

The Customer Engagement Group
of
Scottish Power Energy Networks

Response to the Draft Determination published by Ofgem
on 29 June 2022

Date 25th August 2022

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1. Introduction

We would like to thank Ofgem for the opportunity to respond to the Draft Determination published on the 29th June 2022.

The SPEN CEG came to an end on 31st January 2022 after publishing its report on the SPEN Business Plan for the RIIIO-ED2 Price Control but the company has facilitated the production of this response to Ofgem's Draft Determination, compiled by former CEG members.

We have largely confined our comments to the SPEN specific questions contained in the SPEN Annex and which apply to the two SPEN licence areas Scottish Power Networks and Scottish Power Manweb.

We have not responded to most of the core methodology questions which apply to all the Distribution Network Operators, instead concentrating on the 'SPEN specific' aspects of the Draft Determination. However some of our responses below either have a read across to the the core methodology or answer some core questions specifically.

Our Response to the SPEN Business Plan set out our views on the plan and unless varied below we maintain the position we set out in that Response. The majority of the comments below reinforce our earlier comments on particular subjects and explain why we feel Ofgem should reconsider the view it has expressed in its Draft Determination.

The Questions answered below are either marked as **SPEN** Questions for the DNO specific questions or **OFGEM Core Questions** for those from the Core document.

2. High Level Summary - Overall Business Plan Incentive assessment

We note that SPEN has been awarded a 'Pass' with regard to the Stage 1 Business Plan Requirements and no penalty under Stage 3. SPEN put considerable effort into the Business Plan and responded very positively to the challenges made by the CEG throughout the creation of the Business Plan. We largely agree with Ofgem's Assessments.

However we are disappointed that Ofgem has not provided any allowance or reward under Stage 2 of the BPI for the company's Consumer Value Proposition '**Direct low carbon transition support to vulnerable customers' (CVP1)** . See CVP comments later in this document for our analysis.

We agree with Ofgem's conclusions (no penalty, no reward) with regard to Stage 4 of the BPI.

3. Setting Outputs

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

CEG View

These are common outputs and the specific parameters applied to the SPEN business plan appear to be in-line with those calculated for all other DNOs.

Interruption Incentive Scheme.

CEG View

Customer engagement re-confirmed that network reliability remains a top priority. The values ascribed by Ofgem for Unplanned Customer Interruptions, Unplanned Customer Minutes Lost and the Network Asset Risk Metric seem to be in line with targets set for other DNOs but the final target figures will be set by Ofgem at final determination based on the latest figures from SPEN. The CEG supports this approach.

Consumer Vulnerability Incentive (ODI-F)

CEG View

We understand that Ofgem is still working with DNOs to ensure that the DNOs' targets are complete, comparable and independently assured using the common Social Value Framework ahead of Final Determinations.

We agree the use of independent reports (CSATs) using the same report company for all the DNOs and would suggest the publication of these reports.

Ofgem Core Question - Q33. Do you agree with our proposals for the Consumer Vulnerability ODI-F?

CEG View

Agree

Ofgem Core Question - Q34. Do you agree with the performance metrics we are proposing to include in the incentive and the approach to setting targets and associated deadbands, performance caps and penalty collars? If not, please explain why and give details of your preferred alternative.

CEG View

We agree with the performance metrics proposed, the penalty/rewards mechanism and that it should be an ex-post assessment in years 2 and 5 of the price control using independent assurance.

Ofgem Core Question - Q35: Do you agree with our proposal for the Annual Vulnerability Report ODI-R?

CEG View

Agree

Ofgem Core Question - Q36: Do you agree with the proposed content of the annual report?

CEG View

We understand the content is subject to further work but agree the content proposed so far.

Major Connections Incentive (ODI-F)

Ofgem Core Question – Q39: Do you agree with our proposed design of the Major Connections incentive

CEG View

Due to the lack of previous measurement on Major Connections via ED1, largely because of the broad differences in connection types including their costs and technicality, it seems reasonable to perform a customer services survey conducted by a third party across all DNOs such that they will now be mea-

sured against each other. The design of this seems appropriate and fair but with some reservations outlined below. We also agree with the annual reporting (MCAR) document, allowing customers and stakeholders to benchmark DNOs against each other.

