RIIO-2 Sector specific consultation

Citizens Advice submission

March 2019

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The Citizens Advice service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. It values diversity, promotes equality and challenges discrimination. Since 1 April 2014, the Citizens Advice service took on the powers of Consumer Futures to become the statutory representative for energy consumers across Great Britain. The service aims:

- To provide the advice people need for the problems they face.
- To improve the policies and practices that affect people's lives.

The Citizens Advice service is a network of nearly 300 independent advice centres that provide free, impartial advice from more than 2,900 locations in England and Wales, including GPs' surgeries, hospitals, community centres, county courts and magistrates courts, and mobile services both in rural areas and to serve particular dispersed groups.

In 2017, Citizens Advice Service helped fix 163,000 energy problems through our local network and 61,000 through our Consumer Service Helpline. Our Extra Help Unit specialist case handling unit resolved 8,367 cases on behalf of consumers in vulnerable circumstances, and their Ask the Adviser telephone service handled 2,593 calls from other advice providers in need of specialist energy advice.

Since April 2012 we have also operated the Citizens Advice Consumer Service, formerly run as Consumer Direct by the Office for Fair Trading (OFT). This telephone helpline covers Great Britain and provides free, confidential and impartial advice on all consumer issues.

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Executive Summary

Energy networks are the essential service businesses that manage the pipes and wires that deliver energy to our homes and businesses. These networks perform a vital role keeping consumers on supply, but they also account for about a quarter of the cost of consumers' overall energy bills. At a time when the government has introduced a price cap on default energy tariffs, it is vital that alongside providing good service and additional support for consumers in vulnerable situations that energy networks' profits are seen as legitimately earned. Our analysis shows that energy networks are due to make £7.5bn of excess profits in the RIIO-1 period, so it's of the utmost importance that Ofgem ensures these revenues are properly controlled in RIIO-2.

In this first section we have provided some overall commentary on how we think Ofgem's package is meeting the needs of consumers, and specifically our views on two areas not explicitly covered in detail in the consultation documents - low carbon and enhanced engagement.

In the sections following the Executive Summary we set out our response to the proposals in Ofgem's consultation.

Grounding this response in the lived consumer experience

This price control does not happen in isolation. There are a number of issues currently facing consumers.

- The context of the price control is one where **people are facing increasing pressure on incomes, increasing income security and some increasing vulnerabilities** (e.g. there are reportedly 11 million people living in the UK with a limiting mental of physical disability. It is also estimated that one million people will have dementia in the UK by 2025.[1]) whilst all the same needing to access energy as an essential service.

[1] Page 5, 'Vulnerable consumers in the energy market', 2018, Ofgem.

- **Consumers are directly affected by energy network performance such as during supply interruptions and outages**. Our forthcoming analysis on the performance against the guaranteed standards between 2015-16 and 2017-18 has found that some gas customers receive particularly poor levels of performance from their energy network company under these circumstances. For example, on average nearly 24% of gas customers did not have their supply restored within 24 hours following an interruption, and 40% of gas customers who had not had their supply reinstated within 5 days following works, were still without supply after 10 days. Poor performance is not only limited to gas companies. For example, over these 3 years on average, 20% of electricity customers who had not had their power restored within 24 hours in severe weather events were still without power after 48 hours.

- **We received nearly 800 calls to our consumer helpline between November 2017 - November 2018 on network related issues.** These range from problems which customers have in obtaining a quotation for or a connection for supply and its costs (39%), quality and reliability of supply issues including lack of information on interruptions, difficulties contacting or alerting the networks, and problems with appliances and goods following interruptions (23%), or safety issues, including the quality and speed of response of the network (12%). Many of these cases either demonstrate either a lack of awareness on the part of consumers as to where to go to resolve the problem, insufficient information from the network, or difficulties in resolving the issue.

Our overall view

We continue to be broadly in support of Ofgem's direction of travel for an ambitious RIIO-2 package, both in terms of its commitment to improving stakeholder engagement across the network companies, but also in relation to the ambitions financial package being proposed to deliver value for money. Whilst we are pleased to see Ofgem's ambition to introduce a number of new and refined tools to tackle the excessive profits being earned by network companies in RIIO-1, we do think that a clearer statement would be helpful regarding the overall financial package and Ofgem's intentions for future price controls.

