

## Part D: GD Annex Questions

National Grid has responded to specific questions set out in the SSMC GD Annex where we feel there is relevance to National Grid Electricity Distribution (NGED) or to signpost relevant factors which will require consideration ahead of RIIO-ED3. We note that the regulatory framework applicable to electricity distribution will be subject to separate consultation, and the decisions taken for RIIO-3 (GT, GD and ET) should not be seen as setting binding precedent for RIIO-ED3, given important sector differences.

### ***Proposed RIIO-GD3 specific outputs and uncertainty mechanisms***

*We have not responded to questions GDQ1 to GDQ7 (inclusive).*

### ***RIIO-GD2 outputs and UMs proposed for removal***

#### **Key messages:**

- Electrification of commercial vehicle fleet cannot be treated as a business-as-usual activity due to the evolving nature of this technology.

### **GDQ8. What are your views on our proposal to remove the Commercial fleet electric vehicle PCD in RIIO-GD3?**

We support the removal of the commercial fleet PCD, as this was not applied in RIIO-ED2.

However, it would be premature to treat fleet electrification as a business-as-usual activity when for large panel vans, 4x4s and HGVs there are no suitable EV alternatives currently on the market. Future investment in this area needs to encompass:

- Funding for suitable trials and pilots, as adoption of these vehicles would be on a first-generation basis, which may be accompanied by unintended consequence as the products are not commercially tried and tested.
- Increased capital investment for the new assets and associated tools and equipment for maintenance activities, in addition to training on these.

Therefore, due to the evolving nature of this technology, it should not be treated as a business-as-usual activity. The calculation of baseline allowances needs to be representative of the different approaches that companies may be taking to these issues, so as not to be benchmarked out - some form of technical assessment may be appropriate to ensure baseline funding is sufficient.

*We have not responded to questions GDQ9 to GDQ13 (inclusive).*

### ***Proposed RIIO-GD3 specific outputs and uncertainty mechanisms***

*We have not responded to questions GDQ14 to GDQ22 (inclusive).*

### ***RIIO-GD2 outputs and uncertainty mechanisms proposed for removal***

*We have not responded to questions GDQ23 to GDQ27 (inclusive).*

## ***Proposed RIIO-GD3 specific outputs and uncertainty mechanisms***

### **Key messages:**

- Increasing alignment between the roles of GDNs and DNOs under the vulnerability incentive could facilitate stronger collaboration between sectors, expanding the reach and impact of support services for customers.
- Due to increasing customer expectations, the focus for RIIO-GD3/ED3 should be on maintaining exceptional customer service, with surveys weighted in a manner which aligns with customer expectations and priorities. Best practise customer experience metrics consider a score of 9 or above to be world-class, so it wouldn't be cost-effective and efficient to stretch further.

### **GDQ28. What are your views on our proposed position on the role of GDNs in relation to vulnerability, and how can they support a just transition to net zero?**

We agree with the principle of maintaining the areas of activity for GDNs in the role of addressing vulnerability. Network companies are uniquely placed to identify and support their customers in these situations and can play an important role especially at a time when more people are experiencing challenges.

Furthermore, we support the expansion of responsibilities to provide support for fuel poverty and the low carbon transition. This will provide alignment with the roles of the DNOs under the RIIO-ED2 vulnerability incentive and could therefore facilitate strong collaboration between DNOs and GDNs, expanding the reach and impact of support services for customers.

We agree with setting the scope of funding to address vulnerability to areas directly related to GDN activity (this aligns with the approach for DNOs in RIIO-ED2). However, careful consideration should be given to ensuring the framework encourages and enables GDNs to support customers through partnerships with organisations (e.g. in the third sector) with the relevant expertise, which are working closely and with the trust of the communities they support

### **GDQ29. What are your views on our proposal for GDNs to develop individual and joint-GDN vulnerability strategies?**

We support a joint vulnerability strategy, which will naturally lead to stronger collaboration and will provide potential VCMA partners with a clear route to engaging with GDNs.

Individual vulnerability strategies are important to ensure companies can effectively respond to the specific needs of the customers in their own regions, as well as enable new and innovative approaches to be delivered.

By providing a consistent view of GDN strategy, a joint vulnerability strategy will also encourage wider industry collaboration, providing for easier cross-sector engagement on joint initiatives such as the multi-sector PSR. Therefore, we would welcome this cross-sector collaboration being incorporated into the joint strategy.