There is a requirement for all DNOs to produce specific, quantifiable and well-justified performance measures, which we believe will be essential to the success of the surveys.

However we do have concerns about DNOs each appointing an independent customer services surveyor rather than OFGEM and the potential for differences in monitoring between independent surveyors. This may result in distortions in scoring between DNOs due to using different assessors.

Ofgem Core Question – Q40: Do you agree with our proposed approach to target setting and applying the penalty?

CEG View

SPEN's business plan provided details on how it intends to improve the service during ED2. The Ofgem collaring system again seems fair, with incremental increases in customer satisfaction scores from years 1-5.

Initial CEG meetings with SPEN on this area indicated a customer satisfaction score was being achieved from SPEN's own internal research of around 8.4. The CEG is concerned that OFGEM's target of 8.0 in year 1 rising to 8.7 in year 5 may not be stretching enough.

We broadly agree with the penalty parameters although have concerns that DNOs may find it reasonably easy to achieve the minimum score required and then have no incentive to improve.

Ofgem Core Question – Q41: Do you agree with our proposal to require reputational reporting of timeliness metrics for all Relevant Market Segments?

CEG View

We agree with the inclusion of timelines within the MCAR (Major Connections Annual Report) across all RMS. This should then ensure for ED3 that there are specific scores in place across all DNOs (as is the case with minor connections)

and will hopefully push the DNOs to improve depending on their own historic data.

SPEN-Q2: What are your views on our proposals for SPEN's bespoke ODIs?

The CEG wishes to make comments on all the bespoke ODIs in the draft determination.

a. Bespoke ODI-F Community Energy (CE) Strategy

CEG View

We are surprised and quite disappointed that Ofgem considers SPEN has not provided sufficient evidence or justification for the need for this proposal or the activities they hope to deliver.

After detailed scrutiny and challenge by expert members of the CEG involved with community energy, the CEG considered, that SPEN presented a clear and logical argument about the value of Community Energy to our future electricity networks. It demonstrated a clear 'whole systems' approach to the critical role CE groups will play in unlocking and coordinating citizen adoption of low carbon solutions, as well as how community ownership can help to support a Just Transition.

Most significantly the proposal, in our view, targeted a recognised gap in providing in-kind support to communities, to help them develop and deliver their own energy projects. This is complemented by an acute need for additional capital funding, to aid delivery of CE projects; a need supported by SPEN's separate proposal for a 'use it or lose it' Net-Zero Fund.

We are disappointed Ofgem has not so far regarded the Net Zero Fund proposal as acceptable as it links very closely with the Community Energy Strategy proposals. We comment further on the Net Zero Fund below. We considered SPEN's three CE ODI commitments represented an obvious and logical solution to some of the barriers to supporting CE organisations to actually deliver and would fill a critical support gap across SPEN's licence areas, in turn supporting additional community energy projects to be delivered.

The CEG was very clear in its opinion that SPEN engaged extensively with its customers and stakeholders on the issue of its proposed CE commitments. This was also supported by testament from representatives of the UK's three

community energy associations, which shared a very positive view of how the engagement process had enabled them to influence SPEN's Business Plan design, explaining how SPEN had gone "above and beyond" other DNOs in terms of CE engagement. In particular, these stakeholders emphasised the key primary importance of frequent bi-lateral meetings between SPEN and the CE associations.

In addition, as we said in our report, SPEN's CE commitments have been usefully complemented by a range of other important evidence inputs, including a bespoke commissioned sectoral research project (e.g. WPI) and hiring of former community energy sector staff (e.g. SPEN's CE lead).

SPEN's proposed maximum reward rate of 0.5% of base revenue, to support a 27% year on-year growth of the community energy sector in the two licence areas was ambitious and potentially transformative for the CE sector. According to those CE stakeholders with which the CEG engaged, SPEN's commitments were also "stretching" when compared to other DNOs' draft commitments.

Although we noted some criticisms from some stakeholders about the timeliness of engagement and CEG member views of the quality of some workshop events varied, views from expert and knowledgeable stakeholders on the overall proposition and ambition were very positive.