Many of the decisions to be made around financial proposals relating to the Cost of Debt, the cashflow floor and company financeability should be framed in the context of the two outlying companies, those whose past decisions have led to particularly poor debt portfolios in the present day. The pressure on Ofgem, from these companies in particular, will be significant in the coming years. Ofgem must ensure that these outliers make significant changes to clean up their debt portfolios as soon as possible. Making the most of the current low interest rate environment, for debt restructuring, is a valuable tool in this respect.

Looking ahead, Ofgem should be striving to reflect current low interest rates in future price controls (i.e. RIIO-3) by reducing the Cost of Debt further (as well as mandating more ambitious credit ratings), something that would be made possible by forcing these outlying companies to improve their debt portfolios.

We think there is a risk that until Ofgem convinces these two companies to fix their debt problems, that it will be very difficult for future price controls to be as ambitious as they otherwise could be. If Ofgem doesn't tackle this, then across the board there will continue a strongly negative impact on consumers, in terms of value for money delivered. We would welcome Ofgem being bold and firm in their management of these companies, as well as decisions around the equity beta and Cost of Debt.

Tackling excessive profits made in RIIO-1

Ofgem's focus on reducing the cost of capital for RIIO-2 is welcome. Some network companies have made voluntary returns back to consumers for the excess profits they are making during RIIO-1. Although these companies have not returned all of the money identified through our analysis, the returns made so far are the right thing to do. There are still a number of companies who have taken no action. We think that Ofgem's proposals should include a consideration a company's approach to voluntary returns, and specifically any voluntary returns made in the RIIO-1 period, when determining settlement that companies are given. Ofwat is taking this approach in for the approach water companies take to making voluntary returns in PR19[2].

[2] Pages 9 and 10: www.ofwat.gov.uk/wp-content/uploads/2019/01/PR19-initial-assessment-of-plans-Summary-of-test-area-assessment.pdf

Assessing the total effect of the RIIO-2 proposals

The number of changes in methodology from RIIO-1, including novel elements to calculation of CAPM, adjustment to incentives, introduction of new incentive mechanisms, uncertainty mechanisms, RAMs, etc. has made it very difficult to evaluate the overall effect of the methodology for consumers, investors, and network companies. We note that Ofgem will be issuing a model to enable calculations to be made and we hope that this will aid in developing clarity around the new methodology. This is coming out at the end of March 2019, which is beyond the deadline for the consultation response.

Delivering on an ambitious package

Ofgem has proposed an ambitious package of measures that promises to deliver significant benefits to consumers. It is particularly the case with the cost of capital where our analysis has demonstrated the significant gains which should be made.This level of ambition requires appropriate resourcing to ensure that it can be delivered. . We recognise that staff turnover over time has reduced Ofgem's institutional knowledge from the RIIO-1 policy and determination processes, which we see as highly valuable in these complex negotiations.

Citizens Advice' have also been tracking Ofwat's PR19 process closely and recognise that whilst the enhanced engagement process is very valuable to consumers, it is also resource intensive for the regulator. We anticipate that this will be a significant issue for Ofgem to manage at the time of Business Plan submission in December.

The context for RIIO-2, the period from now to the end of 2020, is challenging as these price controls are are not happening in isolation. There is a huge amount of work happening concurrently including the Targeted Charging Review, review of supplier licensing, future energy retail market review and Codes Review. Ofgem must ensure there is sufficient resource and experience in the RIIO-2 team to deliver on the package, in a demanding wider energy and political context.

Meeting the needs of consumers?

In response to the Framework consultation in 2018 we developed 5 principles[3] which would indicate if RIIO-2 is a success for consumers. We think these are a helpful lens for assessing the sector specific methodology.

1. Profits are lower than the previous price control, to more accurately reflect the relative low risk for investors in this sector.

Ofgem proposes various measures to cap company profits and ensure that, where possible, all financial tools are based on observable data (rather than forecasts, which are more prone to costly errors).