Any joint vulnerability strategy should not restrict the ongoing development of new and innovative approaches by any individual GDN, the joint strategy should however, by embedding collaborative sharing of initiatives and results, facilitate the 'fast-follow' by others to any successful initiative.

### **GDQ30. Do you agree with our proposal to retain the RIIO-GD2 vulnerability minimum standards is sufficient to ensure customers in vulnerable situations are protected and treated fairly?**

The existing standards provide a suitable minimum provision for consumers and therefore enable companies to go beyond these with innovative services, through for example, the VCMA framework. We therefore agree with the proposals to maintain the existing vulnerability minimum standards, however, with reference to our response in GDQ31, consideration should be given to expand standards so that GDNs can be baseline funded for embedding BAU activities.

**GDQ31. What are your views on our proposal to retain the use of the VCMA UIOLI allowance, on the alternative option to incentivise vulnerability through an ODI-F, and on which activities to support vulnerability could be funded through baseline allowances?**

Reward-based incentives have in the past driven huge benefits for customers in vulnerable situations by encouraging investment and continuous innovation (e.g. the SECV incentive) and continue to do so through the RIIO-ED2 vulnerability incentive.

We do not believe that an ODI-F for GDNs would create unhelpful competition between companies if they each have targets set based on their individual ambition. This could be further avoided if the framework were to encourage collaboration, perhaps with a 'collaboration premium' giving a higher rate of incentive within the framework where companies could demonstrate effective collaboration in the delivery of their activities.

However, in the absence of a 'track record' to enable Ofgem and the companies to create targets and set reward/penalty deadbands, we do agree that this might mean that the VCMA is more appropriate in this period. Consideration should be given to enabling the legacy of the VCMA (reporting on qualitative and quantitative outcomes) to provide the basis of a possible future incentive design.

We agree that the VCMA should focus on bespoke or innovative initiatives, developed to deliver new or better ways of supporting customers. Therefore, we believe companies should be funded for as much of the delivery of the minimum standards as BAU through baseline funding rather than VCMA innovation funding. This will also ensure that previously successful VCMA projects can be embedded as BAU, giving more certainty to partners and providing an ongoing legacy of increased support for customers.

**GDQ32. At what level should VCMA funding be set to ensure its effectiveness and sustainability, and what percentage should be ringfenced for collaborative projects?**

We support the increase in VCMA funding. We are seeing more need than ever for our support for customers in vulnerable situations. Collaboration is an important way of increasing innovation and increasing the reach and impact of projects, as such, linked to our response GDQ31, we would support an increase to the amount of the VCMA ringfenced for collaborations.

A review of the social return on investment for the GD2 VCMA projects comparing collaborative and non-collaborative outcomes could provide a basis for the split if there was a clear weighting to the scale of value delivered in each category.

**GDQ33. How should VCMA funding be allocated to ensure maximum impact for consumers in vulnerable situations?**

Relating to our response to GDQ32, an increase in the amount ringfenced for collaboration could be set to reduce any issue of allocation to individual companies. Therefore, we do not believe that an alternative to the number of domestic customers is required.

**GDQ34. How can learnings from VCMA projects better inform the GDNs' organisational approaches to consumer vulnerability?**

Consideration should be given to provide baseline funding to deliver vulnerability strategies and minimum standards through the conversion of successful VCMA projects to BAU. This could incentivise the development of VCMA projects with the highest customer impact and those with the best chances of becoming embedded services.

**GDQ35. What are your views on the options we've set out to incentivise customer satisfaction during RIIO-GD2?**

NGED agree that the focus for RIIO-GD3/ED3 should be on maintaining exceptional customer service and not striving for ever increasing survey scores. Best practise customer experience metrics (e.g. Net Promoter Score) consider a score of 9 or above to be world-class, so it wouldn't be cost-effective and efficient to stretch further.

We would not support a penalty-only incentive scheme. Customer expectations are ever-increasing, as the bar is raised outside of our sector (e.g. across technology, retail etc.) and customers compare experiences

from all interactions. Therefore, it is more difficult year on year to maintain “exceptional” status in our customers’ overall perception of companies they interact with. In addition, NGED will need to continue to invest in technology (e.g. AI) to even maintain relative customer satisfaction (when compared to customer experiences from other sectors).

Not all experiences have to be equal in a customers’ mind so we would expect Ofgem to weight the customer satisfaction surveys towards the areas that are most important to our customers going forward (e.g. Connections) rather than where the lowest scores are achieved (as a mechanism to improve those scores). Again, we would point to best practise customer experience – which focuses on discovering and designing exceptional experiences where it really matters (but with a minimum standard across all touchpoints).

