

Annex 6, WPD response on CVPs

1.1 Executive summary

Consumer Value Propositions (CVPs) provide DNOs with an appropriate channel for innovating programmes to go beyond minimum requirements and deliver activities which consumers value as part of the incentive based regulatory framework. It is important that the framework for approving and rewarding CVPs is applied consistently and robustly. In the Business Plan Guidance, Ofgem provided a range of criteria that it would specifically take into consideration for accepting CVPs.

WPD went through a robust process including enhanced stakeholder engagement in order to prepare 6 CVPs (the greatest number of any DNO) in accordance with the criteria laid down within the Business Plan Guidance document. By accepting 4 of these 6 CVPs, Ofgem has clearly shown that it believes there to be important consumer benefits to be achieved from these activities.

Of the 4 CVPs accepted by Ofgem, only one, CVP-5, was accepted in full with a reward. Although the feedback from Ofgem was limited, the common comment for those accepted without reward was that these CVPs did not in Ofgem's view exceed minimum expectations or BAU.

However, no detailed criteria were set out for how to determine whether an activity exceeded these minimum standards. In order to provide evidence to support our CVPs, and to further assess their acceptability we have employed three tests to assess whether or not the CVPs as set out are over and above the minimum requirements and business as usual:

- Test 1 – Exceeds Minimum Specified Obligations: Is the activity in addition to or in excess of what is described as minimum in the Business Plan Guidance document?
- Test 2 – Represents Incremental Activity over and Above RIIO-ED1: Is the activity something that was already being carried out by WPD in RIIO-ED1?
- Test 3 – Goes above and beyond the average equivalent activities in the Sector: Do any other DNOs propose to provide the same level of service in their baseline proposals?

Against these three tests, the CVPs which we proposed – and in particular CVP-1, CVP-2, CVP-3 as well as CVP-5 - do exceed minimum expectations and BAU functions being performed by DNOs.

We believe that if CVPs are accepted then it is important they are accepted with a reward framework as set out in the Business Plan Guidance. But we equally believe such reward mechanisms must be robust and there should be no questions of customers paying for a reward where net benefits are not delivered. Where Net Benefits are delivered customers will ultimately benefit from the delivery.

In addition to setting out a robust rewards mechanism which meets these requirements for CVP-5 we have proposed separate mechanisms for each of CVP-1 and CVP-2. The reward mechanisms proposed by WPD have been designed to go beyond what was employed by Ofgem in RIIO-GD/T2 and provide a framework that benefits and protects customers via the use of caps and collars. These mechanisms calculate total rewards based on a mix of value delivered as well as outputs delivered. WPD is committed to delivering value to our customers and strive to ensure that where a customer is paying, value is being delivered in return.

CVPs provide DNOs with the possibility of delivering real value to customers through activities which they value. Providing the correct reward package incentivising companies to identify these opportunities and then to deliver them. Not providing an appropriate reward mechanism for CVPs where it is accepted benefits are delivered, and where we have shown they exceed baseline activities, leaves potential consumer value un-incentivised and therefore, likely to be absent sufficient focus and unattained. Ofgem should therefore review its decision and apply a robust reward framework reward for CVPs 1-3 such that these value adding activities are incentivised

appropriately. We continue to believe that CVP-4 and CVP-6 as we set out both meet the tests and would provide additional consumer value. We are however prepared to accept Ofgem's position on these CVPs. A summary of the CVPs, our response and the changes which Ofgem should now make at Final Determination is set out in the table below.

CVP description	Ofgem's DD position	WPD's response	Proposed Ofgem FD position
CVP-1: WPD is a net zero business by 2028	Accept with no reward: Fund through baseline with no reward	Assessed against WPD enhanced CVP criteria to provide evidence that activities are beyond minimum expectations / BAU functions.	Accept with reward with agreed upon reward mechanism.
CVP-2: Help to develop ambitious LAEPs		Designed and proposed robust reward mechanism	
CVP-3: Community energy engineers			
CVP-4: Decarbonised communities	Reject: No funding or reward	Further assessed against WPD enhanced CVP criteria	Accept Ofgem position
CVP-5: Smart energy action plans	Accept: Subject to establishing a suitable reward methodology	Designed and proposed robust reward mechanism	Accept with reward with agreed upon reward mechanism.
CVP-6: £1 million 'Community Matters' fund	Reject: No funding or reward	Further assessed against WPD enhanced CVP criteria	Accept Ofgem position

Figure 1 – Summary Position on CVPs in Response to DD and Proposed Ofgem Position for FD

1.2 Introduction and Overview

The Consumer Value Proposition (CVP) within the RIIO-ED2 price control is designed to deliver additional consumer value over and above what the basic regulatory architecture alone would provide. The unlocking of this additional consumer value through an incentive to further activities over and above business as usual activities benefits consumers and is consistent with the discharge by Ofgem of its principal duty.

WPD prepared 6 CVPs in accordance with the criteria laid down within the Business Plan Guidance document and submitted these to Ofgem as part of its Business Plan. This was more than any other DNO and is a recognition of our ongoing commitment to deliver additional value to customers in everything we do.

The CVPs were subject to extensive stakeholder and customer engagement and feedback and were supported by stakeholders as is required under the Ofgem guidance.

1.2.1 Ofgem's Assessment of WPD's CVPs at Draft Determination

We set out below a figure showing the position as we understand it in terms of the position adopted by Ofgem at Draft Determination in terms of CVPs.

WPD welcomes the fact that Ofgem has accepted 4 of the CVPs submitted by WPD and this is testament to the fact that Ofgem accepts that these deliver both net benefits and have the requisite stakeholder support.

WPD is concerned however that Ofgem has suggested that only 1 of these CVPs, CVP 5 – *Smart Energy Action Plans for PSR Customers* – results in an entitlement to a reward as is provided for in the guidance which underpins the CVP framework, and which is at the heart of distinguishing CVPs, and the value add they bring to customers from ongoing delivery of day-to-day business activities.

ENWL	NPG	WPD	UKPN	SPN	SSEN
SmartStreet: Reducing cost and carbon for customers <i>Smart Street is our award-winning initiative to reduce customers' electricity usage and bills by managing the voltage on the local network.</i> Accepted with no reward	App to support vulnerable customers Accepted with no reward Open Insights – self-service analytics toolkit <i>Our free online platform Open Insights will unlock value for our customers on top of our open data platform</i> Accepted with no reward	Ensure WPD is a net zero business by 2028, and adopt a stretching science-based target of 1.5 degrees. Accepted with no reward Proactively partner with every local authority in our region Accepted with no reward Establish Community Energy Engineers Accepted with no reward	Consumer Vulnerability – Fuel Poverty <i>customers in, or at risk of entering fuel poverty will receive enduring, social and financial value as a result of our pan utility collaboration to provide in-depth fuel poverty support.</i> Rejected Whole Systems – Public Charging <i>unlock additional public chargers, delivering customers without access to off-street parking in areas of poor air quality additional charge points.</i> Rejected	Direct Low Carbon Transition Support to Vulnerable Customers Rejected EV optioneering <i>Delivery of EV optioneering works for 37 local authorities.</i> Accepted with no reward	Embedded whole systems support services for local authorities Accepted with no reward Energy efficiency accelerator for smarter networks and local and community flexibility market stimulation (combined) Rejected
CLASS: Balancing the GB grid in a cheaper, lower carbon way <i>CLASS works by reducing the voltage at primary substations to reduce electricity demand placed on the network from Electricity North West customers.</i> Rejected	Dynamic voltage optimisation Accepted with no reward Next-generation energy systems <i>enhancing system resilience, particularly for remote customers.</i> Rejected	Build decarbonised communities and local energy schemes Rejected Offer 1.2 million PSR customers a bespoke smart energy action plan every two years Accepted Deliver an annual £1 million 'Community Matters' Fund Rejected	Whole Systems – Off-Gas Grid <i>programmes to efficiently deliver suitable capacity [to off-gas grid customers] to accelerate their transition to electric heating and transport</i> Accepted with no reward	Network Loss Reduction and safety enhancement Accepted with no reward Advanced Fault Level Management Accepted with no reward	Protecting marine biodiversity: life below water Accept and reward with conditions Supporting broadband to island communities through our assets Rejected Personal Resilience Plans Accept and partially reward

Figure 2 – Ofgem Position on Customer Value Propositions in RIIO-ED2 Draft Determinations

CVPs are an important and useful part of the regulatory architecture and toolkit. Overall, the figure illustrates the very limited acceptance with reward of the CVPs proposed across the sector – only the single CVP in the case of WPD and 2 CVPs for which Ofgem has accorded partial reward in relation to SSSEN.

For there to be acceptance and adoption of the CVP framework as a core part of the architecture it is vital that there is follow through by Ofgem from the framework and guidance as set out to the ascription of revenues and revenue entitlement accorded DNOs within the licence. The significant number of CVPs which Ofgem has clearly accepted as having and delivering Net Benefit but has not proposed to reward on the basis as set out in the Business Plan Guidance document is a particular cause for concern and diminishes the value, the legitimacy and also likely future active participation in the framework.