Ofgem has confirmed its plans to use a more evidence-based measure of risk, which we argued for[4]. This is good news — without it companies could unduly benefit to the tune of up to £4.1 billion, at a direct cost to consumers.

We are pleased to see that many of the arguments we have made regarding the equity beta, including in our 2018 *Things can only get beta*[5] report, appear to have been taken on board by Ofgem. A lower equity beta is more reflective of market conditions and should lead to better value for money for consumers.

2. The value of any unspent funding for infrastructure projects is returned to consumers promptly and in full.

Consumers pay for all infrastructure investments made by network companies — over £100 billion in the current price control. Much of this investment is necessary to ensure we can get the energy we need when we need it. However, when companies have deferred these projects or they are no longer required, they've been allowed to keep some funding. This drives up costs for consumers, and the loophole needs to be closed in RIIO-2. Ofgem has

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[3] https://wearecitizensadvice.org.uk/will-ofgems-next-price-control-really-deliver-for-consumers-e9f01c034e35

[4] Our analysis Energy Consumers Missing Billions estimated that energy networks are dut to make £7.5bn of excess profits in

[5] Available: https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-policy-research/things-can-only-get-beta-an-opportunity-to-get-financing-costs-right-for-consumers/

responded to our calls for this vital reform and indicated that companies will no longer be able to profit from this loophole. This is a huge win for consumers.

3: Industry business plans and regulatory decisions are directly informed by consumer (including future consumer) feedback and research.

We are pleased that Ofgem has introduced the enhanced engagement structure into the price control. Energy is an essential service and therefore it’s crucial that consumers’ views are properly reflected in decisions made by the networks they pay for. We are pleased that Ofgem has established a RIIO-2 Challenge Group which Citizens Advice is a member of. This group will provide Ofgem with an assessment of the Business Plans proposed by all energy network companies ahead of RIIO-2. Additionally, all of the network companies have set up independently-chaired Customer Engagement Groups (or User Groups in transmission). These will assess the quality of companies’ stakeholder engagement and how that feedback has been reflected in their business plans.

4: Companies are required to publish complete information on their performance, financial structures, gearing and ownership.

Increasing transparency in a monopoly essential service will help to ensure consumers are getting value for money. At present, the regulatory accounts that companies have to produce don’t provide a complete picture of how firms are operating. Progress on this principle is difficult to judge at this stage, as so much needs to be done before RIIO-2 is in place. However, we think Ofgem is moving in the right direction. Ofgem intends to strengthen annual reporting requirements and assess company performance on parameters including tax and finance. This should provide a more accurate picture of how companies perform under RIIO-2. As the statutory advocate for consumers in energy markets, this will help our assessment of whether companies are delivering an efficient and fair service for consumers.

5: Innovation funding and incentives support consumers in the transition to a low-carbon future, particularly those consumers in vulnerable circumstances.

Future demands on the energy system are hard to predict. For example, smart homes, electric vehicles and the need for increased energy efficiency will all put different demands on our energy networks. It's important that the needs of consumers — particularly those in vulnerable circumstances — are reflected when decisions about the future of energy networks are made.

We think Ofgem is headed in the right direction here, albeit with some concerns about how whole system low carbon thinking is taken into account. Until the incentives package for RIIO-2 is determined, it is not clear how well this test will have been met. Energy network companies are uniquely placed to help consumers in vulnerable circumstances and often have good links with local support services. Ofgem must provide the right incentives and innovation support to encourage further improvements. It is crucial is that consumers are not left behind in the energy transition, simply because of their personal circumstances . We have been working to support Ofgem's thinking on these issues, and recently produced a series of essays to offer ideas for how they can achieve this aim.

We've outlined our general views on incentives in the overarching section section below.

Overarching issues

Incentivising networks to deliver for consumers

Incentives are one of the key ways that the price control can replicate the effect of competitive pressure to innovate in a market. Positive incentive can reward high-performing activities that go above and beyond what would be expected from a company as part of business-as-usual or operational activities. For example, these can reward companies who are demonstrating innovative ways to improve the services that they can provide to customers in fuel poverty.