We don’t support the option to set relative rewards and penalties, emulating the competitive drivers of an open market (meaning only the best performing network(s) would be rewarded through the incentive). Likewise, the lowest performing network(s) could be subject to a penalty, even where they are delivering good customer service. Because, as stated by Ofgem, consumers should be able to expect consistent levels of satisfaction irrespective of where they live, and this model would certainly discourage sharing of best practise.

We would be interested to understand if Ofgem use an independent customer panel to test their thinking on customer satisfaction and if not, is this something to consider going forward. This might be helpful as a test of penalty/deadband/reward parameters against other sectors’ customer experiences.

**GDQ36. What are your views on how the complaints metric can ensure customers' complaints are resolved quickly and effectively?**

The complaints metric provides a balanced approach to the speed at which complaints are resolved. Customer concerns which can be easily resolved are targeted for a one-day response. Recognising that there are more complex complaints, the 31-day response allows time for the customer's concerns to be fully investigated (which may include network asset monitoring).

We support maintaining a static target rather than annually updating based on industry performance. An annual target increase would shift the predominant focus to speed of response. The current approach allows for more complex complaints to be investigated, considered and a suitable resolution proposed, whilst still aiming to limit the length of time it takes to resolve complaints. This ensures that complaints are resolved effectively as well as quickly.

We do not believe that any benefit for customers would be gained by adding a further interim measure between 1 and 31 days. Customers who feel that their complaint has not been dealt with appropriately can refer to the Energy Ombudsman and this step is already captured within the complaints metric.

Whilst we would support the publication of the number of complaints as a percentage of customers served if it was needed, we do not consider that this transparency would add benefit for customers.

With regards to accounting for any relationship between complaints volumes and customer satisfaction, there may be some links where the complaints relate to services which are subject to survey. However, we believe that caution needs to be applied with regards to the separate scopes. For example, DNO complaint volumes include claims for damaged equipment as a result of a power surge. Whilst this is included within scope for complaints, it is out of scope for satisfaction surveys. It is also noted that whilst all complaints are recorded, not all customers receiving a relevant service are surveyed. It is therefore difficult to determine whether customer service could be improved by accounting for the relationship between complaint volumes and customer satisfaction as the two measures are not aligned.

**GDQ37. What changes, if any, are required to the GSOPs?**

Whilst there are differences between the services provided by GD and ED companies, and the factors that may impact the availability of supply, we believe that consideration should be given to ensuring that there is alignment for the approach to failure payment values throughout the price controls.

Having a fixed payment value for GD3 GSOPs whilst an annual uplift will be applied to ED2 GSOPs creates a disparity that may lead to confusion for customers who receive payments across the price control period from both networks.

*We have not responded to questions GDQ38.*

**GDQ39. What are your views on the options we have set out for the Collaborative Streetworks ODI-F?**

NGED supports the principle of collaborative streetworks. Whilst we acknowledge the lack of a current central co-ordinator outside Central London, we think this needs to be further explored with stakeholders. We would urge some form of incentivisation to develop further collaboration across GB outside of London.

*We have not responded to questions GDQ40.*

**GDQ41. What are your views on whether the specified streetworks costs reopener is still needed in RIIO-GD3?**

We strongly believe that a streetworks cost reopener is still needed in RIIO-GD3. The streetworks re-opener has been included as an uncertainty mechanism in RIIO-ED2, so ongoing uncertainty has also been acknowledged in ED since the start of RIIO-GD2.

There remains uncertainty around major policy areas such as lane rental (there are still only minimal schemes still in operation across England), which will not be resolved by the time of the RIIO-GD3 business plan submission.

Current policy uncertainty examples include:

- A Department for Transport (DfT) consultation is imminent (due 15th January 2024) which will allow Highway Authorities (HAs) to use up to 50% of funds from lane rental schemes for highway maintenance (including pothole rectification). We anticipate that this will potentially trigger more HAs to consider lane rental schemes.
- Potential additional costs arising from changes to highway reinstatement requirements. These could include those associated with net zero targets/improvements, which review what materials are used for reinstatement.
- Potential additional costs arising from changes to requirements regarding the disposal of street works excavation waste material. The Environment Agency (EA) and Streetworks UK are working on a new agreed protocol through 2024 that we will need to comply with, which will set an alternative to full compliance with WM3. The current plan works towards full roll-out by January 2025, with trials through 2024.
- The prospect of a general election in 2024 or early 2025 may drive other policy changes with impacts on streetworks, including developments on greater EV charging on streets and the introduction of National Underground Asset Register (NUAR).

