



Action for Warm Homes

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NEA Response to RIIO ED2 Draft Determinations

Dear Akshay,

I am writing to you to express our concern about the outcomes for low income and vulnerable energy consumers within the RIIO ED2 Draft Determinations.

NEA has worked with network companies to deliver projects supporting fuel poor and vulnerable households, creating insight with our research into how vulnerability and whole energy system efficiency intersects with the role of the electricity network and lobbying for changes to Government policies and helping to scope the related incentive framework within both ED1, ED2, as well as is kin for the gas networks. We have responded to each relevant consultation, sit on Ofgem's Consumer Vulnerability working group and overall feel we are an authoritative and productive have regularly engaged on these topics. By working alongside the companies during the development of their business plans, NEA has also been involved throughout the RIIO ED2 enhanced engagement process.

At the outset of ED2 development process, we were satisfied that Ofgem's approach to the new price control was focussed on consumer engagement, and that there was a strong focus on vulnerability. Early on, Ofgem announced three significant and promising proposals regarding vulnerable customers:

- A new vulnerability baseline that set a standard for the activities that DNOs would be expected to undertake during the ED2 period.
- The introduction of a new vulnerability incentive, which could return significant value to networks in the case that they exceed the baseline
- The creation of a vulnerability licence condition, mirroring SLC0 within the supplier licence conditions as well as the new parallel licence condition for gas distribution networks

We have been broadly pleased with how DNOs have taken these three proposals into their business plans. Promisingly, DNOs put forward at least £30m worth bespoke ODIs which would ultimately provide help for their vulnerable customers. At the time of energy crisis, it is therefore

the national energy action charity

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exceptionally disappointing that Ofgem has provisionally rejected most of these proposals. A summary of these rejected projects by type of activity includes:

- Energy advice services with an expected value of £20m over the ED2 period
- Support for fuel poor households with an expected value of £20m over the ED2 period
- £10m worth of projects to support fuel poor households with energy bills
- More than £11m to help low income and vulnerable households to participate in flexibility markets

In addition to the above, Ofgem has rejected proposals that relate to improving the energy efficiency of fuel poor homes, often citing that they are not convinced of the value to the network of undertaking such projects.

Ofgem, in total, has proposed a curtailment of projects worth well in excess of £70m in benefit to vulnerable customers. Many of these rejections was made on the solely on the basis that they could be done through the vulnerability incentive. While this is theoretically possible, based on feedback that NEA sought from DNOs it is clear that this won't be the case. It is clear in too many instances that rejecting these proposals will lead to them not happening altogether, with limited plans to try and increase their reward from the vulnerability incentive by doing them. NEA believes that the rejection of projects in the draft determinations will result in the following outcomes:

- Fewer projects helping vulnerable customers will happen during the price control, and therefore households that are struggling the most will receive less value from the price control. This will make the price control more regressive.
- DNOs themselves may see the proposed rejection of vulnerability projects as a signal that this is not important. Whilst they have showed ambition and enthusiasm on the topic during the business planning process, there is a risk that this dissipates, and they no longer have the appetite to take projects forward.
- This, in turn, undermines the focus on vulnerability within the RIIO 2 price control and the new licence condition. During RIIO 1, we have been impressed by the increased focus on vulnerability from DNOs. There is a risk that this focus falls away, just as it was getting started.

Given the current context of the energy crisis and the significant investment that low income and vulnerable households will make through their energy bills towards the overall cost of the next price control, there has never been a more important time for all parts of the energy system to do what they can to help vulnerable households. Given that Ofgem have created this price control around being stronger on consumer vulnerability, and shaping it around customer views, the outcomes from the draft determinations do not seem coherent, especially given the current context. We also know from the feedback of the Consumer Engagement Groups (CEGs) that in general, customers want a majority of these projects to happen, they are willing to pay for them, and the projects provide significant net benefit over the period.

As such, NEA recommends that Ofgem urgently find a way to ensure that DNOs take forward work to help low income and vulnerable households throughout the price control. Given the feedback that the vulnerability incentive will not be fit to do this, there are two ways in which this can be done:

1. Through mirroring the GD2 price control and introducing a Use-it-or-Lose-it allowance for DNOs to undertake projects relating to vulnerability. This has been successful in its first

year of operation and has led to significant positive outcomes including: households claiming benefits that they are entitled to, reducing their energy costs are a result of advice, and accessing financial support through bill rebate schemes.

2. Through enhancing the signal within the vulnerability incentive to go the extra mile, by making it more generous for over performance and more punitive for poor performance.

NEA strongly prefers option 1 as it would help ensure that networks can make inflight additions to their work programme on vulnerability. We urge Ofgem to implement a Use-it-or-Lose-it allowance, of similar size to the GDN VCMA, so that DNOs can play the vital role that is needed from them throughout the energy crisis.

We would welcome discussing these areas further with you at your earliest convenience.

Yours Faithfully

A handwritten signature in black ink, consisting of a large, stylized 'P' followed by a series of loops and a long horizontal stroke extending to the right.

Peter Smith

Director of Policy and Advocacy, National Energy Action