In this short document WPD has further set out where and how the CVPs submitted by it meet the requirements set out under the Business Plan Guidance document and where therefore they should be incorporated within the overall revenue entitlement to WPD under the RIIO-ED2 framework.

In so doing we have been self-critical and have sought to ensure we challenge ourselves and only propose that which truly delivers additional value to customers. As a result, we are not proposing recognition and reward for all of the CVPs that we originally submitted. However, where additional value is clearly delivered to customers through propositions which bring net benefits, which represent incremental activity and which command the necessary stakeholder support, we equally believe it is incumbent on Ofgem to honour and to deliver on the CVP framework as set out. Indeed, we believe that by not doing so would result in consumer value being left upon the table and the very customers whom Ofgem has a duty to protect being worse off and that this is not a position which could reasonably be justified.

We further note that in terms of CVP-5, where application of a reward has been proposed by Ofgem, that Ofgem is seeking further detail from WPD on the basis on which the reward should be provided. We provide further support for the reward framework this in this response document.

1.2.2 The Framework of Ofgem's Consideration

We firstly set out below our understanding of Ofgem's own assessment of the CVPs submitted by us. In so doing we note Ofgem has provided relatively limited analysis on which WPD is able to base its assessment.

The criteria set out in figure 2 overleaf are those criteria set by Ofgem under the Business Plan Guidance. If a CVP meets those criteria, then the licensee is entitled to both cost recovery for the works concerned, and the application of a reward based on the Net Benefits multiplied by the Totex Incentive Mechanism (TIM). In the case of WPD Ofgem's assessment of the TIM is 50%.

	CVP-1: WPD is a net zero business by 2028	CVP-2: Help to develop ambitious Local Area Energy Plans	CVP-3: Community energy engineers	CVP-4: Decarbonised communities	CVP-5: Smart energy action plans	CVP-6: £1 million 'Community Matters' fund
Exceeds the baseline expectations under Stage 1 of the BPI / Exceeds BAU practices	<i>"Not satisfied the proposal goes above the baseline expectations for its EAP."</i>	<i>"Not satisfied that WPD has provided sufficient evidence to demonstrate this proposal goes beyond baseline expectations"</i>	<i>"Not satisfied this proposal has provided sufficient evidence that the activity would clearly go beyond WPD's baseline expectations"</i>	<i>"Not satisfied WPD has sufficiently evidenced why they are best placed to deliver this support."</i>	<i>"Satisfied that WPD's proposal ... clearly goes beyond the baseline expectations"</i>	<i>"This CVP proposal constitutes corporate social responsibility (CSR) activities. We consider CSR to be BAU for DNOs"</i>
Does this proposal entail new activities vs RII0-ED1?	The schemes detailed as part of CVP-1 have either not been undertaken before or will significantly increase in scale.	This is not an activity we have undertaken before and represents a step change in our interaction with local authorities around LAEPs.	This is not an activity we have undertaken before.	This is not an activity we have undertaken before.	This is not an activity we have undertaken before.	This proposal represents a comprehensive new programme of activities that we have not undertaken before.
Evidence of customer and stakeholder support	81% of stakeholders at an event in September 2021 said that they 'agreed' or 'strongly agreed' that the proposal was acceptable.	<i>"[The CG and CEGs] were concerned that 'proactive partnering' with local authorities should be BAU"</i> 93% of stakeholders at an event in September 2021 said that they 'agreed' or 'strongly agreed' that the proposal was acceptable.	90% of stakeholders at an event in September 2021 said that they 'agreed' or 'strongly agreed' that the proposal was acceptable.	70% of stakeholders at an event in September 2021 said that they 'agreed' or 'strongly agreed' that the proposal was acceptable.	74% of stakeholders at an event in September 2021 said that they 'agreed' or 'strongly agreed' that the proposal was acceptable.	80% of stakeholders at an event in September 2021 said that they 'agreed' or 'strongly agreed' that the proposal was acceptable.
Reasonable customer benefit valuation	<i>No comment from Ofgem</i>	<i>"The activity should deliver positive benefits for consumers"</i>	<i>"We do not consider that WPD has created a sufficiently robust methodology to evaluate the benefits"</i>	<i>"Not satisfied that WPD's methodology for evaluating this CVP is sufficiently robust"</i>	<i>"We are satisfied that WPD has provided sufficient evidence to demonstrate the associated additional value to consumers."</i>	<i>No comment from Ofgem</i>
Justifiable reward mechanism	<i>No comment from Ofgem</i>	<i>"Consumers should not be asked to pay for additional incentives in this area"</i>	<i>No comment from Ofgem</i>	<i>"We do not consider it appropriate to provide CVP rewards when an activity is funded by shareholders."</i>	<i>"Our acceptance of this proposal is subject to establishing a suitable reward methodology"</i>	<i>"We do not support shareholder funded CVPs where any associated reward would be funded by consumers."</i>
Net Benefit (10yr NPV)	£14,376,217	£27,941,926	£3,093,817	£23,039,307	£7,102,448	£16,682,719

Figure 3 – Ofgem Assessment of WPD Customer Value Propositions (CVPs) at Draft Determinations

Those aspects which are colour coded green in the figure have been accepted by Ofgem in its assessment at Draft Determination or where Ofgem provided no argument against evidence provided by WPD; those aspects which are colour coded yellow are those which are partially accepted or where there is mixed evidence; those aspects colour coded red have not been accepted by Ofgem.

A number of boxes – for example the clear basis for provision of reward for CVP-1 – have not been colour coded. This is because it is not clear from the information available that a position has been taken by Ofgem.

Rather where in Ofgem's initial view the CVP did not meet a prior criterion – for example being over and above Business As Usual – it may be that no further assessment was made by Ofgem as to the applicability or meeting of subsequent requirements. In this response document we now set out where and how these requirements are now met.

1.2.3 Further Consideration of the Eligibility Criteria for Recognition of CVPs

We briefly set out below how each of the criteria as listed against each of the CVP propositions as set out ought to be assessed. In the remainder of the paper, we then turn our attention to examining each CVP in detail in turn to assess where they do and do not meet the requisite criteria specified.

Criterion 1: Delivery of Net Benefits >£3m

The first criterion set out by Ofgem is that there must be clear robust net benefits delivered to customers and that such net benefits should exceed £3m in scale.

WPD has set out in each of its 6 CVPs the basis on which both gross and net benefits have been derived using the Joint Social Value framework.

This framework which was developed jointly by the DNOs as part of a common approach was presented to Ofgem at an early stage of the RIIO2 process. It was prepared in line with the Spackman approach under the Treasury Green Book and was agreed with consumer bodies.

As we set out in our initial CVP submissions which accompanied our Business Plan the Joint Social Value Framework was subject to audit in terms of its application.

With the exception of CVP-3 – *Establishing Community Engineers to Support Delivery of Community Based Energy Schemes* and CVP-4 – *Decarbonised communities* both of which are further discussed below, Ofgem has not questioned the application of the framework nor the measurement of the benefits under it.

Criterion 2: Over and Above Minimum Requirements and Business As Usual

Ofgem quite appropriately requires that CVPs represent additional consumer value add over and above the minimum requirements which a licensee is required to deliver and the delivery of activity over and above business as usual.

In a number of instances Ofgem has suggested that the CVPs advanced by WPD should be considered to be delivered as part of the general licence requirements or were “already incorporated within the baseline” or “represented business as usual activities”.

WPD was at pains to ensure the incrementality of the CVPs it set out so is surprised that Ofgem has taken this stance and taken it on the basis of very little evidence as to why it somehow believes this to be the case.

In particular it is important there is integrity in Ofgem's approach. It is not acceptable and would cut entirely against the very philosophy of the CVP process were a situation to arise whereby one or more licensees were to propose a business enhancing, consumer welfare improving initiative and it were then to somehow be simply re-labelled as a business-as-usual activity as part of regulatory requirements.

As part of this short paper, WPD sets out three tests it has employed and which it believes are appropriate to assess whether or not the CVPs as set out are over and above the minimum requirements and business as usual.

Test 1 – Exceeds Minimum Specified Obligations: The first and most important criterion is whether that proposed as part of the CVP submitted is incremental to that which is required under licence, whether in respect of the Environmental Action Plan (EAP) or indeed some other licence condition or requirement. Clearly if something is already required as an obligation then it does not meet the requirement of being incremental in terms of a CVP.

Test 2 – Represents Incremental Activity over and Above RIIO-ED1: The second, and perhaps almost equally important, criterion is whether the activity as proposed is in addition to today's business activity – business as usual – and incremental to that which was undertaken by the licensee as part of RIIO-ED1. This requirement is specifically set out as a requirement under paragraph 8.21 of the RIIO2 Business Plan Guidance.