In light of the above, we find it difficult to understand Ofgem's opinion that SPEN has provided insufficient evidence and justification. We would like Ofgem to look again at this proposal.

We note that Ofgem is proposing to allow £3.05m of baseline costs. Whilst this is partially positive it is much more modest than SPEN's proposals. If those were accepted the ODI's highest ambition funding (~£21m) would enable SPEN to channel significant additional resource towards its baseline CE activities, "supporting more community anchor organisations to deliver more community energy projects and collate more data to meet a growth rate up to 27% per annum".

We considered this to be an ambitious result for the resources and queried whether SPEN's proposed total maximum ODI spend of £23.9m was sufficient to deliver more than a tripling of the number of CE organisations by 2028 versus 2022-23, across its two licence areas, given the extent of other factors

outside SPEN's control or influence which would determine the success or otherwise of CE organisations.

Overall, as we said in our report, the design of the ODI seemed to us to be sensible and appropriate, including ongoing stakeholder assessment of SPEN's ODI performance, comprising a stakeholder satisfaction survey and an independent annual review of CE strategy delivery by CE stakeholders. Although we raised some issues about potential conflicts of interest from involving CE organisations in evaluating performance in this area, any such conflicts could be managed, and the assessment scheme proposed could be refined and improved.

We therefore do not understand Ofgem's view that SPEN has not provided sufficient assessment criteria for the proposals they made, or that this justifies rejection rather than revision and improvement.

b. LV Connections Offer Accelerator ODI-F

CEG View

OFGEM discusses the "complexity of major connections" but there is a strongly held view amongst some CEG members that having only 2 segments (minor and major connections) is far too broad and many major connections are not, in fact, complex at all.

SPEN recognised this with its proposed LV Connections Offer Accelerator ODI which the CEG supported. However OFGEM has rejected any incentive on the grounds that it should be part of BAU. The CEG continues to believe that this will be a very welcome development but accepts that this could be included as part of BAU.

c. Advice Services ODI-F

CEG View

Ofgem has rejected an ODI proposal from SPEN which would have incentivised them to provide a range of information and advice services that help customers reduce household or business energy costs, drive efficiency and help them access the benefits of the low carbon transition. This was explained in more detail in SPEN Annex 5C.5.

Ofgem considers that '*there are other sources of advice available to customers*' and that the '*DNOs focus should be on providing advice where there is a clear network benefit, or clear benefits to vulnerable customers, including customers*

who are in fuel poverty'. We would like to invite Ofgem to review this and consider whether those 'other sources' are actually realistically likely to be able to meet the needs SPEN has identified.

As we noted in our report SPEN's stakeholder engagement found support for SPEN to be offering wider support services, for two important groups:

Vulnerable Customers

The CEG made it clear in its report that we believe there **is** a gap in advice services for this group, and non-vulnerable customers generally. We did acknowledge the question of whether it was most appropriate for SPEN to expand its service offer in this area. However, many of the information and advice services for consumers that deal with energy and energy efficiency matters are provided by voluntary organisations and charities, tend to be aimed at people on the lowest incomes or in financial distress and have also seen very significant increases in demand for their services during the past year due to the cost of living and energy price crises and emerging growing consumer debt problems.

We would therefore challenge Ofgem's view that there are indeed '*other sources of advice*' that actually have the realistic capacity to address the needs of consumers that SPEN identified in its research underpinning the business plan proposals. We think the capacity of the 'other sources of advice' will have been extremely stretched by economic developments of the past 12 months which are set to continue.

Commercial Customers

SPEN are particularly keen to target commercial customers, especially under resourced SMEs, who could benefit greatly from support in how to be more energy efficient, as well as how to ready themselves for the challenges that the road to Net Zero will bring.

There is already clear evidence that many SMEs may have to close down in the next 12 months because of the burden of increased fuel bills and other business essentials. Surviving on tight margins, fuel bills alone can wipe out any profit they make.

