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Dear Forward Work Programme Team

Draft Forward Work Programme 2018-19

Thank you for the opportunity to input into your draft Forward Work Programme. It is important for stakeholders to fully understand Ofgem's focus, direction and work activities for the coming year, and we welcome the engagement this consultation brings. The workshops Ofgem held across Great Britain were a welcome additional element of the engagement approach for this consultation.

We have reviewed the draft plan and are supportive of the key priorities and contributing activities proposed. In order to keep our response as concise and useful as possible our response follows the format of the forward work programme consultation document and comments are made by exception.

In addition to sharing our views on the content of the Forward Work Programme, we would like to take the opportunity to also provide our observations on the articulation, format and layout of the document, particularly given this has been developed from prior years.

Chapter 1 - Enabling a better functioning retail market

We note the desire to see new technologies helping reduce energy consumption as this will lower bills and reduce environmental impacts. DNOs are well placed to support in areas such as energy efficiency and enabling innovation as we are incentivised and aligned with customers' desires to reduce energy consumption, emissions and bills as lower energy use may mean we might be able to offset some marginal investment in new network assets.

Price Protection

We recognise the need to protect our vulnerable customers and are supportive of activities that contribute towards positive consumer outcomes. As a DNO, we provide special services for vulnerable customers such as our priority services register that ensure customers with specific needs are appropriately supported. In particular we have formed partnerships with Citizens Advice, Rural England, Energy Savings Trust and Greater Manchester Combined Authority to continue our work to offer an extra level of support to our customers to ultimately make a difference to the lives of people and families living in fuel poverty.

Supply-side Competition

We are supportive of Ofgem's work to remove barriers to innovation and consideration of appropriate and justified reforms. We responded in support of Ofgem considering the merits of the current supplier hub approach. As the number of new entrants increase it is important for customers to continue to have confidence in the market, and supplier failure, whilst still a very rare occurrence, may undermine this confidence. Whilst reviewing the approach to licensing suppliers to reduce risks of failure, the forward work programme should include further work on the mechanisms licensees follow to ensure protection for customers and other stakeholders in

the event that any supplier fails in the future. This could apply any insights gained from the two relatively recent energy supplier failures.

Consumer Engagement

ENWL see this as a key priority and welcome Ofgem's focus in this area. Reliable and timely switches will contribute to increased consumer engagement. We support the aim of delivering next day switching for GB customers noting our role diminishes going forward as other parties pick up our existing responsibilities. We have recently shared our views on this important subject in our responses to Ofgem's 2017 Faster Switching consultations and continue to participate in both industry code and Ofgem's working groups to facilitate this. One of the issues that affects a relatively small but material number of switches is accurate address information. We are supportive of the data cleansing exercise to improve data quality for plot addresses before the end of April 2018 prior to the creation of the database/ procurement of Central Switching Service .

Fundamental to the success of the service and consumer trust will be resilience of new processes developed. We therefore consider that more focus should be applied to Ofgem's work to ensure a reliable switching service as well as a rapid process.

It is clear that a number of the planned work activities in this area have a reliance and link to the ongoing Smart Meter rollout and its resulting infrastructure. With planned transition to SMETS2 making 2018-19 a pivotal year for the programme, we note the major dependency on supplier activity to facilitate the work Ofgem wish to do to explore the use of Smart Meters to achieve positive consumer outcomes.

Chapter 2 - Facilitating change in the energy system

Future Arrangements

We agree that whole system co-ordination requires not only working closely with industry representation but also with BEIS. Future government policy developments are likely to cut across several government departments and therefore working with Department for Digital, Culture, Media & Sport, and Department for Transport is also likely to be necessary as well as more locally with the Metro Mayors. There are increasingly likely to be regional differences in particular in the nature and pace of change such as how electrification of transport takes place.

ENWL take a keen interest in innovation and welcome work in this area to encourage innovation from industry. As discussed further below, we are active participants in the ENA Open Networks' work as part of seeking to ensure that we are well placed to respond to these changes as they develop. We also maintain an ongoing and proactive dialogue with our stakeholders to ensure we are aware of and understand their likely future requirements and can respond accordingly.

Network Charging and Cost-Recovery

We support reviewing and are actively contributing to developing proposals on charging methodologies, including on the fair collection of residual charges. We are interested to understand how a cost reflective approach ties in to wider policies on enabling low carbon initiatives and potential moves towards a more socially aware approach to ensuring affordability to individual consumers.

Critical Infrastructure and arrangements

Given the strong link to many activities to enable a better functioning retail market and settlement reform, we welcome the activity on regulation of DCC and smart meter rollout monitoring. Given DCC's monopoly position in the provision of this critical infrastructure, the focus must be on delivery, stability and security of systems and ensuring value for money offering to customers.