If a DNO has been carrying out an activity under RIIO-ED1 then it cannot reasonably claim that the continuation of that activity represents and delivers additional consumer value even if it is over and above the minimum specified requirements. However, the corollary must equally hold; if the activity has not been carried out by the DNO under RIIO-ED1 then it is clear that it represents incremental or additional activity, and if it is over and above the minimum specified requirements (Test 1) then equally it can clearly be said to be above and beyond a "Business As Usual" level of activity.

Test 3 – Goes above and beyond the average equivalent activities in the Sector: Finally, and although not strictly necessary in accordance with the RIIO2 Business Plan guidance WPD has proposed a third test which, where met, will help demonstrate that the CVPs set out by it are truly incremental and add additional value over and above minimum requirements and business as usual activity.

This third test examines the degree to which that proposed under the CVP goes beyond that proposed and being carried out by other DNOs. Were it simply a situation that the CVP proposed was for an activity already being carried out by all other DNOs then, notwithstanding it may be above and beyond minimum requirements, and notwithstanding that the individual license may not have been carrying out the activity as part of RIIO-ED1, it would not seem appropriate that an individual licensee receive reward through a specific CVP for an activity which other licensees were already carrying out and which for those licensees formed part of baseline expenditure.

However, where it can be shown that the activity goes beyond that being carried out by other licensees or where the activity may be being carried out only by a subset of licensees and then perhaps to not the same overall level or standard or level as now proposed by the DNO under the CVP framework, it is reasonable to recognise that any individual CVP pushes forward the industry standard and unlocks further consumer value which can subsequently and in subsequent periods be further realised throughout the sector.

Criterion 3: Stakeholder Support

All of the CVPs proposed by WPD were subjected to extensive customer and stakeholder engagement, and in each instance customers indicated a willingness to pay the additional cost – in each and every instance a very modest proportion of the overall annual customer bill – to obtain the measurable benefits delivered by the CVP. Ofgem has recognised this in relation all CVPs with the exception of CVP-2: *Partnering with Local Authorities in Local Authority Energy Action Plans*

As set out by WPD elsewhere in its response, customer interests are best protected when customers can exercise choice as to the level of service they receive and pay for, and this is how markets in general work absent the presence of monopoly and need for economic regulation.

Given regulation and the role of the regulator is to seek to simulate competitive market outcomes and to only intervene and step in where necessary to ensure customers' interests are protected, it is only right and appropriate that Ofgem should allow the exercise of customer and consumer choice, where such preferences are clearly expressed.

This is particularly the case where there are other protections in place which recognise and provide for heterogeneity in customer type and preference, such as in the case of vulnerable customers, as is in place as part of Ofgem's RIIO2 framework.

Criterion 4: Protections in the Event of Non-Delivery

The RIIO-ED2 Business Plan guidance requires that there are in place protections against non-delivery. From the WPD perspective, this is very simple. WPD has made clear that in the event of non-delivery a proportionate attribution of monies whether in the form of cost allowances or rewards will be returned to customers should for any reason the activities under the CVP not be delivered. However, equally and for the avoidance of doubt WPD is committed to their delivery where recognised and rewarded by Ofgem through the framework.

Criterion 5 – Justifiable Reward Mechanism

WPD set out a rewards-based mechanism based on the framework within the Business Plan Guidance – Net Benefits scaled by TIM. In the below we have further set out a robust rewards assessment framework for those CVPs for which there are clear Net Benefits and which clearly meet the addition to baseline requirements.

1.3 CVP-1: Ensure WPD is a net zero business by 2028, and adopt a stretching Science Based Target of 1.5 °C

1.3.1 CVP qualification category

Proposals that exceed the baseline expectations that we have set out for EAPs.

1.3.2 Baseline expectations

Qualification criteria	Draft Determination position
Exceeds the baseline expectations under Stage 1 of the BPI / Exceeds BAU practices	<i>"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."</i> ¹
Does this proposal entail new activities vs RIIO-ED1?	The schemes detailed as part of CVP-1 have either not been undertaken before or will significantly increase in scale.

This CVP **does** exceed baseline expectations as well as the functions typically undertaken by an energy network company as business as usual.

¹ RIIO-ED2 Draft Determinations WPD Annex pg. 19

We have assessed our CVPs against baseline expectations / BAU functions by using three key questions:

1. Does this proposal exceed baseline expectations as per Ofgem's RIIO-ED2 Business Plan Guidance?
2. Is this an activity already performed in RIIO-ED1?
3. Is there an equivalent level of delivery proposed in baseline by any other DNO?

If a CVP passes all three of these questions, then there can be no doubt that the proposed activity or scheme goes beyond what is expected as BAU for a network business in Great Britain.

1. Does this proposal exceed baseline expectations as per Ofgem's RIIO-ED2 Business Plan Guidance?

Yes. As well as the evidence outlined on page 27 of our CVP proposal, in the RIIO-ED2 Business Plan Guidance Appendix 3 - Environmental Action Plan (EAP): baseline expectations, Ofgem states that companies must (at a minimum):

*"Adopt a science-based target for the company to reduce its scope 1 and 2 BCF by **20xx**" where 20xx "denotes that companies will need to specify a **long-term** date to achieve the specified target. We would then expect companies to specify the associated RIIO-ED2 milestone."*

This wording clearly and unambiguously suggests that the baseline expectation is that companies set a target to achieve Net-Zero beyond 2028 i.e. post RIIO-ED2 with interim milestones only being set for the RIIO-ED2 period. By setting a target to achieve Net-Zero by 2028, WPD is clearly exceeding baseline expectations in respect of earlier delivery.

In addition, all the activities proposed in order to achieve this CVP (see appendix 1) are supplementary to the activities proposed in our EAP which already meets baseline expectations as per Ofgem's RIIO-ED2 Business Plan Guidance. This is evidenced in the RIIO-ED2 Draft Determinations – Overview Document, Table 12 Assessment against minimum requirements by company. If our EAP did not meet minimum requirements, then it would be noted in our performance against the BPI Stage 1 assessment.

2. Is this an activity already performed in RIIO-ED1?

No. These are new targets, new schemes, and new activities that have all been formulated in order for WPD to achieve Net-Zero by the end of RIIO-ED2.

3. Is there an equivalent level of delivery proposed in baseline by any other DNO?

No. None of the other DNOs have proposed achieving Net-Zero by a date as early as 2028. UKPN has set a similar target of meeting Net-Zero by 2028 but only for its directly controlled carbon emissions and that proposed by UKPN does not therefore go as far as that which WPD has proposed.

1.3.3 Stakeholder support

Qualification criteria	Draft Determination position
Evidence of customer and stakeholder support	As discussed in our CVP proposal, 81% of stakeholders at an event in September 2021 said that they 'agreed' or 'strongly agreed' that the proposal was acceptable.

² RIIO-ED2 Business Plan Guidance pg. 73

When putting together our Business Plan for this regulatory period, we engaged more stakeholders than ever before. The support for this CVP is detailed extensively in Section 5 of our proposal.

1.3.4 Customer benefit valuation and CVP reward

Qualification criteria	Draft Determination position
Reasonable customer benefit valuation	There was no comment on our benefit valuation for CVP-1 in the Draft Determinations documentation.
Justifiable reward mechanism	No reward was calculated for CVP-1

In line with the joint social value framework, we have modelled the benefits of this CVP over both a 5 and 10-year appraisal period. This framework was tested throughout its development, agreed with consumer bodies and shared with Ofgem in December 2020 – with the framework referenced in Ofgem’s Business Plan Guidance.

We have used two different approaches to quantify the benefits of this CVP (reward calculations are based on net benefit × TIM incentive rate for WPD of 50%):

Approach 1 (main quantification): Following extensive stakeholder engagement we have estimated the benefit of this CVP as per the stated Willingness to Pay from our customers. This reflects the high level of support we received for this CVP and how important it is to our customers that we deliver this target.

Resulting NPV – 5-year: £14,376,217.25; 10-year: £14,376,217.25

Proposed CVP reward: £7,188,108.63

Approach 2 (supplementary quantification): We also have calculated cost savings for WPD (netted off) and the societal benefits in the form of reduced carbon emissions to obtain total benefits.

1.3.5 Proposed CVP reward mechanism

Building on the precedent set in RIIO-T2, where SHET received a CVP reward for their Science-Based Target, we propose that this CVP is rewarded in a similar manner.

SHET’s reward was tied directly to annually reported figures of network carbon emissions, with linear adjustments to be made where performance did not meet the expected targets. As all emissions identified and used to calculate the value of the CVP can be directly measured, tying the reward to the delivery of the impact is straightforward.

Therefore, WPD proposes an identical reward mechanism, involving:

- Output: Achieving emission levels at the end of RIIO-ED2, in line with meeting the Net Zero target.
- Performance measurement: Network emissions in t/CO₂e.
- Reporting method: Annual RRP reporting.
- Adjustment mechanism: Linear adjustment based on reducing emissions in line with the target, relative to the initial baseline defined in the CVP document.