Small business customers particularly told SPEN, during customer research, that their specific needs are not being met by information and advice services on offer in relation to what they find to be an overly complex energy market. SPEN's proposal could provide an invaluable cost saving to the commercial sector enabling many SMEs to continue in business. A significant proportion,

95.3% of all customers, both domestic and commercial, supported the proposed commitment to offer advice services to customers.

d. Losses ODI-R

CEG View

We are disappointed that there is no financial incentive for SPEN (or any DNO) to minimise losses. Instead Ofgem proposes reliance on reputational regulation through annual environmental reporting. This is weak, in a context where DNO investment is governed primarily by incentive-based regulation. The lack of any financial incentive will result in added system costs. For example, the Sustainability First Response to Ofgem Draft Determinations concludes that across transmission and distribution, losses currently cost every domestic customer £100 per annum (the majority occur at distribution level). Moreover, the losses cost may double (in line with increased wholesale energy costs) in the October price cap.

Losses are a major source of carbon emissions now and are a whole system efficiency issue for the future, because they will increase radically with expected electrification of heat and transport to 2030. Treatment of losses as a reporting-only issue is likely to result in requirements for costly additional network and generation capacity to meet net zero, counter to Ofgem's priorities for least cost.

Although minimising losses (as far as practical) is a condition of operator licences, incentives for reductions are lacking. We request Ofgem to review this decision and to ensure that ED2 final determinations include incentives to ensure that SPEN and all DNOs take action on losses within the price control period.

If bespoke ODIs are regarded as inappropriate, then alternatives (as noted by Sustainability First) are: Price Control Deliverables and 'Use it or Lose it' funding to implement opportunities noted in Losses Strategies. In addition a common, detailed reporting framework would bring pressure on DNOs to take action. There should also be requirements for collaboration to share best practice and establish this as standard/baseline among all DNOs.

SPEN-Q3. What are your views on our proposals for SPEN's bespoke Price Control Deliverables?

Ofgem View

- a. Land Rights and Injurious Affection claims - Reject. Not a PCD and is part of ED1 and costs managed with SPEN's Totex allowances.
- b. Biodiversity Licence Obligation with clawback - Partial Reject of £7.5m but accept funding £0.5m in baseline with a Price Control Deliverable.
- c. Direct Low Carbon Transition Support to Vulnerable - Reject
- d. Network Loss MAAV - Accept. See CVP below
- e. Electric Vehicle Optioneering - Accept. See CVP below

CEG View

We note Ofgem's draft determination on the above issues. We wish to make a number of comments on Ofgem's consideration of the Direct Low Carbon Transition Support to Vulnerable under CVPs below.

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

Ofgem view

- a. Direct Low Carbon Transition Support to Vulnerable - Reject. Not within DNO role.
- b. EV Optioneering CVP - Accept. No Reward but PCD allowance with claw back. Part of Baseline expectations.
- c. Network Loss MAAV - Accept with no Reward. Not clear its beyond baseline expectations so fund through baseline with a Price Control Deliverable.
- d. Advanced Fault Management - across 41 constrained locations - Accept. No reward as not beyond baseline expectations

CEG View

SPEN made the four proposals above for CVPs.

Three of the proposals¹ (listed as b, c and d above) have been accepted by Ofgem in the draft determination, though with no reward meaning that SPEN will have an allowance and obligation to deliver on those three proposals but will not be rewarded for doing so. We commented on all three of these proposals in our report on SPEN's Business Plan and note Ofgem's proposed decisions which appear to be pragmatic balancing SPEN's evidence of and case for support for the proposals with questions about how far they should be regarded as BAU or core efficiency developments. We have no further comments we wish to make on these.

However we have substantive comments to make on Ofgem's draft determination on a. above concerned with Low Carbon Transition.

We are very disappointed that Ofgem plans to reject in full SPEN's proposal for activity called '**Direct low carbon transition support to vulnerable customers' (CVP1)**'. This proposal had two elements as outlined more fully in Annex 5C.2: (BPI Stage 2 CVPs) to SPEN's business plan. In our report we were positive about the proposals, particularly the first element.

The first element is to fund installation of technology in consumers' homes that would reduce energy demand for at least 40,000 low-income customers during ED2, saving them around £100 pa on average. We invite Ofgem to reconsider this, particularly in light of the changes in energy prices and fuel poverty since SPEN's business plan was submitted. Both the need and the benefits case have grown since the plan was submitted.