We think innovation frameworks in RIIO-2 should be rewarding those companies that are trialling projects which have whole system benefits, promote cross-collaboration amongst a variety of third parties who can bring new ideas to the table, and promote shared learning and deployment. The outputs should benefit all energy consumers across the country as we transition to a more flexible energy system.

We would particularly like to stress that it is often those consumers in the most vulnerable circumstances that will be the ones who are most likely to find it difficult to engage with changing technologies and benefits. Similarly, Ofgem should be addressing the risk that the energy transition itself will put some consumers, who are already in vulnerable situations, at a further disadvantage - due to their inability to engage with the changing market. Energy networks should be looking to assess how much more they can do to deliver innovations that support the needs of consumers in vulnerable circumstances and ensure they experience these benefits. Any incentives to companies need to be well calibrated and effectively measured.

Distribution network companies are well placed to help consumers in vulnerable circumstances. Some of the networks are developing good systems to address their needs, and Ofgem needs to provide the right incentives and innovation support to help them do more of this.

Principles of good incentive design

In our report Many Happy Returns[6] we identified principles of good incentives design. We think these are a useful guide for ensuring that incentives in RIIO-2 are in consumers' interest:

1. They should encourage companies to take decisions that are in the long-term interests of their customers: they should be beneficial.
2. They should encourage firms to do things that they would not have done otherwise: they should be additional.
3. They should reward firms with the amount of money required to get them to change their behaviour, but no more than that: they should offer value for money.
4. They should encourage improvements in performance – and not reward standing still. So improvements made by firms in one price control should not be further rewarded in the next. Those improvements should be treated as standard actions going forward: they should be bankable.
5. It must be possible for regulators and third parties to assess performance against clear and objective criteria: they must be measurable.
6. Companies should provide regular updates on their progress towards meeting their incentives measures, to enable appropriate scrutiny from the regulator and third parties, and release of this information and its accessibility should be a criterion on which performance is assessed: there should be regular reporting.

Enhanced stakeholder engagement

There are relatively few questions within the RIIO-2 Sector Specific Methodology consultation which directly request feedback on wider enhanced stakeholder engagement. However, we wished to provide Ofgem with our views on this topic given the central role that consumers and stakeholders play within the price control process. Our comments below on enhanced engagement were also submitted to Ofgem as our response to the 21 December 2018 RIIO-2 Business Plans Draft Guidance Document consultation. We firmly believe that the outcomes for consumers will be considerably enhanced if companies follow best practice stakeholder and consumer engagement practices.

[6] Citizens Advice, 'Many Happy Returns: the consumer impact of price controls in regulated networks', May 2015

Company guidance

We welcome the various proposals for enhanced engagement required by the companies and how these will be evidenced within the Business Plan, including the need for embedding ongoing engagement within Business as Usual (BAU) activities. We believe it will be an essential element, however, for Ofgem to provide further guidance on how Ofgem will be assessing the robustness, appropriateness and quality of the engagement; for example, if Ofgem will be using an assessment framework which evidences best practice in engagement. This guidance would be helpful to the companies, User Groups, the Customer Engagement Groups, and the RIIO-2 Challenge Group. In particular, we would value receiving guidance as to the minimum requirements required so as to identify when a company has 'failed enhanced engagement' given its importance within the BP incentive mechanism. We would welcome clarification on how Ofgem will assess engagement prior to the final RIIO-2 decision in May.

We are aware that the CEGs have started developing their own views of what good engagement looks like. We therefore recommend that Ofgem liaises with the CEGs on this issue to ensure that companies are measured against the same assessment framework.

It may be useful for Ofgem to include requirements for companies to evidence the stakeholder and consumer engagement overall strategy, as well as how the company resolved differences between differing stakeholder/consumer views and the needs of future consumers.

We would welcome detail of how Ofgem will assess the following specific engagement topics:

- Stakeholder mapping and segmentation.
- Overview of methods used.
- Overview of topics that consumers and stakeholders were engaged upon.
- Justification showing why the chosen engagement approach was selected as well as whether the scope was appropriate to the company size.
- Areas of the Business Plan that companies did not seek/use consumer engagement to inform, and why.
- Whether consumers and stakeholders had sufficient time to input into the Business Plan.
- Representativeness of consumers and stakeholders engaged.
- Innovation in engagement.