1.3.6 Conclusion

Based on our assessments showing that this CVP is clearly beyond the BAU functions of a DNO, the strong stakeholder support, and independently verified benefits valuations, it is evident that this CVP should be accepted in full, with reward. The reward should be based upon the formula which provides for remuneration on the basis of Net Benefit * TIM. As with all of our CVP proposals

customers are protected through a proportionate return of monies in the event that the CVP proposition is not delivered in full.

1.4 CVP-2: Proactively partner with every local authority in our region to help them develop ambitious Local Area Energy Plans

1.4.1 CVP qualification category

Proposals that demonstrate approaches to DSO activities that clearly go beyond the baseline expectations set out in our roles and principles for DSO; and

Proposals that exceed the minimum requirements that we have set out for whole system approaches.

1.4.2 Baseline expectations

Qualification criteria	Draft Determination position
Exceeds the baseline expectations under Stage 1 of the BPI / Exceeds BAU practices	<i>"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."</i>
Does this proposal entail new activities vs RIIO-ED1?	This is not an activity we have undertaken before and represents a step change in our interaction with local authorities around LAEPs.

1. Does this proposal exceed baseline expectations as per Ofgem's RIIO-ED2 Business Plan Guidance?

Yes. There is very little guidance around the nature of the interaction between DNOs and local authorities in the ED2 Business Plan Guidance. Aspects of both the whole systems section and Appendix 4 of the Business Plan Guidance lay out relevant baseline expectations. One such example is Role 3 - Activity 3.1: Provide accurate, user-friendly and comprehensive market information. The baseline expectations of this activity and how we exceed them are detailed below.

Baseline expectation	WPD response
Collate and publish as much relevant data and information as reasonable that will help market participants identify and value opportunities to provide network services to DNOs and take market actions that support efficient whole system outcomes.	We will proactively make available our DFES data in a format that is both relevant to local authorities (based on their geographical boundaries) and accessible (providing support for them to help understand technical issues where required) thereby exceeding the baseline expectations.
With stakeholder input, develop robust strategies for how they will collate and publish more helpful information, wherever possible consistently and in coordination with other network licence holders, and communicate this clearly.	WPD exceeds this baseline expectation by providing a dedicated engineering resource to develop plans and energy transition targets and provide a sense check of these against historical run-rates and the forward-looking connections pipeline to ensure the plans are built on robust assumptions.

	We also share best practice amongst local authorities to ensure a levelling up of the quality of these plans and improve the impact that they can have.
Regularly and actively engage with market participants to understand what data and information is helpful to support market development. Use stakeholder engagement to consider the most effective format and frequency of publishing that data to ensure it is user-friendly. The information must be easily accessible and navigable. We expect this includes publishing data in machine-readable formats.	We exceed the baseline expectations for this activity by providing 4 Local Authority Engagement Engineers who will be dedicated to supporting local authorities in the development of their LAEPs. They will provide the technical expertise necessary to help local authorities understand the options they have available and to help them develop ambitious plans. This will help fill two of the gaps identified by the Citizens Advice report on expertise and capacity to deliver and having plans underpinned by transparently estimated costs.
Tailor both information provision and engagement approaches to reflect different needs of potential market participants, including groups in vulnerable situations.	We are going far beyond making data available to relevant parties such as local authorities as we will be doing it a) on a bespoke basis for their geographical area, and b) we will be proactively engaging with them on the data to ensure they understand it and that it feeds into their plans.
Ensure information published is as accurate and unbiased as reasonable.	As stated above we will sense check develop plans and energy transition targets against historical run-rates and connections pipelines to ensure the plans are built on robust assumptions.

As well as providing this bespoke support to our 130 local authorities, we will also go above and beyond business as usual to engage with Gas Distribution Network (GDNs) operators on potential future heating solutions for different local areas to help develop whole system solutions.

All of these activities will be proactively initiated by WPD to ensure that all local authorities and GDNs will be provided with the same level of service, the same quality of information, tailored to them, in an efficient manner to ensure the timeliness of plan development. This goes far beyond Ofgem's assessment that our CVP activities are 'reactive' as opposed to proactive. Ofgem's assessment is wrong in that aspect.

2. Is this an activity already performed in RIIO-ED1?

No. This is not an activity we have undertaken before and represents a step change in our interaction with local authorities around LAEPs as well as with GDNs on whole systems solutions.

3. Is there an equivalent level of delivery proposed in baseline by any other DNO?

No. No other DNO has proposed the same level of engagement and dedicated resource that WPD has. UKPN has proposed a three-tiered approach to engaging with its 127 local authorities in its baseline. This approach meets baseline expectations but does not go beyond them in the way that our proposals do. UKPN's approach requires each local authority to pass criteria in order to unlock the next tier of service. Our approach provides dedicated, bespoke, best practice engagement and information to every local authority regardless of their level of preparedness, including for those who most require that support and where therefore also potentially the greatest additional value can be unlocked.

1.4.3 Stakeholder support

Qualification criteria	Draft Determination position
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Evidence of customer and stakeholder support	<p><i>"The Challenge Group and the CEGs share our concerns on this topic [LAEP engagement and support], and in our Call for Evidence UK100 were particularly concerned that 'proactive partnering' with local authorities should be BAU, and not presented as additional value worthy of additional reward."</i></p> <p>However, as discussed in our CVP proposal, 93% of stakeholders at an event in September 2021 said that they 'agreed' or 'strongly agreed' that the proposal was acceptable.</p>
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As detailed in our CVP proposal in September 2021, we sought feedback on this CVP at a stakeholder event attended by customers and customer representative groups, local authorities, community energy groups and charities from across our four licence areas. Of those stakeholders at the event, 80% 'agreed' or 'strongly agreed' that WPD was best placed to deliver this proposal. **93% of stakeholders at the event said that they 'agreed' or 'strongly agreed' that the proposal was acceptable**, whereas only 5% of stakeholders said that the proposal was not acceptable.

That level of support is the strongest out of our six proposed CVPs and was direct feedback on the specific arrangement of this CVP. This shows that our stakeholders do, in fact, overwhelmingly support the acceptance of this CVP.

As quoted in the table above, Ofgem has said that the Challenge Group and the CEGs consider that engaging with local authorities on LAEPs should be part of the core business of a DNO. The core functions of a DNO are those dictated in the licence. Also, the minimum requirements for this sort of engagement are those that were set out in the Business Plan Guidance.

Both the Challenge Group and customer representative bodies play an important role. However, in relation to whether customers were aware of the bill impact of the proposals we feel this was made abundantly clear through the consumer engagement and in each instance the overall cost of the CVP proposal represents a very modest, almost infinitesimal, proportion of the overall bill which customers pay, so in and of itself would have limited if any impact on overall customer affordability.

1.4.4 Customer benefit valuation and CVP reward

Qualification criteria	Draft Determination position
Reasonable customer benefit valuation	<i>"The activity should deliver positive benefits for consumers."</i>
Justifiable reward mechanism	<i>"Although we welcome the increased ambition shown in these proposals, we consider that engaging with local authorities on future investment and planning options is part of the core business of DNOs, and consumers should not be asked to pay for additional incentives in this area."</i>

Ofgem, both in accepting this CVP (albeit without reward), and in its assessment has shown that they believe this activity delivers positive benefits to consumers. It is therefore imperative that these consumer benefitting activities are incentivised in order to not leave consumer value on the table.

Without an appropriate reward the CVP framework becomes a penalty only incentive mechanism in the sense that if the activities are delivered to their fullest extent, but costs overrun, then WPD will bear the brunt of the overspend despite the full benefit to consumers being delivered. In these circumstances, DNOs are therefore not incentivised to push to enact the plans to their fullest extent. If a reward is provided, however, then the benefits of accomplishing the CVP will be realised by both the DNOs and by customers.

As with all our CVPs, we have modelled the benefits of this CVP, in line with the joint social value framework, over both a 5 and 10-year appraisal period. This framework was tested throughout its development, agreed with consumer bodies and shared with Ofgem in December 2020 – with the framework referenced in Ofgem’s Business Plan Guidance. It is therefore an accepted, robust, conservative methodology for valuing the benefits achieved by CVPs.

As shown in our CVP proposal, the valuation is as follows:

Resulting NPV – 5-year: £27,941,925.57; 10-year: £27,941,925.57

Proposed CVP reward: £13,970,962.79

1.4.5 Proposed CVP reward mechanism

Proposed approach:

Base the reward mechanism on the total efficiency savings by Local Authorities, but with caps against both number of Local Authorities supported (reach), and the financial savings (value) received.

Performance measure: Measure three indicators

1. Total NPV of LAEP support delivered in year (the product of the two indicators below);
2. Number of Local Authorities supported in creating their LAEP; and
3. (Using SROI) the delta between the average LAEP cost (taken from industry standard research), and the level of spend the LA incurred.

Reporting method: Report the NPV of the initiative, the number of Local Authorities supported, and the average value to a Local Authority, as part of annual regulatory reporting.