The CEG report viewed this proposal as a Just Transition commitment, noted it was supported by customers and that expert knowledgeable stakeholders strongly endorsed it. Indeed, the CEG said we would prefer to see the scale of the first element of the programme increased but understood the limitations Ofgem had set on the cost of CVPs. However, SPEN assured the CEG that if the unit cost of the technology reduces during ED2 it would be possible to expand the number of low-income customers reached by the programme. The CEG also noted that the approach should be viewed in the context of SPEN's longer-term business plan commitment to provide support to all of its low-income customers by 2045.

We noted that at the time of SPEN's submission it was basing its expected consumer savings of an 'average' of £100 per year on the value of an average electricity bill. This saving was based on properties with electric heating with an average bill estimated to be £1000 per annum. Annex 5C.2 of SPEN's busi-

¹ EV optioneering; Network loss reductions and safety enhancement and Advanced Fault Management

ness plan also referred to trials which had generated an average 8-12% annual savings in energy bills ². Based on that level of average bill the 40,000 consumers expected to benefit over the 10 year lifetime of the equipment could enjoy £40m of savings on their bills.

Since SPEN's Business Plan submission electricity (and gas) prices have risen very significantly, as indicated by the adjustments to the Ofgem 'default tariff' in 2022. In October 2021 the default tariff cap (dual fuel) set by Ofgem stood at £1277 but had increased by 54% to £1971 from April 2022³. As Ofgem will be aware analysts are now forecasting this will increase to £3363 by Spring 2023 ⁴.

Even with the current level of financial mitigations which the Government has provided to households, to be delivered through retailer rebates, the projected further bill increases, particularly during the winter of 2022/23 will undoubtedly cause significant hardship and fuel poverty, especially for the households SPEN proposed to assist with the technology to be installed under CVP1. This element of the proposal is expected to cost £12m, over 5 years but even before the default tariff increases would have delivered £40m of savings to customers. The beneficial impact of the proposal for consumers will clearly be much greater in £ value in the context of rising prices.

Ofgem may consider it is not SPEN's role to assist customers in this way, however the energy bills crisis is extreme and unprecedented. In unprecedented times no stone should be left unturned to deliver solutions. SPEN is far better placed than the retailers to organise, finance and arrange installation of this equipment – at pace - on a geographic area basis working with social landlords for example to directly assist their tenants, who will have retail accounts with different suppliers who are clearly struggling to progress the smart meter roll-out which, at current run rates, could take another 7.5 years to complete⁵.

We understand that this innovative technology – which has been the subject of government funded trials (see BEIS Power of Homes Project) – is NOT offered

² [Power of HOMEs : Home Optimization & Management of Energy](#)

³ [Default tariff cap level: 1 April 2022 to 30 September 2022 | Ofgem](#)

⁴ [Default Tariff Cap forecast climbs further as Ofgem announcement looms \(cornwall-insight.com\)](#)

⁵ The smart meter installation programme has been ongoing for 9 years. At May 2022 only 45% of domestic meters installed were 'smart' with a quarterly installs achieved rate of 872k. 25.6m domestic meters remain to be installed as smart meters. The programme will have taken nearly 20 years to complete. [Smart meters in Great Britain, quarterly update March 2022 - GOV.UK \(www.gov.uk\)](#)

as part of any publicly funded energy efficiency initiatives so this does not duplicate with other offers. **We would strongly urge OFGEM to reconsider it's decision on this element of the CVP in light of changes in energy prices and in particular to consider providing an allowance if not a reward for this project which will enable SPEN to start delivering something which will directly assist low income customers with their rising energy bills.**

We note and do not disagree with Ofgem's view of the second element of the proposed CVP, concerned with increasing the uptake of smart meters across 136,000 (SPEN figure) harder to reach customer groups. There was a question mark in the minds of the CEG and some stakeholders about whether a DNO or a customer's supplier is really the best placed to carry out this take-up activity, or whether a DNO should be incentivised in the way proposed. Therefore we have no representations to make on Ofgem's decision on the second element of this CVP.