## ***RIIO-GD2 outputs and uncertainty mechanisms proposed for removal***

*We have not responded to questions GDQ42.*

### **GDQ43. What are your views on our proposal to remove the consumer vulnerability ODI-R in RIIO-GD3?**

We agree with the proposals to remove this as a separate reporting burden and to include the requirements in the alternative approaches proposed instead.

### **GDQ44. How can the annual VCMA event be improved?**

Whilst the annual event is valuable, we would encourage the creation of more regular interactions with stakeholders to create more ongoing collaboration and the sharing of best practice and emerging issues.

*We have not responded to questions GDQ45 to GDQ49 (inclusive).*

## ***Options for evolving our cost assessment approach for RIIO-GD3***

### **Key messages:**

- We support the use of a toolkit approach for Cost Assessment, as no one model is perfect. The choice for which modelling approach to use will depend on the available data. We urge Ofgem to provide further clarity on their approach ahead of any determinations.
- We expect Ofgem to determine a set of conclusive regression model evaluation criteria, as this has been contradictory in previous price controls
- Modelling adjustments such as Sparsity and the application of Regional Wages require further analysis and discussion.

### **GDQ50. What are your views on the potential advantages of using multiple totex regression models in RIIO-GD3?**

NGED supports the use of multiple totex regressions, as no one totex model is typically perfect. Using several totex models and combining through triangulation into a weighted totex provides a balanced view of totex and can help mitigate some of the limitations of the individual models.

Each model can allow capture of different cost categories and cost drivers which enriches the assessment (for example a top-down, bottom-up and Low Carbon Technology model was used in RIIO-ED2).

All models should be evaluated using model diagnostics. It is crucial for the next price control that Ofgem confirms the importance of each of the diagnostic tests, providing companies with early sight of these at the beginning of the Business Plan drafting process. For PR24, Ofwat have provided a conclusive set of diagnostic tests and their respective ranking of importance. In previous price controls, for example, Ofgem have provided contradictory perspectives of the importance of the RESET test. Definitive principles should be set out, so companies and Ofgem are able to evaluate their econometric modelling with confidence. These principles can be discussed further through the relevant cost assessment working groups.

### **GDQ51. What alternative cost drivers and model specifications would you propose for early testing?**

NGED is unable to provide a specific response for GD. However, based on ED2 experience, we believe RIIO-2 models are a good starting point for future model testing. Alternative cost drivers should be tested and evaluated against a clear set of ranking guidance, set by Ofgem (for example, diagnostic tests including RESET, Normality and Heteroskedacity, efficiency score dispersion and R2).

It is essential that Ofgem provides detailed RIGs guidance for cost definitions, so that companies submit costs uniformly. NGED continues to support a data share exercise, so that companies can perform internal analysis and trial cost assessment models.

The appropriate model specification will depend on the data available at the time of BPDT submission, but investigation into the optimal model specification, (for example, the use of logs and squared terms), will depend on the results of the econometric modelling. Further exploratory analysis needs to be conducted on alternative model estimation methods, whether it is correct to maintain the use of POLS models, or if it is better to move towards Random Effects, Fixed Effects or DEA.

NGED looks forward to discussing these matters in relation to the ED sector in future CAWGs.

**GDQ52. What are your views on the potential of middle-up modelling in RIIOGD3?**

NGED support further development of middle-up modelling; we agree even if they are not used, they can play a role in validating totex modelling.

**GDQ53. What are your views on the potential of disaggregated modelling in RIIO-GD3?**

We support the approach used at ED2, with the use of disaggregated modelling alongside the use of totex models.

As no single modelling approach is perfect and each cost activity will require a different cost assessment approach a toolkit approach is most appropriate. However, 'cherry picking' must be avoided so that the resultant cost allowances are sufficient for an efficient company to deliver all its obligations and outputs.

Ultimately, the decision for which cost assessment approach is optimal for each cost activity needs sufficient guidance and a detailed rationale explaining why Ofgem has chosen as such. Paragraph 5.41 provides a high-level summary of the selection criteria Ofgem may use when deciding which technique to deploy. However, Ofgem could provide further guidance on which cost assessment technique to use based off the answer to the five questions suggested.