- How the inclusiveness and the accessibility of the engagement approach was ensured.
- How responsive the company has been to consumer and stakeholder feedback.

Incentives and monitoring of outcomes

For GD, GT and ET companies we support a tight financial incentive to encourage companies to undertake engagement with consumers and stakeholders on longer-term, complex issues. We also support a reputational incentive to prevent the quality and quantity of engagement from slipping back in the absence of a broad financial incentive.

We suggest the incentive should be judged by a standing panel covering the works of gas, electricity, distribution and transmission companies, and drawing members from CEGs, User groups, Stakeholder Groups, as well as new .

Their role could entail holding distribution and transmission companies to account to deliver the engagement strategy they set out in their Business Plan, make companies report on their engagement activities and learnings, and facilitate an open library of consumer research to prevent studies from being duplicated.

Business Plan incentive for quality of engagement

We have noted within the RIIO-2 consultation that Business Plans will be assessed, among other criteria, on the quality of stakeholder engagement. We would welcome further clarity on the weighting that may be applied within the Business Plan incentive for quality of engagement, and further guidance on how this might be assessed, as outlined above.

RIIO-2 Challenge Group

In the Challenge Group's Terms of Reference and Work Plan, there is no specific reference to addressing the regional differences which may lead to different solutions by companies within their Business Plans. We believe that there is value in specifically addressing this issue in the Challenge Group's guidance as an area for review, as regional aspects may result in significant differences in approach and costings between companies' Business Plans.

Customer Engagement Groups

The CEGs are required to send a report to Ofgem outlining how the CEGs will be ensuring their independence from the companies. We would ask that these reports are openly published to facilitate transparency.

In our previous RIIO-2 consultation response, we asked for an evaluation process for CEGs to assess the value of their contribution in developing the Business Plans. We understand that some CEGs are already considering how to evaluate the value of a CEG, however, we would reiterate that all CEGs should be required to assess their value in terms of costs of the CEG, the benefit to the consumer in terms of positive enhancements to the Business Plan, as well as ongoing benefits embedded as a result of the enhanced engagement process.

User Groups

We understand that transmission companies' level of engagement with small business and domestic consumers appears to be inconsistent. However, it is not clear that the User Groups have been given the specific remit to evaluate the quality of the engagement with these consumer groups. As a result of this situation, it appears that User Groups may not have expertise within them to be able to properly evaluate the quality of such engagement, even if so required.

Consideration has been given in the past for the RIIO-2 Challenge Group to undertake an assessment of the quality of the engagement of the transmission companies to fill this gap, however, we do not believe that the RIIO-2 Challenge Group is best placed to undertake this detailed evaluation role.

This gap may leave transmission company business plans informed by consumer research which is not quality assured as much as that of distribution companies.

Evaluation of challenge group model

We would recommend that an evaluation is undertaken by Ofgem of the value of the challenge group model chosen within this current RIIO-2 enhanced engagement process. We believe that a thorough evaluation of the effectiveness of the challenge bodies (CEGs, Challenge Group, and User Groups) would be valuable to inform future price control processes, particularly for the enhanced engagement process that may be used in the forthcoming RIIO-ED2 price control cycle.

Open hearings

There is only a relatively brief amount of information provided within the consultation regarding the open hearing process. We would welcome further clarity as to the operation of the intended hearings including:

- Whether the open hearings will provide space for more stakeholder views and evidence than that provided to the CEGs/User Groups.
- The criteria to be put in place regarding which issues will qualify to be brought to an open hearing in addition to the known criterion of where there is disagreement between the challenge body and the network company.
- How commercially sensitive data might be handled during the open hearing process.
- Whether contributors to hearings should be requested to outline the consumer detriment or benefit of any proposal under discussion, as we suggested in our last consultation response.

Consumer engagement by Ofgem

In our last consultation response, we recommended that Ofgem increases the level of its own consumer engagement. We believe that Ofgem may be better placed to engage with end-user consumers on sector or industry-wide concerns particularly relating to:

- Long-term issues.
- What a consumer would consider is a fair return for a monopoly network company.
- Charging reform.
- Whole system and network solutions.