4. Setting baseline allowances

Ofgem has generally proposed reducing Totex by 13% across both licence areas, one of the lower reductions imposed on DNOs.

Technically Assessed Costs

Biodiversity - Submitted £8.0m Proposed £0.5m.

Ofgem View

SPEN did not provide sufficient evidence to support its estimated biodiversity unit cost for type and volume of work proposed.

CEG View

The CEG hopes that this can be addressed by SPEN to Ofgem's satisfaction before Final Determinations.

Stakeholders provided SPEN with extensive input on biodiversity and natural capital, perhaps unsurprisingly given many of those engaged are leading the development of best practice. This is summarised in the EAP.

The CEG urges SPEN to ensure it continues to draw on this expertise during ED2 and notes the need for an approach that takes account of local and regional variations. The CEG therefore welcomes the commitment to form

strategic partnerships with local ecological organisations to support activities to improve biodiversity and habitats.

Reflecting stakeholder input and customer views, SPEN have chosen not just to maintain biodiversity, but to enhance it. This is set out in its commitments to deliver a 10% biodiversity enhancement on 25 hectares of their network and to deliver 500 biodiversity units across the ED2 period. The CEG considers that SPEN's Biodiversity and Natural Capital Action Plan goal of "increasing environmental value across our network" meets and exceeds Ofgem's baseline standard of assessing and monitoring changes in natural capital.

CVP4 Advanced Fault Level Management

Ofgem View

Submitted £2.4m Proposed £2.4m. Well justified, clear unit costs

CEG View

Agree

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

CEG View

Agree

5. Adjusting baseline allowances for uncertainty

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

CEG View

The CEG agrees with the approach outlined by Ofgem for the following:

Polychlorinated biphenyl (PCB)

Managing Uncertainty in the load Programme

EV charge point Provider of Last Resort

Significant Code Review

Severe Weather 1 in 20

Digitalisation

Distributed restart

However we do not agree with Ofgem's view on the following:

Distribution Net Zero Fund - A Use-it-or-Lose-it allowance of £30m to support innovation and vulnerable customers. The Fund was focussed on supporting community-led decarbonisation projects

Ofgem View

Rejected because Ofgem were not satisfied with the evidence provided to quantify the funding pot as well as the needs case not being sufficiently justified. Ofgem expects DNOs to provide guidance and support to vulnerable consumers as well as engage with local communities to help facilitate the Net Zero transition as part of the RIIO-ED2 price control.

CEG View

We understand that SPEN is providing additional information answering some of these issues and will be providing further evidence and representations to Ofgem.

From the CEG's perspective we are disappointed that Ofgem is putting off a decision on the Net Zero Fund at this time, placing it into the Uncertainty Mechanism process. Achieving Net Zero by 2050 across the UK may seem to be a matter beyond the life of this business plan period but SPEN's stakeholders in Scotland and Wales, including prominent local authorities, wish to achieve Net Zero much faster than this, including in some areas by 2030.

The Net Zero Fund targets important overall priorities, which offer a necessary balance between delivering net-zero (e.g. whole systems, innovation) and a Just Transition (JT) (e.g. vulnerability, community energy) and importantly gives SPEN something tangible it can bring to stakeholders in devolved and local government and the community energy sector, particularly by using a match funding approach for much of the fund proposed. The Net Zero Fund proposal was particularly important to SPEN being able to deliver its Communi-

ty Energy Strategy, which was strongly supported by stakeholders in that sector.

The priorities of the NZF are in our view clear (Section 6 Annex 4B.4 Business Plan) and when viewed 'in the round', are well aligned with one another. The types of projects the NZF would expect to support are intended to be outside BAU and would likely deliver additional value.

The CEG are also happy with the inclusion of checks and balances to ensure projects conducive of a Just Transition are prioritised for funding, such as the requirement for social return and the inclusion of a JT expert on the assessment panel.

