18 (ODI-R)</b>	Ensure customers are not left behind in the smart energy transition by offering at least 600,000 Priority Services Register customers a bespoke smart energy action plan each year.

<b>Core commitment 19 (ODI-R)</b>	Support at least 113,000 fuel poor customers to save £60m on their energy bills over RIIO-ED2.
<b>Core commitment 20 (ODI-R)</b>	Expand the reach of our Priority Services Register to at least 75% of total eligible customers and 80% of customers with critical medical dependencies to ensure those in greatest need receive targeted support services. This will include registering at least 50,000 additional 'hard-to-reach' customers each year.
<b>Core commitment 21 (ODI-R)</b>	Achieve a 'one-stop-shop' service so that customers only have to join the Priority Services Register once to be registered automatically with their energy supplier, water company, gas distributor and telecommunications companies.
<b>Core commitment 23 (ODI-R)</b>	Support and add significant value to our local communities via a 'Community Matters' social initiative associated with the smart energy transition, vulnerability, environment and sustainability. This will include a shareholder funded annual £1m community support fund and 1,000 volunteer days per year for WPD staff to support local causes.
<b>Core commitment 24 (ODI-R)</b>	Deliver enduring, long-term support to our communities by publishing an updated WPD Social Contract and performance report every year and maintain our prime Environmental, Social and Governance rating.
<b>Core commitment 25 (ODI-R)</b>	Build decarbonised communities and local energy schemes by providing £540,000 shareholder funded support per year to install solar PV on schools in areas of high economic deprivation.
<b>Core commitment 27 (ODI-R)</b>	Ensure a speedy telephone response to customers by answering calls within an average of four seconds and maintain an abandoned call rate of less than 1%, within our UK based, in-region Contact Centres.
<b>Core commitment 28 (ODI-R)</b>	Ensure a speedy social media response to customers by replying to enquiries within an average of five minutes and Webchats in an average of less than a minute, 24 hours a day.
<b>Core commitment 29 (ODI-R)</b>	Provide greater insight on our planned work activities and interruptions on our network by creating an online viewer.

<b>Core commitment 31 (ODI-R)</b>	Make it as easy as possible for customers to apply to connect individual domestic low carbon technologies by providing a same day connections response via an online self-assessment tool.
<b>Core commitment 32 (ODI-R)</b>	Provide quicker and cheaper connections options for customers by increasing the number of flexible connection offers made, ensuring 100% of schemes receive a flexible alternative to reinforcement where the reinforcement cost is >£75k for LV, 11kV and 33kV connections and >£100k for 66kV or 132kV connections and/or where works will take more than 12 or 18 months respectively to complete.
<b>Core commitment 35 (ODI-R)</b>	Counteract deterioration of network assets through an investment of £216m per annum, delivering a 22% change in risk to keep network risk at similar levels to the start of the price control period.
<b>Core commitment 36 (ODI-R)</b>	Reduce the flooding risk at key sites by undertaking 102 flood defence schemes and engage stakeholders to reduce the need for new assets in flood risk areas.
<b>Core commitment 37 (ODI-R)</b>	Increase the safety of around 200,000 children by delivering 780 schemes to underground, insulate or divert overhead lines that cross school playing areas.
<b>Core commitment 38 (ODI-R)</b>	Keep our children safe by sending electrical safety education packs to every primary school in WPD's region and educate at least 80,000 children per year via direct learning.
<b>Core commitment 39 (ODI-R)</b>	Reduce the risk of data loss or network interruption from a cyber attack by continually assessing emerging threats in order to enhance our cyber security systems.
<b>Core commitment 40 (ODI-R)</b>	Reduce the risk of disruption to our operations and enhance the resilience of our IT network security as we deliver greater digitalisation, by increasing levels of threat monitoring, prevention and alerting systems, and upgrading our disaster recovery capability to ensure continuity of our operations.
<b>Core commitment 41 (ODI-R)</b>	Demonstrate exceptional and embedded employment practices by achieving Gold accreditation with Investors in People by the end of RIIO-ED2.



<b>Core commitment 42 (ODI-R)</b>	Achieve year-on-year improvements to the levels of diversity within the business and publish an annually updated Diversity, Equity and Inclusion Action Plan.
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## Appendix 3 - Consultation questions

### 1. Introduction

### 2. Setting Outputs

- Q1. What are your views on the company specific parameters we have proposed for the common outputs that we have set out above?
- Q2. What are your views on our proposals on WPD's bespoke output delivery incentives?
- Q3. What are your views on our proposals for WPD's bespoke price control deliverables?
- Q4. What are your views on our proposals for WPD's CVPs?

### 3. Setting baseline allowances

- Q5. What are your views on our proposals for the outcome of Stages 3 and 4 of the BPI for WPD?

### 4. Adjusting baseline allowances for uncertainty

- Q6. What are your views on our proposals on WPD's bespoke UMs?

### 5. Innovation

- Q7. What are your views on the level of proposed NIA funding for WPD?

## Appendix 4- Privacy Notice

### Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

#### **1. The identity of the controller and contact details of our Data Protection Officer**

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at [dpo@ofgem.gov.uk](mailto:dpo@ofgem.gov.uk)

#### **2. Why we are collecting your personal data**

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

#### **3. Our legal basis for processing your personal data**

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest ie a consultation.

#### **4. With whom we will be sharing your personal data**

No personal data will be shared with any organisations outside Ofgem.

#### **5. For how long we will keep your personal data, or criteria used to determine the retention period.**

Your personal data will be held for twelve months after the project is closed.

#### **6. Your rights**

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

**7. Your personal data will not be sent overseas**

**8. Your personal data will not be used for any automated decision making.**

**9. Your personal data will be stored in a secure Government IT system.**

**10. More information**

For more information on how Ofgem processes your data, click on the link to our "Ofgem privacy promise".