Adjustment mechanism: The adjustment mechanism would be set as follows:

- a) Any adjustment mechanism would be linked to the NPV measured and reported, in line with a clawback approach (also in line to that proposed for CVP-5).
- b) Over/under performance of either reach (# of Local Authorities supported) or value achieved will be capped, protecting both WPD and Ofgem from unintended/unforeseen circumstances.

Formula: $R1 * V1 * \text{Maximum reward} = \text{Incentive reward}$, where

- c) $R1 = (\text{Reach achieved} / \text{Initial Reach target})$. Can be no lower than 50%, no higher than 150% of the initial target.
- d) $V1 = (\text{Achieved value of LA support} / \text{Initial forecast of LA support impact})$. Can be no lower than 50%, no higher than 150% of the initial target.

While the detailed figures can be discussed and checked for sensitivities, a cap at approximately 50% on both reach and value would be a reasonable starting point.

The proposal may need an additional measure in case both aspects of the calculation are negative/below the cap. This can be discussed.

Rationale:

Capping both reach and average value for LA provides protection for WPD and Ofgem from unexpected circumstances that may influence the total value generated.

For WPD, the underperformance cap reduces the risk that LA support does not deliver the forecasted impact, due to circumstances outside of WPD's control (LA resources, local issues, readiness, etc.). It also provides the potential for an increase in the benefit delivered by LAEP support to make up for any missed targets in reach.

For Ofgem, the overperformance cap should increase confidence that the measurement of value (through SROI) cannot "game" the NPV calculation in WPD's favour and lead to lower numbers of LAs or customers benefitting, while also encouraging WPD to focus on both reach and the value of their LA support.

1.4.6 Conclusion

Despite Ofgem's assessment, this CVP clearly goes beyond what is in the Business Plan Guidance as baseline expectations. It is also beyond what is a BAU function of a DNO. It is also beyond the level of engagement proposed by other DNOs.

Our direct stakeholder engagement showed that our customers overwhelmingly support this CVP. In order to get that benefit delivered to our customers, this CVP should be accepted in full by Ofgem with a reward applied in accordance with the framework set out in the RIIO-ED2 Business Plan Guidance. As with all of our CVP proposals consumers are protected through a proportionate return of monies in the event that the CVP proposition is not delivered in full.

1.5 CVP-3: Establish Community Energy Engineers to support the development and delivery of community-based energy schemes to drive the UK's achievement of net zero

1.5.1 CVP qualification category

Proposals that exceed the baseline expectations that we have set out for EAPs

1.5.2 Baseline expectations

Qualification criteria	Draft Determination position
Exceeds the baseline expectations under Stage 1 of the BPI / Exceeds BAU practices	<i>"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."</i>
Does this proposal entail new activities vs RIIO-ED1?	This is not an activity we have undertaken before.

1. Does this proposal exceed baseline expectations as per Ofgem's RIIO-ED2 Business Plan Guidance?

Yes. As stated in our proposal the Business Plan Guidance **contains no requirements around the holding of community surgeries or the provision of a dedicated resource**, which we propose in the form of our Community Energy Engineers. In addition, the provision of support to stakeholders to progress local decarbonisation schemes goes beyond our commitments in relation to our own business carbon footprint. As such, we believe that any actions supporting the reduction of our users' carbon footprints go beyond baseline expectations for EAPs, whilst clearly supporting the wider decarbonisation agenda.

Furthermore, there is nowhere in the Business Plan Guidance, SSMD, nor Enhanced Stakeholder Engagement Guidance for RIIO-ED2 that explicitly says that DNOs should have technical resources in place to engage with communities as BAU responsibility. The closest statement is in the Enhanced Stakeholder Engagement Guidance under the section on the role of distribution companies which states *“Each company will be responsible for (including but not limited to): g) ensuring timely access to staff to enable the CEG to perform their role.”* However, this is only in relation to the CEG and does not mention the provision of anything similar to Community Energy Engineers.

It is clear that this CVP goes well beyond BAU functions and is certainly beyond baseline expectations as set out in the Business Plan Guidance.

2. Is this an activity already performed in RIIO-ED1?

No. A small number of Community Energy Surgeries have taken place during RIIO-ED1 to date which has helped us gain experience of the value that such a proposition will bring. However, with the introduction of dedicated Community Energy Engineers and the delivery of at least 60 Community Energy Surgeries annually, providing advice and consistent support to various community groups, this proposal represents a significant step up in our activity in this area.

3. Is there an equivalent level of delivery proposed in baseline by any other DNO?

No. No other DNO matches our ambition to provide this valuable service to the communities they serve.

1.5.3 Stakeholder support

Qualification criteria	Draft Determination position
Evidence of customer and stakeholder support	90% of stakeholders at an event in September 2021 said that they ‘agreed’ or ‘strongly agreed’ that the proposal was acceptable. An overwhelming majority (97%) of stakeholders supported the introduction of local WPD Community Energy Engineers.

When putting together our Business Plan for this regulatory period, we engaged more stakeholders than ever before. The support for this CVP is detailed extensively in Section 5 of our proposal.

1.5.4 Customer benefit valuation and CVP reward

Qualification criteria	Draft Determination position
Reasonable customer benefit valuation	<i>“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.”</i>
Justifiable reward mechanism	No reward was calculated for CVP-1

As with other CVPs we have modelled the benefits of this CVP over both a 5 and 10-year appraisal period in line with the joint social value framework. This framework was developed in order to:

- Provide robust, consistent measurement of all social benefits DNOs deliver through their services.
- Deliver a framework for DNOs to measure their CVP values in 2021.
- Act as an ongoing solution – a framework applicable for the full RIIO-ED2 period.

- Drive innovation and ambition in the social value space.

The framework provides a structure through which the DNOs will deliver values that are consistent, comparable, and conservative. The framework includes:

- Standard values (from a DNO-specific proxy bank).
- Data quality guidelines.
- A set calculation template.

This framework was tested throughout its development, agreed with consumer bodies and shared with Ofgem in December 2020 – with the framework referenced in Ofgem’s Business Plan Guidance. WPD has had the framework independently applied to each of their CVP proposals, ensuring that appropriate values and assumptions are applied. In addition, an audit of the DNOs’ application of the joint Social Value Framework has been carried out in October 2021.

The calculation input sources are the DNO proxy bank previously mentioned, and the Community Energy State of the Sector Report for 2021. This report is produced annually as a collaboration between Community Energy England, Scotland, and Wales and has been supported and sponsored by DNOs.

All of this culminates in what is a very comprehensive, robust, valuation framework acknowledged by Ofgem. Given we followed this framework to calculate the costs and benefits of this CVP we believe the correct benefit estimation is that provided in our proposal and summarised below.

Resulting NPV – 5-year: £3,093,816.78; 10-year: £3,093,816.78

Proposed CVP reward: £1,546,908.39

1.5.5 Proposed CVP reward mechanism

We propose to use a similar reward framework as set out in CVPs 1 & 2 above, and CVP 5 below. We look forward to discussing this more extensively with Ofgem for its final determinations.

1.5.6 Conclusion

The activities proposed in this CVP clearly exceed the baseline expectations from the Business Plan Guidance and are above and beyond the BAU functions of a DNO. Given the identified positive benefits of this CVP, Ofgem should change their position to accepting the reward in full. This would aid Ofgem in the discharge of its principal duty and would be important in order to provide the appropriate incentives to ensure that the available customer benefits within the community are not left unobtained.

1.6 CVP-4: Build decarbonised communities and local energy schemes by funding solar PV on schools in areas of high economic deprivation

1.6.1 CVP qualification category

Proposals that demonstrate approaches to providing services to vulnerable consumers that clearly go beyond the baseline expectations.

Proposals that exceed the baseline expectations set out for Environmental Action Plans.

1.6.2 Baseline expectations

Qualification criteria	Draft Determination position
Exceeds the baseline expectations under Stage 1 of the BPI / Exceeds BAU practices	<i>"We are not satisfied WPD has sufficiently evidenced why they are best placed to deliver this support."</i>
Does this proposal entail new activities vs RIIO-ED1?	This is not an activity we have undertaken before.

1. Does this proposal exceed baseline expectations as per Ofgem's RIIO-ED2 Business Plan Guidance?

Yes. The carbon footprint section of Appendix 3 of the Business Plan Guidance focusses on the DNOs' setting out plans to reduce their own carbon footprint. This CVP goes beyond that by aiding a portion of our customer base to reduce their own carbon footprint in a way that they might not be able to do so themselves. This CVP also provides great opportunities for educating local students on environmental and sustainability topics which will result in long-term benefits across local communities.

2. Is this an activity already performed in RIIO-ED1?

No. Our current activities in this area are focused on providing relevant support and information to vulnerable customers through the appropriate channels, but do not include funding solar PV on schools in areas of high economic deprivation.

3. Is there an equivalent level of delivery proposed in baseline by any other DNO?

No. No other DNO has proposed a similar scheme in their baseline.