We continue to be of the view, as stated in our report, that SPEN's targeted impacts for the NZF - such as jobs, carbon emissions etc. - are realistic (p.106 Business Plan). The basis of this assumption is that the ambition is roughly in line with what was delivered by the Green Economy Fund (GEF), albeit more ambitious given the NZF is 50% larger. However, as highlighted earlier, stakeholders have questioned whether the scale of the fund (£30m) is actually sufficiently large to make a meaningful impact on the scheme's wider priorities, as outlined on p.21 of Annex 4B.4 SPEN Business Plan.

Given stakeholder concerns about the adequacy of the proposed NZF, SPEN's commitment to ring-fence 25% (£7.5m) of the NZF for community energy was in our view appropriate; an area in great need of additional capital funding. This is strongly grounded in the stakeholder and customer engagement SPEN undertook.

SPEN makes clear in its plan that the NZF would not overlap with its other commitments. Whilst there is the potential for the Network Innovation Allowance (NIA) to fund some of the same projects as the NZF, SPEN indicates that precautions would be taken to avoid double funding via cross-term governance (potentially through the successor to the CEG). There is also no overlap with other customer service and community energy commitments, as the NZF would provide capital project funding instead.

The need for the fund is clearly grounded in stakeholders' views on the lack of grant funding for small, innovative projects, which support both net-zero and just transition objectives.

SPEN found that 70.2% of customers were willing to pay for the cost of this proposal in addition to the ED2 bill, versus 7.4% who were unwilling to pay for the cost of this proposal. Furthermore, 97% of stakeholders surveyed supported the idea of a fund akin to the NZF. It is through its engagement that SPEN was able to identify stakeholders' design priorities, such as the fund a) being simple to apply for, b) flexible in its focus, c) allocating funds across a broad range of priority themes and d) supporting a Just Transition (Annex 4B.4).

As we noted in our report, stakeholders did have different views about how exactly the proposed NZF should be allocated between different areas of focus. However, this was in the context of concerns that the size of the fund proposed would not be large enough to deliver on the fund's ambitions. Concerns about the level of funding proposed also related to the extent to which this capital spending sat alongside other "in-kind" support that SPEN was offering to support project development and delivery. We also challenged SPEN on whether the proposed £30m for the NZF would be sufficiently large to meet the scheme's objectives.

Overall, the CEG is happy that SPEN's Net Zero Fund is a well justified and designed proposition reflective of stakeholders' views. We would ask that Ofgem looks again at this aspect of the SPEN Business Plan.

6. Innovation

SPEN-Q7. What are your views on the level of proposed Network Innovation Allowance funding for SPEN?

SPEN proposed it should be awarded £35m of N.I.A. over 5 years, equivalent to £7m per year, which is approximately double what SPEN had access to annually in RIIO-ED1.

Ofgem View

Ofgem consider that SPEN satisfactorily met its five Network Innovation Allowance criteria.

Secondly, any additional innovation required to accelerate decarbonisation can be undertaken using the Strategic Innovation Fund, alongside DNO BAU funds. Ofgem considered the stakeholders SPEN consulted would be equally supportive of these sources of funding being used to promote innovation, and there-

fore did not consider the proposals to be at odds with the findings from SPEN's consumer and stakeholder research in this area.

Accept £11.1m initial allowance to be reviewed in 2025

CEG View

SPEN justified this increase with reference to stakeholder research which showed that 60% of respondents said that DNOs' should ask for an increase in NIA funding compared to RIIO-ED1, as significant innovation is needed to support the energy system transition and vulnerable consumers. However we had concerns about the value of the research and therefore agree with Ofgem's position.

Ofgem Core Question – Q3. Do you agree with our proposal to adjust allowances for Load Related Expenditure to £2.68bn to account for the concerns highlighted by our assessment?

CEG View

The overall average reduction in SPEN's budget allowance is circa 14% and as such, reduction across the sector to £2.68bn shows a decrease of 18% against the baseline proposals. The CEG did feel that SPEN's DFES was on the light side of what industry may expect, however due to the creation of these uncertainty mechanisms and comment by OFGEM that these mechanisms will be sufficiently flexible and agile, we would hope this will not inhibit the deployment of renewables.

There is still a concern around the monitoring of connection quotations that do not progress to connection and whether having sight of this would assist in the utilisation of uncertainty mechanisms. We are also minded that SPEN as a DNO is fairly unique in the sense it covers the different ambitions of three different countries around net zero and as such, their deployment within these different areas should be quite different and potentially should start from a higher baseline allowance.