Environment and Low Carbon

The UK has binding 2050 carbon reduction targets, and the IPCC has indicated that there are only 12 years in which action can be taken to avoid a rise in global temperatures of 1.5℃. It will be necessary for all parts of the energy system to play their part to achieve this, and this price control matters. Failure to take action now will impact future consumers, particularly those on low incomes and in vulnerable circumstances who will suffer the worst impacts of climate change. [7]

Sustainability First is a think-tank promoting practical, sustainable solutions to improve environmental, social and economic well-being. They have raised a number of concerns about the RIIO-2 proposals that we agree are important. Given that the concept for a clearly signalled low carbon incentive[8] has not been taken forward, we are both surprised and concerned that Ofgem hasn't provided a robust alternative to assist energy networks in facilitating and driving the necessary changes needed in our energy sector. This is currently a gap in Ofgem's strategy, and one that must be remedied ahead of RIIO-2.

We agree with Sustainability First that RIIO-1 offered a fragmented patchwork of environmental incentives, leading to weak behaviour and poor reporting. In order for company Business Plans to drive the necessary facilitation in the years ahead, as well as improve their own internal footprint, Ofgem needs to put in place a coherent and ambitious environmental approach. Ofgem needs to ensure that this approach offers a consistent and well-aligned approach across all the network sectors - with clear principles on the environment, sustainability and low-carbon facilitation. Further, as with Sustainability First, we think that annual and well designed environmental impact reporting should be a requirement under the standard licence condition for all sectors (distribution, transmission and system operators), taking lessons from the equivalent in RIIO-ED1. This is something that Ofgem need to work with industry and other well-informed stakeholders and parties to develop.

We are particularly concerned that Ofgem's environmental ambitions for GD2 are too weak. For example, the strategy for encouraging uptake of greener gas is low in ambition (outside of the repex programmes), even in some respects winding back reporting requirements under RIIO-1. If such tools have not had the intended effect, then they should be adapted, not removed entirely. On gas networks' facilitation role in promoting low-carbon heat, especially for people in vulnerable situations, the proposals are lacklustre, with no defined low-regrets pathway. In terms of the internal behaviour (and facilitation role) that Ofgem should be driving in GD2, there are numerous standards and expectations that Ofgem should be exploring, including: defined environmental standards for contractors; sustainable driving training for (and electrification of) vehicle fleets; and staff car sharing. There are likely many more areas that could be covered,

[7] ClimateJust, "Socially vulnerable groups sensitive to climate impacts" https://www.climatejust.org.uk/socially-vulnerable-groups-sensitive-climate-impacts
[8] Sustainability First (2018), A Low Carbon Incentive in RIIO2 https://www.sustainabilityfirst.org.uk/images/publications/other/Sustainability_First_Low_Carbon_Incentive_in_RIIO2_DIscussion_Paper_FINAL_web.pdf

and established disclosure and certification schemes would be a good starting point for designing this part of the package.

In order to assist with Ofgem's overall environmental approach for the networks, Ofgem should work with others to develop best practice guidance (present and future) of how energy networks can facilitate measurable environmental improvements and meet UK's 2050 carbon target, with a key focus on supporting consumers in vulnerable situations through that transition. This should form a core part of Ofgem's vision for a whole system, and one that Ofgem needs to lead on.

In the absence of government guidance, we think there is justification for Ofgem to act on these issues, which is in line with Ofgem's duty to protect future consumers (as well as current consumers).

RIIO-2 is the key time to rectify these and other shortcomings from RIIO-1, ensuring a greater level of ambition from our energy networks.

Cross-sector questions

Output categories questions

CSQ1. Do you have any view on our proposed approach for considering the extent to which a successful appeal has consequences, if any, on other components of the price control?

We would welcome more information on how you would see this process working.