1.6.3 Stakeholder support

Qualification criteria	Draft Determination position
Evidence of customer and stakeholder support	70% of stakeholders at an event in September 2021 said that they 'agreed' or 'strongly agreed' that WPD was best placed to deliver this proposal. 80% of stakeholders at the event said that they 'agreed' or 'strongly agreed' that the proposal was acceptable. In our engagement, 99% of stakeholders supported the idea of WPD taking a leading role in a coordinated approach to share best practice and co-deliver schemes to ensure vulnerable customers are not left behind by the smart energy transition.

When putting together our Business Plan for this regulatory period, we engaged more stakeholders than ever before. The support for this CVP is detailed extensively in Section 5 of our proposal.

1.6.4 Customer benefit valuation and CVP reward

Qualification criteria	Draft Determination position
Reasonable customer benefit valuation	<i>"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</i>

	<i>addition, we do not consider it appropriate to provide CVP rewards when an activity is funded by shareholders.”</i>
Justifiable reward mechanism	No reward was calculated for CVP-1

As with other CVPs we have modelled the benefits of this CVP over both a 5 and 10-year appraisal period in line with the joint social value framework. This framework is described in more detail in section 1.5.4 above and in the Appendix of each of our CVP proposals.

Resulting NPV – 5-year: £20,499,420.98; 10-year: £23,039,306.67

Proposed CVP reward: N/A (see conclusion)

1.6.5 Conclusion

Given Ofgem's position on shareholder funded CVPs we accept that this CVP will not progress beyond proposal stage despite its clearly demonstrated benefits. Moreover we think it is important that Ofgem revisit its position on shareholder funded activity. The treatment of all efficiency measures under TIM in terms of cost savings and costs incurred means there is an element of shareholder funding in all initiatives.

1.7 CVP-5: Offer 1.2 million Priority Services Register (PSR) customers a bespoke smart energy action plan every two years

1.7.1 CVP qualification category

Proposals that demonstrate approaches to providing services to vulnerable consumers that clearly go beyond the baseline expectations.

Proposals that exceed the baseline expectations set out for Environmental Action Plans.

1.7.2 Baseline expectations

Qualification criteria	Draft Determination position
Exceeds the baseline expectations under Stage 1 of the BPI / Exceeds BAU practices	<i>“We are satisfied that WPD’s proposal has demonstrated an approach to providing services to vulnerable consumers that clearly goes beyond the baseline expectations.”</i>
Does this proposal entail new activities vs RIIO-ED1?	This is not an activity we have undertaken before.

1. Does this proposal exceed baseline expectations as per Ofgem's RIIO-ED2 Business Plan Guidance?

Yes. The baseline expectations for vulnerable customers as set out in Appendix 1 of the Business Plan Guidance require DNOs to use their referral channels and extensive networks to help customers access the support we have available. WPD exceeds these baseline expectations by proactively engaging with vulnerable customers to guarantee they receive appropriate advice and would follow up with those customers on the adoption of this advice.

The baseline expectations also do not set out any minimum targets. Our commitments in this CVP include the following stretching targets which clearly go beyond BAU functions:

Contacting 600,000 PSR customers every year in relation to the bespoke smart energy action plan.

Targeting follow-up referrals of 5% during first two years, and 10% from year 3 onwards, i.e., 30,000 and 60,000 referrals, respectively.

Targeting financial savings for customers following advice of £14 per customer per year.

Achieving an overall customer satisfaction score in line with or better than WPD's results in Ofgem's Broad Measure of Customer Satisfaction.

In terms of the minimum expectations for EAPs, there are expectations set around reducing DNOs' own business carbon footprint but not about our communities'. The promotion and adoption of greener systems involved in this CVP places it beyond minimum requirements.

2. Is this an activity already performed in RIIO-ED1?

No. Our current activities in this area are focused on providing relevant support and information to vulnerable and PSR customers through the appropriate channels, but do not include providing these customers with a bespoke advisory support service.

3. Is there an equivalent level of delivery proposed in baseline by any other DNO?

No. No other DNO has presented a similar scheme with similar targets.

1.7.3 Stakeholder support

Qualification criteria	Draft Determination position
Evidence of customer and stakeholder support	77% of stakeholders at an event in September 2021 said that they 'agreed' or 'strongly agreed' that WPD was best placed to deliver this proposal. 74% of stakeholders at the event said that they 'agreed' or 'strongly agreed' that the proposal was acceptable. Around 97% of stakeholders backed our idea of developing a model to identify the capabilities of vulnerable customers to participate in a smart, low carbon future and 47% also supported the commitment to offer 60% of PSR customers specific support and education.

When putting together our Business Plan for this regulatory period, we engaged more stakeholders than ever before. The support for this CVP is detailed extensively in Section 5 of our proposal.

1.7.4 Customer benefit valuation

Qualification criteria	Draft Determination position
Reasonable customer benefit valuation	<i>"We are satisfied that WPD has provided sufficient evidence to demonstrate the associated additional value to consumers."</i>

As with other CVPs we have modelled the benefits of this CVP over both a 5 and 10-year appraisal period in line with the joint social value framework. This framework is described in more detail in section 1.5.4 above and in the Appendix of each of our CVP proposals.

Resulting NPV – 5-year: £4,787,540.18; 10-year: £7,102,447.68

Proposed CVP reward: £3,551,223.84

1.7.5 Proposed CVP reward mechanism

Qualification criteria	Draft Determination position
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Justifiable reward mechanism	<i>"Our acceptance of this proposal is subject to establishing a suitable reward methodology"</i>
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Proposed Approach: Base the reward mechanism on both the number of plans delivered and the assessed benefits of those plans, with additional limits on two measures – Reach and Value.

Performance measure: Measure three indicators

4. Total NPV of plans delivered in year (the product of the two indicators below);
5. Number of customers offered a smart energy action plan; and
6. (Using SROI) the value of the delivered smart energy action plans

Reporting method: Report the NPV of the initiative, the #s of customers offered a smart energy action plan, the % of customers who reported actioning and benefitting from a smart energy action plan, and the average value to a customer, as part of the annual vulnerability report

Adjustment mechanism: The adjustment mechanism would be set as follows:

- a) Any adjustment mechanism would be linked to the NPV measured and reported, in line with the clawback approach proposed in the supplementary question response.
- b) Over/under performance of either reach (# of plans offered) or value will be capped, protecting both WPD and Ofgem from unintended/unforeseen circumstances.

Formula: $R1 * V1 * \text{Maximum reward} = \text{Incentive reward}$, where

- c) $R1 = (\text{Reach achieved} / \text{Initial Reach target})$. Can be no lower than 50%, no higher than 150% of the initial target.
- d) $V1 = (\text{Achieved value of plans} / \text{Initial value of plan target})$. Can be no lower than 50%, no higher than 150% of the initial target.

While the detailed figures can be discussed and checked for sensitivities, a cap at approximately 50% on both reach and value would be a reasonable starting point.

Rationale: Capping both reach and plan value provides protection for WPD and Ofgem from unexpected circumstances that may influence the total value generated.

For WPD, the underperformance cap reduces the risk that the plans do not deliver the forecasted impact, due to circumstances outside of WPD's control (take-up of new technologies, wider market conditions, etc.). It also provides the potential for an increase in the benefit delivered by smart energy action plans to make up for any missed targets in reach.

For Ofgem, the overperformance cap should increase confidence that the measurement of value (through SROI), or significant changes in market cannot "game" the NPV calculation in WPD's favour and lead to lower numbers of customers benefitting, while also encouraging WPD to focus on both reach and the value of their smart energy action plans.

1.7.6 Conclusion

We are pleased to see that Ofgem have accepted this CVP in full with reward. We believe this will be a valuable scheme for our customers and wider community. We look forward to discussing and finalising the reward mechanism further with Ofgem.

1.8 CVP-6: Deliver an annual £1 million ‘Community Matters’ Fund, funded entirely by shareholders, to achieve positive community outcomes in relation to vulnerability, environment and education.

1.8.1 CVP qualification category

Proposals that demonstrate approaches to providing services to vulnerable consumers that clearly go beyond the baseline expectations.

Proposals that exceed the baseline expectations set out for Environmental Action Plans.

1.8.2 Baseline expectations

Qualification criteria	Draft Determination position
Exceeds the baseline expectations under Stage 1 of the BPI / Exceeds BAU practices	<i>“We consider that this CVP proposal constitutes corporate social responsibility (CSR) activities. We consider CSR to be BAU for DNOs.”</i>
Does this proposal entail new activities vs RIIO-ED1?	This proposal represents a comprehensive new programme of activities that we have not undertaken before.

1. Does this proposal exceed baseline expectations as per Ofgem’s RIIO-ED2 Business Plan Guidance?

Yes. Appendix 1 of the Business Plan Guidance sets out minimum expectations around improving service standards for consumers in vulnerable situations. Part of these expectations centres around making use of our extensive network of partnerships with a range of organisation types, from multiple sectors including other utilities, as well as identifying which partnerships are likely to be most effective at delivering benefits through co-operative working.