Ofgem Core Question – Q4. Do you agree with our proposed secondary reinforcement volume driver and LV services volume driver and the associated controls?

CEG View

Due to the current energy crisis and the affect this may have on the decarbonisation of heat specifically (HP) the roll out of this technology during ED2 may be slower than previously anticipated.

We do believe however that this roll out is inevitable and are concerned that not tackling part of the issue around looped services now only defers the issue to ED3 and creates financial and practical issues further down the line. Taking all this into account, we feel it is important there is sufficient "incentive" for the DNOs to push towards the CCC balanced pathway of investment during ED2 should local policy determine this. The CCC balanced pathway does not include separation between transmission and distribution nor does it differentiate between geographical areas for all LCT. A volume cap driver does seem a reasonable way to control an overspend whilst ensuring net zero can still be achieved with the most likely path.

7. Conclusion

The CEG believes that the recent seismic changes in the energy market are likely to have a substantial impact on the less well off, the fuel poor and vulnerable and small businesses, well into the next price control period. Therefore we would respectfully invite Ofgem to look again at those parts of the business plan intended to provide more for those customers but which Ofgem has decided not to reward or incentivise. This would include:-

The Direct low carbon transition support to vulnerable customers' (CVP1)

The Advice Services ODI-F

The Distribution Net Zero Fund Uncertainty Mechanism

The Bespoke ODI-F Community Energy Strategy

8. Continuing Role of the CEGs

Ofgem Core Question 1. Do you agree with our proposals for the enduring role of the CEG?

The CEG believes there is a part for CEGs or equivalent groups to play in encouraging the DNOs and Ofgem to integrate consumers into the whole energy system. The chairs wel-

come an enduring role as outlined in paragraphs 2.27 and 2.28⁶ of the Core Methodology, which is consistent with the terms of reference for our work on the ED2 business plans. The current and future challenges and complexities in the energy system reinforce the need for Enhanced Engagement to enable consumer interests to be independently represented.

We believe the role should include engagement between the CEGs and between the CEGs and Ofgem, the Challenge Group and customer representatives and stakeholders. It should focus on those activities that the CEGs are best placed to undertake, including scrutiny of regional and local issues that are of material interest to customers and stakeholders. CEGs should avoid duplicating the remits of others and thereby maintain an independent perspective and make best use of specialist resources.

Ofgem has said it does not intend to place a formal requirement on the DNOs to maintain a CEG or equivalent. We believe that the quality of the business plans has significantly improved as a result of CEG input. Ideally, the relationship between the DNO and the CEG would be sufficiently mature to facilitate constructive challenge and add value for consumers, without it being mandated by the regulator. On the other hand, without a mandate, there is a risk that a CEG's perceived and actual independence could be undermined. This is discussed further in our answer to the second consultation question.

Ofgem Core Question 2. Do you see value in the CEGs working together to deliver more coordinated and comparative reporting on some of the DNOs' Business Plan commitments?

We see value in the CEGs collaborating with each other and with the DNOs, Ofgem, the Challenge Group, customer representatives and stakeholders. This could be strengthened if the DNOs, Ofgem and the CEG chairs were to agree some common terms of reference for the CEGs. This is implied in the first sentence of paragraph 2.29 of the Core Methodology. This would not preclude DNOs and CEGs agreeing additional elements specific to the circumstances of individual DNOs and their customers and stakeholders. We see value in exploring and adopting best practice from experience in the energy sector and elsewhere.

We do not see the CEGs delivering formal comparative reports on DNO performance.

⁶ We do not see the parts of para 28 as mutually exclusive, as the text suggests. The CEG should be independent, cover regional and local issues and cooperate with the other CEGs.

We are confident that the CEGs have had a positive impact on the quality of the business plans and we look forward to understanding how that will be reflected in the Final Determinations.

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Response compiled by John Howard, former Chair of the CEG, from material contributed by former CEG Members Teresa Perchard, Chris Clarke, Jan Webb, Matt Hannon and Benny Talbot.