Price controls involve trade-offs, and stakeholders, including the networks themselves, may be willing to accept some aspects they dislike in return for others that they approve of. The current appeals mechanism somewhat frustrates that rounded consideration as it does enable appellants to cherry-pick individual components of the settlement for dispute. The appellant effectively sets the boundaries of the appeal - which matters are disputed - and it is not clear that Ofgem could defend the merits of an appealed component of the package that the appellant argues is too tough by pointing out that there are non-appealed components that appear to be more generous. There is therefore a risk that appellants, who are inherently likely to be networks given the financial implications of price control settlements, dispute those parts of the settlement that they dislike while 'banking' the parts that they do like. This may create asymmetric risk and perverse incentives to appeal.

In paragraph 2.20 this risk appears to be acknowledged, and sets out a view that it may be necessary to adjust non-appealed elements of a price control settlement in the event of a successful appeal of other parts, in order 'to maintain a coherent regulatory settlement.'

We fully support the desire to remove or mitigate the risk of cherry-picked appeals undermining the integrity of the price control settlement, but are not clear on how it could be delivered within the current regulatory framework. The appeals framework is ex post, and is intended to come at the end of the policy development process, when the regulatory decision is otherwise final. There may therefore be significant timing implications around allowing the reopening of other parts of the settlement following a successful appeal - most notably that it may mean that the price control settlement is still being negotiated during the period when it is supposed to be 'live'. More broadly, the CMA's powers in relation to an upheld (or partially upheld) appeal do not appear to be ones that Ofgem can fetter. While the CMA has powers to remit a decision back to Ofgem with instructions for its reconsideration, which could potentially allow Ofgem to consider matters in the round, it can also simply overwrite Ofgem's decision with its own, which would not. If Ofgem then sought to amend other parts of the price control settlement to counter-balance the CMA's decision, that may call into question whether it is abiding by it or is acting in a manner that is ultra vires.

We note that the CMA recently wrote to the government suggesting that reforms to the appeals regime are needed,[9] but it is not yet clear what form they will take and whether there is government appetite to take them forward.

CSQ2. Do you agree with our proposed three new output categories?
We support the three new output categories proposed for RIIO-2 as we believe that they have consumers' needs at their heart, including the needs of consumers in vulnerable circumstances.

CSQ3. Are there any other outcomes currently not captured within the three output categories which we should consider including?

We would like to have seen more focus on environmental and low carbon outcomes - please see the general points section above.

CSQ4. Do you agree with our proposed overarching framework for licence obligations, price control deliverables and output delivery incentives?

Yes, we agree with the proposed overarching framework.

CSQ5. Do you agree with our proposals to introduce dynamic and relative incentives, where appropriate? Are there any additional considerations not captured in our proposed framework which you think we should take into account?
Yes, we support the use of dynamic and relative incentives to allow for changing circumstances during the RIIO-2 period and to ensure that incentives remain

[9] 'Letter from Andrew Tyrie to the Secretary of State for Business, Energy and Industrial Strategy,' 25 February 2019.

challenging. It is recognised that the use of dynamic and relative incentives may be less useful where comparable performance measures are less available.

These should still be good incentives. We've outlined our principles for good incentive design above.

CSQ6. Do you agree with our proposals to allow network operators to propose bespoke outputs, in collaboration with their User Groups/ Customer Challenge Groups?

Yes, we agree with the proposal to allow network operators to propose bespoke outputs in collaboration with their User Groups/Customer Challenge Groups. We believe that these bespoke outputs should only be proposed where they reflect the key areas of focus of consumers supported by robust consumer engagement evidence.

CSQ7. When assessing proposals for bespoke financial ODIs, are there any additional considerations not captured which we should be taking into account?

The extent and measurement of any financial rewards for bespoke ODIs should be robustly evidenced via appropriate consumer engagement.

Enabling whole system solutions questions

CSQ8. Do you feel we have defined the problem correctly?

See our response to CSQ9, and we refer to our consultation response to Ofgem's Whole Systems consultation[10]. We'd prefer a broader definition that facilitates our ability to meet 2050 carbon targets.

CSQ9. What views do you have on our proposed approach to adopt a narrow focus for whole systems in the RIIO-2 price control, as set out above?