WPD goes beyond this expectation in this CVP by proposing a wider range of support that goes well beyond the baseline expectations of a DNO. This includes initiatives to remove barriers to participate in a low carbon future, home deliveries for the socially isolated, initiatives to encourage diversity in the workplace, recruitment and training of STEM ambassadors across a range of sectors and organisations, amongst others.

2. Is this an activity already performed in RIIO-ED1?

No. Our current activities in this area are focused on providing relevant support and information to vulnerable and PSR customers through the appropriate channels, as well as reducing our business carbon footprint, but do not include providing vulnerable customers with social support and engaging in further community activities.

3. Is there an equivalent level of delivery proposed in baseline by any other DNO?

No. Other networks are developing their own shareholder funded social foundations however ours is unique in the extent of its reach.

1.8.3 Stakeholder support

Qualification criteria	Draft Determination position
Evidence of customer and stakeholder support	86% of stakeholders at an event in September 2021 said that they ‘agreed’ or ‘strongly agreed’ that WPD was best placed

	to deliver this proposal. 80% of stakeholders at the event said that they 'agreed' or 'strongly agreed' that the proposal was acceptable.
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When putting together our Business Plan for this regulatory period, we engaged more stakeholders than ever before. The support for this CVP is detailed extensively in Section 5 of our proposal.

1.8.4 Customer benefit valuation and CVP reward

Qualification criteria	Draft Determination position
Reasonable customer benefit valuation	<i>"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."</i>
Justifiable reward mechanism	No reward was calculated for CVP-6

As with other CVPs we have modelled the benefits of this CVP over both a 5 and 10-year appraisal period in line with the joint social value framework.

Resulting NPV – 5-year: £16,682,719.44; 10-year: £16,682,719.44

Proposed CVP reward: N/A (see conclusion)

1.8.5 Conclusion

Given Ofgem's position on shareholder funded CVPs as well as their belief that these proposals constitute CSR activities, we accept that this CVP will not progress beyond proposal stage despite its clearly demonstrated benefits. Moreover we think it is important that Ofgem revisit its position on shareholder funded activity. The treatment of all efficiency measures under TIM in terms of cost savings and costs incurred means there is an element of shareholder funding in all initiatives.

1.9 Revised assessment framework

Below we outline the revised assessment framework showing the qualifying criteria of CVPs 1, 2, 3 and 5.

	CVP-1	CVP-2	CVP-3	CVP-4	CVP-5	CVP-6
Exceeds the baseline expectations under Stage 1 of the BPI / Exceeds BAU practices	Yes. CVP clearly exceeds EAP baseline expectations and goes beyond BAU functions	Yes. CVP clearly exceeds DSO and whole systems baseline expectations and goes beyond BAU functions	Yes. CVP clearly exceeds baseline expectations and goes beyond BAU functions	<i>"Not satisfied WPD has sufficiently evidenced why they are best placed to deliver this support."</i>	<i>"Satisfied that WPD's proposal ... clearly goes beyond the baseline expectations"</i>	<i>"This CVP proposal constitutes corporate social responsibility (CSR) activities. We consider CSR to be BAU for DNOs"</i>
Does this proposal entail new activities vs RIIO-ED1?	The schemes detailed as part of CVP-1 have either not been undertaken before or will significantly increase in scale.	This is not an activity we have undertaken before and represents a step change in our interaction with local authorities around LAEPs.	This is not an activity we have undertaken before.	This is not an activity we have undertaken before.	This is not an activity we have undertaken before.	This proposal represents a comprehensive new programme of activities that we have not undertaken before.
Evidence of customer and stakeholder support	81% of stakeholders at an event in September 2021 said that they 'agreed' or 'strongly agreed' that the proposal was acceptable.	93% of stakeholders at an event in September 2021 said that they 'agreed' or 'strongly agreed' that the proposal was acceptable.	90% of stakeholders at an event in September 2021 said that they 'agreed' or 'strongly agreed' that the proposal was acceptable.	70% of stakeholders at an event in September 2021 said that they 'agreed' or 'strongly agreed' that the proposal was acceptable.	74% of stakeholders at an event in September 2021 said that they 'agreed' or 'strongly agreed' that the proposal was acceptable.	80% of stakeholders at an event in September 2021 said that they 'agreed' or 'strongly agreed' that the proposal was acceptable.
Reasonable customer benefit valuation	Benefits modelled in line with the joint social value framework	Benefits modelled in line with the joint social value framework	Benefits modelled in line with the joint social value framework	<i>"Not satisfied that WPD's methodology for evaluating this CVP is sufficiently robust"</i>	<i>"We are satisfied that WPD has provided sufficient evidence to demonstrate the associated additional value to consumers."</i>	<i>No comment from Ofgem</i>
Justifiable reward mechanism	Tied to annually reported figures of carbon emissions, with linear adjustments.	Based on the total efficiency savings by Local Authorities.	Similar reward framework as set out in CVPs 1, 2, and 5.	<i>"We do not consider it appropriate to provide CVP rewards when an activity is funded by shareholders."</i>	Based on both the number of plans delivered and the assessed benefits of those plans.	<i>"We do not support shareholder funded CVPs where any associated reward would be funded by consumers."</i>

Figure 4 – Summary of Acceptance criteria following WPD's Review and Response to Ofgem Draft Determination

1.10 Why the CVP Framework and Incentivisation of Outputs Really Matters

It is important that Ofgem places appropriate weight on the incentivisation of outputs. Doing so acts as an appropriate counterbalance to the incentive placed upon DNOs by Ofgem to achieve cost efficiency savings and savings from deferred investment through the TIM mechanism. Both incentivisation in general, and outputs in particular, form part of the RIIO mechanism and framework – indeed so much so they are within the very name itself.

In the absence of an incentive on outputs companies have the natural incentive to seek to reduce costs and cost of delivery even where this would result in diminished consumer welfare through a greater loss of consumer benefit in the form of reduced outputs. This is clearly undesirable.

Ofgem has over many years established a sharing factor for the benefits delivered through cost savings to be shared between companies and customers. This framework of cost sharing between companies and customers as part of an incentive based regulatory regime has a level of legitimacy and acceptance by all parties and has served customers well.

It is of course entirely possible to devise a regulatory framework and regulatory regime which does not see this level of benefits go to companies and to shareholders through incentive-based regulation and indeed some may argue for this. However, whether and how such a regime incentivises appropriate behaviours and how it would ultimately deliver enhanced consumer value would be important questions it would have to answer prior to being determined it is somehow preferable to the *ex-ante* incentive-based approach which Ofgem currently has in place.

Moreover, there is no suggestion that Ofgem wants in particular to move away from such a framework. However, if consumer value is to be maximised it must be consistent in its application. As part of the RIIO2 framework the incentive framework in terms of input cost saving is expressed on the form of TIM and is broadly 50:50 on an annual basis or as high as c.15:85 on an NPV basis³. That is between 50% and 85% of the benefit, in NPV terms – flows to customers.

As a result, for every consumer welfare enhancing benefit delivered under incentive-based regulation in relation to costs and cost savings customers benefit much more significantly than companies.

If the same sharing rate is applied to net benefits in the context of the delivery of consumer welfare improving output solutions – and given its longstanding acceptance in the context of input cost saving it has a legitimacy and acceptance as a result – then consumers will benefit almost six-fold relative to companies for each consumer enhancing output which is delivered.

Moreover, if the sharing factor between company and customer is equalised between input driven savings and output enhancing outcomes companies will face appropriate and no perversity of incentive to deliver one over the other and will ultimately choose that – whether reduced inputs, or enhanced outputs – which ultimately benefits customers to the greatest extent.

This holistic input and output incentive-based framework applies, or ought to apply, to cost savings and to ODIs and elsewhere in our response we set out how if and only if this is the case is consumer value and consumer welfare ultimately maximised. However, it equally applies, and ought to apply, to the treatment of CVPs as specific innovative proposals brought forward by companies to deliver additional and enhanced consumer value.

In this short paper WPD has clearly set out where and how a number of CVPs meet the criteria set out by Ofgem for inclusion and reward and that their inclusion, and delivery, will by Ofgem's own position as set out in the Draft Determination, deliver additional consumer benefits. It is only

³ Particularly in relation to ongoing revealed efficiency Opex related savings which affect the frontier benchmarking in the sector.

therefore with their inclusion that Ofgem can truly be said to be satisfying its consumer duty and delivering upon the statutory remit accorded it by the legislature in a manner that also happens to align with consumer preferences and stakeholder support for their delivery.