This is an area where we consider the activities are very strongly linked between half hour settlement, charging and smart meters to achieve the consumer outcomes of improved engagement and benefits from demand-shifting. ENWL are supportive of this work however note a major dependency on the strength of pricing signals, robust systems, and consumer willingness to act and these being delivered in a co-ordinated way.

Chapter 3 - Ensuring network companies deliver for consumers in a changing system

Regulating monopoly network companies

We agree the three consumer outcomes are the correct focus and are supportive of the priorities and activities Ofgem have detailed within this section. A further outcome should be added of, "Ensuring consumers continue to benefit from a regulatory regime that attracts investment at affordable costs and incentivises companies to deliver the outcomes and outputs that consumers and government require". Having this outcome in mind would support achieving positive outcomes for consumers from all the key networks activities in 2018-19.

Stakeholder interest in energy continues to be high and has increasingly focussed particularly on network costs and the operation of the RIIO regime. A key activity in 2018-19 should therefore be Ofgem seeking to inform and shape the debate through ensuring that the successes of the current RIIO framework are more fully understood. The RIIO-ED1 annual report for 2016-17 illustrates the sector wide success that RIIO has achieved in ensuring companies deliver for consumers. This report has been developed in a positive direction by Ofgem, though more should be done to ensure proportionate, accessible and accurate reporting is available as this will assist all stakeholders. Many stakeholders also take note of Ofgem's Return on Regulated Equity (RoRE) measure which uses assumptions that are incorrect and, as a consequence, this measure misstates actual returns for companies. To ensure this provides a reliable insight of network performance for interested stakeholders, this measure needs urgent refinement.

We welcome the reference in the plan document that Ofgem's aim is to follow the rules of the existing price controls and maintain the right balance between consumer and investor interests¹. This is an important element for investors, particular in consideration of the likely need for additional investment as networks continue to evolve to meet the changing market, more complex customer needs and expectations. Regulatory certainty and stability is key to ensuring investor confidence to continue to pursue long term strategic goals that require investment to achieve them.

There are some licence mechanisms and re-openers where greater clarity and guidance is required to inform close-out methodology in order to ensure the process is as efficient and transparent as possible. We expect that this is included within the work outlined under Uncertainty Mechanisms and look forward to engaging with Ofgem on these important areas yet to be developed.

A substantial area of work is the development of the RIIO-2 framework on which Ofgem has already made progress. The key activities noted understate the scale of work that will be required in 2018-19 and in particular we expect any framework decision document to be later than Q1. It is positive that Ofgem has a number of team members focussed on RIIO-2. The way to date that this team has engaged stakeholders has been constructive, though there may already be potential timescale pressures emerging in particular for the first tranche of RIIO-2 reviews.

One of the other main work activities DNOs are working on, which will be a significant area of work for 2018 onwards is the transition to DSO following the 2017 publication Smart Systems and Flexibility Plan containing guiding principles and we anticipate engagement with Ofgem throughout the coming year on this evolving subject. Enabling the transition to DSO is an example of a longer term goal that companies and Ofgem share as both anticipate this will result in benefits to consumers.

Driving competition where suitable

We welcome the introduction of competition in areas where it can be demonstrated to be in the best interests of customers. To this end, we have successfully opened up the greatest number of connections market segments to competition as recognised by Ofgem. However caution should be given to ensure that careful consideration including assessment through a robust cost benefit analysis is carried out before moving to competition based approaches.

In distribution, the number of licensees allows for effective benchmarking and comparison as a proxy for competition as part of the price control review process and annual review of DNO

¹ Page 12 Draft Forward Work Programme 2018-19

performance. This has been and remains effective in ensuring customers are benefitting from this element of cost assessment.

Well run and regulated natural monopolies continue to be an effective way of meeting consumers' needs.

Chapter 4 - Identifying opportunities and managing long-term risk on behalf of customers

Proactively engaging, monitoring and managing markets

We suggest that in many cases, it is in customers best interests to avoid enforcement by ensuring that parties understand any clear requirements on them and are encouraged to work together collaboratively with support in the first instance to be compliant, rather than focusing on penalties for when things go wrong.

Enforcement may though sometimes be the most appropriate course of action, as long as this takes place within a clear and robust framework. We believe the greater transparency provided by your proposal to publish an overview of enforcement investigations with main outcomes and lessons learned will be very helpful.

Maintaining and enhancing our industry-specialist skills and capabilities

We welcome Ofgem's reference to managing longer-term risks by ensuring industry-specialist skills are developed and maintained. We agree it is important to ensure resources are in place, as additional need may be driven by complex new actors and evolving business models. Due to the evolving nature of our energy system, we agree that there are some areas where capability will need to be grown, for example NIS role and REMIT.