*We have not responded to questions GDQ54 to GDQ56 (inclusive).*

**GDQ57. What are your views on the approach to regional factors for RIIO-GD3?**

NGED is strongly in favour for a sparsity adjustment to be included in the cost assessment models for RIIO-3, continuing the precedent in GD3.

During the RIIO-ED2 review we presented analysis at CAWG, demonstrating how the inclusion of a sparsity cost driver resulted in a statistically significant result, and improved statistical performance in the totex models (in totex models 2 and 3). Due to the materiality of regional wage adjustments in ED2, addressing only regional wages and ignoring a sparsity adjustment is an unbalanced approach. We understand SSEN also suggested a similar sparsity adjustment, arguing that the inclusion of a sparsity/island variable produced a positive, statistically significant result, thus providing evidence that a sparsity adjustment would be beneficial.

NGED will look to further develop this analysis in preparation for RIIO-ED3. Regional factors will therefore be a key area of focus and NGED looks forward to discussing this further in relation to the ED sector in future CAWGs.

**GDQ58. What are your views on the approach to company-specific factors for RIIO-GD3?**

NGED agrees with the requirements set out in paragraph 5.61 and supports the set-out of such criteria for including a claim.

*We have not responded to questions GDQ59 to GDQ60 (inclusive).*

**GDQ61. In your view, which cost areas will require separate non-regression analysis and benchmarking in RIIO-GD3?**

Non-regression analysis needs to be undertaken where there is no or limited correlation between costs and a specific driver. One off projects and bespoke activities cannot be easily compared across GDNs. This is also a limiting factor on some of the totex regression analysis unless these costs are excluded from totex benchmarking.

An example of this is streetworks. We support GDN specific assessment of streetworks, rather than a benchmarking model across all GDNs. We agree that that streetworks are highly diverse across regions.

*We have not responded to questions GDQ62 to GDQ63 (inclusive).*

**GDQ64. What are your views on suitable approaches to the disaggregation of totex allowances for RIIO-GD3?**

NGED agree that the introduction of disaggregated modelling is important in being able to accurately calculate the specific allowances associated with multiple price control mechanisms. In ED2 Final Determinations, the use of unadjusted submitted cost shares to allocate totex allowances had a material impact in distorting the effective allocation of total modelled costs, allocating too much allowance to load-related activities and too little to non-load related activities. We are supportive of Ofgem's decision to modify the unadjusted submitted cost shares and apply a higher weight to the disaggregated benchmarking cost shares, as an approach to allocate totex allowances.

Cost allowances must be allocated to the correct cost activities and in the correct way. This is even more important when uncertainty mechanisms are linked to a particular activity/output.

***Proposals for Business Plan Data Templates (BPDTs)***

**Key messages:**

- RIIO-3 BPDTs should be an evolution only from RIIO-2 BPDTs and RRP. Templates need to be issued well ahead of submission dates to ensure there is appropriate time to complete.
- Only data that has a clear purpose and use should be collected. Requirements should be streamlined as far as possible where data has not been used in RIIO-2 cost assessment or reporting mechanisms and won't be used in RIIO-3 cost assessment.

*We have not responded to questions GDQ65.*

**GDQ66. We invite views on current reporting requirements and reporting structure at the cost activity level and how this may be adapted to better suit RIIO-GD3 and related development of BPDTs.**

We cannot comment directly on the GD sector BPDTs, however, we support the principles set out in the SSMC.

We expect RIIO-3 BPDTs should be an evolution only from the RIIO-2 BPDTs and RIIO-2 RRP. We support confirmation and issue of final templates by early spring well ahead of the draft submissions in summer 2024 to ensure there is appropriate time to complete and build into the wider business plan documents. The BPDTs require significant internal resource to complete and confirmation of requirements with sufficient time to populate them is paramount.

A key principle should be to focus on the need to only collect data that has a clearly defined purpose and to avoid the need for unnecessary data tables. Data tables should be streamlined as far as possible and removed where data has not been used in RIIO-2 cost assessment or reporting mechanisms and won't be used in RIIO-3 cost assessment.



Consistency between RRP and BPDT is important. We support all work to resolve inconsistencies. Where data is required for BPDT, we urge that this is incorporated into RRP as soon as possible where applicable.

We agree that historical information where available should be provided for GD1 and GD2, alongside the GD3 forecast. This is consistent with the previous ED2 approach where data was presented for 2 previous price controls (DPCR5 and ED1), plus the forecast price control (ED2).