Appendix 1 - Delivery plan for net zero schemes

Scheme		Delivery plan	Due date
1	Convert 89% of our operational fleet to electric vehicles (EVs)	<p>Though the transition to an EV fleet will be phased over the five-year period to 2028, we aim to introduce the majority of EVs within the first two years of RIIO-ED2</p> <p>We also anticipate 100% replacement of WPD's van fleet by the end of 2030, with the exception of larger specialist vehicles like certain 4x4 and HGVs, where we will continue to monitor the availability of suitable battery-powered vehicles.</p>	April 2028
2	EV charging at key operational sites	<p>Delivery of the charger installation programme will be front loaded in RIIO-ED2 to ensure charger capacity is ready for the roll out of our new EV fleet.</p> <p>We anticipate that EV charging will be available at all sites within the first three years of RIIO-ED2, with approximately 45 sites receiving an EV charger per year across this period.</p> <p>The 134 sites that will receive an EV charger have been selected to ensure the best coverage for our fleet, based on geographical spread, rural accessibility and the location of our offices and work bases.</p>	April 2026
3	Non-carbon technology company cars	<p>We will replace all 1050 company cars with pure electric vehicles by December 2025.</p> <p>Additionally, employees will have a reduced contract period for internal combustion engine (ICE) company cars. For example, rather than acquiring a five-year contract, employees will only be allowed two-year contracts for new ICE company cars, followed by one-year contract the following year. Eventually, this will phase-out all ICE vehicles.</p>	December 2025
4	PV generation at suitable sites	<p>Delivery of PV generation at suitable office and depot sites will take place throughout RIIO-ED2, with an approximately flat expenditure and delivery profile across the period.</p> <p>In order to maximise the gains from the programme, we intend to target the sites which offer the greatest capacity early in RIIO-ED2 and therefore it is likely that our properties at the Pegasus, Lamby and Avonbank sites will be first in the programme. These three sites have been identified as significant energy users.</p>	April 2028
5	Renewable energy for buildings	<p>Renewable Energy Guarantees of Origin (REGO) certificates certify that the energy supply has been produced from 100% renewable sources (wind, solar, geothermal, tidal etc. and does not include nuclear). We will continue to procure electricity from a REGO certified energy supply / tariff across all of our depot locations and unmetered supply.</p> <p>The continued procurement of electricity via REGO will significantly aid in helping us to reach our carbon reduction targets.</p>	April 2028

		During RIIO-ED2 we will continue to work with Ofgem to ensure that our purchase of our electricity through a REGO scheme is acknowledged on our Ofgem annual BCF.	
6	Reduce energy use in our buildings	<p>We have analysed our property portfolio to assess each building's energy usage and performance. The analysis has informed a ranking of our properties by size, relative energy usage and property condition category. Our 23 lowest ranked properties from this analysis have been subject to further assessment to identify cost-effective energy performance improvements.</p> <p>Energy performance improvements will be targeted as early as possible in RIIO-ED2 to be most effective. This investment will be made from 2023/24 – 2025/26.</p> <p>Further opportunities to reduce energy use in our buildings will be identified via individual building surveys which will be undertaken throughout RIIO-ED2.</p>	April 2026
7	'Excellent' BREEAM rating for all buildings	<p>By achieving a BREEAM rating of 'Excellent' we are demonstrating a determined approach to sustainable improvements in the operational performance of our buildings.</p> <p>To achieve a rating of 'Excellent' our buildings, when independently assessed, must demonstrate 'Best Practice' in the following key areas; Management / Health & Well Being / Energy / Transport / Water / Materials / Waste / Ecology / Pollution / Innovation. According to BREEAM approximately 10% of UK new non-domestic buildings are rated as 'Excellent' and demonstrate best practice.</p>	April 2028
8	Minimise carbon emissions through reduction in business travel	<p>Business travel will be reduced via the adoption of remote working where practical in accordance with our policy for working from home.</p> <p>The combination of this framework for remote working and increased use of video technology for holding virtual meetings will reduce business travel mileage, reduce emissions, as well as time spent travelling.</p>	April 2028
9	Small-scale battery powered generation	<p>Trials of the use of small-scale battery powered generation when restoring customer supply will be undertaken in each of our licence areas during RIIO-ED2.</p> <p>If successful, we will look to increase our use of these technologies, replacing traditional diesel generation where appropriate (for example, residential fault restoration). The benefits of using small scale battery generation include:</p> <ul style="list-style-type: none"> Zero carbon emissions No noise or fumes Zero environmental damage through leaks or spills. Ability to be charged by renewables at depot. 	April 2028

Appendix 2 – CVP requirements

The below is an excerpt from the Business Plan Guidance document detailing the requirements and key mechanisms of the CVP scheme.

- 8.13. *Under the CVP, Business Plans should set out the ways in which their plan goes beyond the minimum requirements and beyond the functions typically undertaken by an energy network company as business as usual and how this will lead to benefits for consumers. Ofgem will assess the proposals included within the CVP and determine whether the company should receive a reward should and if so, the size of the reward.*
- 8.14. *We expect each CVP proposal to fall into one of the following categories:*
- i) Proposals that demonstrate approaches to providing services to vulnerable consumers that clearly go beyond the baseline expectations (see Appendix 1).*
 - ii) Proposals that demonstrate approaches to providing services to major connection customers that clearly go beyond the baseline expectations (see Appendix 2).*
 - iii) Proposals that exceed the baseline expectations that we have set out for EAPs (see Appendix 3).*
 - iv) Proposals that demonstrate approaches to DSO activities that clearly go beyond the baseline expectations set out in our roles and principles for DSO (see Appendix 4).*
 - v) Proposals that exceed the minimum requirements that we have set out for whole system approaches in the whole systems section of this RIIO-ED2 Business Plan Guidance.*
- 8.16. *Alongside CVP proposals, DNOs must **provide evidence of the associated additional value to consumers**. We expect this evidence to be **quantitative, independently substantiated** and take into account any distributional impacts on different types of consumers. Companies must also seek to **provide a monetised value to consumers** for each proposal forming part of its CVP. Companies should set out any **methodology employed in determining this monetised value, along with any underlying data** used in its calculation. Ofgem will take this and other relevant information into account in our assessment to determine whether a proposal should receive a reward and, if so, the size of that reward. To facilitate our assessment, wherever possible, we encourage DNOs to work together to use a common methodology to determine the monetised value associated with their proposals.*
- 8.17. *The monetised value should be at least £3m per proposal and the total number of proposals should not exceed ten per Business Plan.*
- 8.20. *If the company receives a reward under stage 2 of the BPI, Ofgem will consider whether it should include provision for the clawback of the reward in the event that the commitment(s) in question are not delivered. Companies should consider this in their Business Plan submission and, where appropriate, commit to returning any associated rewards in the event of non-delivery.*
- 8.21. *In assessing a CVP proposal, Ofgem expects to consider matters including:*
- whether the proposal goes **over and above the minimum requirements under Stage 1 of the BPI**.*

- the extent to which the proposal represents **additional value to consumers**, taking into account the functions typically undertaken by an energy network company as business as usual. For example, **we would not expect to reward activities currently undertaken by DNOs in RIIO-ED1**.
- the extent to which the proposal includes **evidence that shows how it incorporates consumer expectations/priorities and value** (which may include willingness to pay).
- the extent to which the proposal has been reviewed by and received the **support of the Ofgem RIIO-2 Challenge Group, the DNO's CEG or, otherwise**, the extent to which reasons for the lack of such support are clearly and satisfactorily explained.
- whether the proposal **includes a monetised consumer benefit and an associated monetisation methodology and the extent to which such a methodology is reasonable**. The more confidence we have that the methodology is robust and generates an accurate value of consumer benefit, the more confidence we will have that any associated reward is appropriately sized and will provide a net benefit for the consumer. We consider that the use of a common methodology will enable consistency and comparability between how DNOs' estimate consumer benefit and, in doing so, is likely to provide a level of confidence of whether consumer benefit has been reasonably calculated. For the avoidance of doubt, it is the responsibility of the DNO to propose a monetised consumer benefit and an associated monetisation methodology.
- the extent to which the **monetised benefits associated with the proposal accrue to existing and future consumers** including consumers in vulnerable situations.
- where a company makes a proposal that includes a commitment to deliver something within RIIO-ED2 (for example, a commitment to complete a project), whether arrangements to address the possibility of non-delivery are set out and the extent to which such arrangements for non-delivery are appropriate and implementable.

8.22. Where a CVP proposal relates to the delivery of something within the RIIO-ED2 period and is rewarded, Ofgem expects to **determine the size of the reward by multiplying the net consumer value by the company's totex efficiency incentive rate**. This is to help ensure that companies do not spend more in delivering the benefit than the value of that benefit to consumers.

8.23. It may be the case that companies include additional costs in their forecasts associated with the delivery of CVP proposals. Where this is the case, **Ofgem will consider any consumer benefit that arises from the proposal net of these costs**. If these costs are clearly identified within companies' forecasts, Ofgem will be able to exclude them from relevant benchmarking exercises. If such costs are included in forecasts but not clearly identified (and are therefore included in relevant benchmarking exercises), this could have an impact upon the assessed level of efficiency of the company.