There has been some good progress on CBA and Impact Assessments, and we look forward to this developing further. Robust CBA and Impact Assessments are key tools to support decision making and can help to minimise the potential for challenge with the benefit of hindsight and associated uncertainty this can bring.

We are supportive of your proposal to develop a Centre of Excellence for Engineering and Technology within Ofgem. This in turn should allow a greater understanding and diverse culture within Ofgem's decision making processes, including factors which have not been present in traditional CBA and not solely cost focussed. (e.g. to aide in better understanding of technical performance benefits from network assets or environmental factors)

Continuing to provide an authoritative source of analysis and thought leadership

We specifically welcome the proposal of a dedicated research hub, and see benefit in the dissemination and wide sharing of research outputs, including behavioural trials and consumer research.

Reducing Regulatory Burden

We have seen positive progress for some of the activities listed, and would welcome continued development in these areas including ongoing review of regulatory reporting requirements.

We also see really positive momentum on stakeholder engagement, and believe further work on reaching out more effectively to regions and in some cases, "thinking" on a regional level for specific subjects will be an area of further benefit. Some improvements appear already to us to be happening in the way Ofgem engages which should be continued in 2018-19. For us, the RIIO price controls have embedded stakeholder engagement into the way network businesses operate which provides a strong platform to build on for development of engagement in the run up to RIIO-2 and there may be benefit in Ofgem gaining a deeper understanding of what network companies already have in place to engage stakeholders so company and regulator engagement can be co-ordinated where beneficial.

Document Format

The overall look and feel of the document is more stakeholder friendly, providing clarity on the key priorities within the early part of the document and clearly highlighting desired consumer outcomes. It is easy to digest, sectioned well into the four priority areas, and the specific work activities contributing towards each of the priorities were clear and well laid out.

One of the effects of this level of segmentation meant that it was difficult to clearly see how the work activities all combined together as part of a cohesive year-long work plan. A one year view is very helpful to stakeholders to understand workstreams, activities, resource utilisation and focus, however given that the industry is generally working to a much longer time horizon than a year, one area of further development to consider would be to include a high level longer term view across three to five years. This addition could then provide stakeholders with a deeper understanding of how the coming years priorities fit into Ofgem's strategic longer term activities, vision and goals.

We note that the 2016-17 Forward Work Programme document included a table of deliverables, timescales and the Ofgem responsible division. We did find this useful and feel that the inclusion of this level of information in a form which is complimentary to the look and feel of this new style document would further enhance and provide the reader with a supporting timeline to better visualise the activities.

In addition to building in the longer term forward view, we believe it would also be helpful to have a section within the document that is backward looking and considers the prior year achievements. This can then allow the reader an opportunity to see the link to the forthcoming year priorities and how this ties to work already completed and delivery against the five consumer outcomes.

Regional Workshops

Whilst Electricity North West attended the workshop in London, we believe it was a positive move for Ofgem to present these sessions in other regions to allow for an enhanced level of engagement. We found the workshop informative and a useful opportunity for the overall context of Ofgem's priorities and goals to be shared as context for the next year's forward work programme.

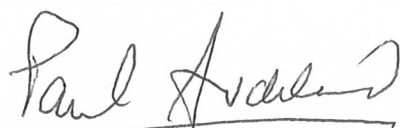
We do feel that given the level of attendees at this type of event and in order to ensure both stakeholders and Ofgem gain maximum value that more advantage could have been taken of this opportunity to have a further in-depth discussion after the main session. This could potentially in future split into more bite size sessions over the three operating divisions which could highlight the cross division aspects.

Resources

It is positive that the plan does consider resources and budgets to facilitate the Forward Work Programme. More information would be helpful in this respect (e.g. indicate how Ofgem's total budget maps to work areas). It appears to us that 2018-19 will continue to be a year of Ofgem organisational change, following 2017-18 when the Glasgow office re-located as the London office is due to do so shortly, and in April the re-structured three divisions will be in place. As Dermot notes in his foreword, the energy sector is facing accelerated change, and it is pleasing to see Ofgem being agile and evolving as a regulator to keep pace with this change. However we are unclear from the plan published if consideration of potential impacts through these changes as well as the scale of continued wider change within the industry are factored in to this plan, ensuring it is deliverable.

I hope these comments are helpful. Please do not hesitate to contact me or Alison Scott (07766 512394) if you would like to follow up on any particular aspect of our response.

Yours sincerely



Paul Auckland
Head of Economic Regulation