We think that a narrow focus, as proposed by Ofgem within Chapter 5, is restrictive to the development of future whole system solutions. In our previous

10 https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/Energy%20Consultation%20responses/Citizens%20Advice%20response%20to%20Ofgem%20Whole%20Systems%20licence%20conditions%20-%20February%202019.pdf

consultation response, we noted that the whole system approach should include not only the energy system (gas and electricity networks) but also incorporate other aspects including the electrification of heat, and the take-up of EVs and natural gas vehicles. By not including such elements, the development of efficient and flexible systems may be hindered, ultimately to the cost of the consumer. It should be noted that the industry within the Open Networks Project has embraced a much wider whole systems approach. Their 2018 review points to their prior year focus upon electricity and how their 2019 focus will widen to incorporate gas, heat, transport, and waste[11].

At 8.27, the proposed new innovation funding to meet Energy System Transition (EST) challenges points to a wider whole system focus potentially involving the future of heat, waste, and transport. This innovation funding wide focus appears to contradict the narrower whole system view within Chapter 5. We believe that a wider whole systems view is in keeping with the industry's progress, the requirement to meet 2050 carbon reduction targets, and the needs of consumers in the future.

Incentive mechanisms must ensure that innovation and whole systems collaboration are enabled within RIIO-2 and particular attention needs to be applied to the mechanisms for the ESO and electricity transmission companies given their responsibilities to facilitate transition processes (for example, Demand Side Response).

CSQ10. Where might there be benefits through adopting a broader scope for some mechanisms? Please provide evidence.

No response provided.

CSQ11. Do you have reasons and evidence to support or reject any of the possible mechanisms outlined in this chapter? Do you have views on how they should be designed to protect the interests of consumers?

The range of expected evidence (at 5.20) that companies would need to provide under the whole system benefits section focuses upon evidencing planning, processes, consideration of whole systems solutions, and evidence of long-term whole systems thinking. Similarly, incentives are being considered to encourage cost-effective coordination between companies. Incentives based on these factors may reward planning and ideas, however, actual whole systems

[11] Open Networks Project 2018 Review, Energy Networks Association, p7

outcomes should be the ultimate performance measure for any incentive mechanism relating to whole systems. Therefore, rewarding the planning and coordination phase may be suitable, in small part, however, the larger part of any incentive should reflect real world progress in delivering a whole systems solution which may only emerge at a later date during the RIIO-2 period. It is recommended to target a reward structure that incentivises rapid and real solutions.

A discretionary funding mechanism (5.38) or coordinated reopeners (5.36) are welcome mechanisms to undertake newly emerging solutions or to reward rapidly introduced and successful whole systems solutions.

We think Ofgem should consider the sharing of any unexpected gains with consumers. For instance, whole system changes may result in substantial savings to be made by networks, and rewards should be shared/returned to customers. Ofwat have looked favourably upon those water companies that had some mechanisms to benefit consumers with shared rewards[12] .

Questions CSQ12 - 18

No response provided

Asset resilience questions

CSQ19 - 25 .

No response provided

CSQ26. Do you have any views on ring-fencing of certain projects and activities with separate funding and PCDs? Do you have any views on the type of project or activity that might be ring-fenced for these purposes?

One of the persistent issues we have highlighted with RIIO-1 is that it doesn't have a formal mechanism for returning the value of unspent funding for infrastructure projects. Consequently, when companies have deferred these projects or dropped them altogether, they have been allowed to retain this

12 www.ofwat.gov.uk/wp-content/uploads/2019/01/PR19-initial-assessment-of-plans-Summary-of-test-area-assessment.pdf

funding. This drives up costs for consumers, and is a loophole that we highlighted in our set of principles produced last year.

We are pleased to see that Ofgem is considering ring-fencing certain projects and activities in RIIO-2, and are generally in support of this change which should lead to the delivery of greater value for money. Ring-fencing appropriate items with separate funding and price control deliverables (PCDs) should go some way to meeting our second principle, that the value of any unspent funding for infrastructure projects be returned to consumers promptly and in full.

Workforce resilience question

CSQ27. Where companies include a sustainable workforce strategy as part of their Business Plans, what measures do you think could be established to hold companies to account for delivering these plans, without distorting optimal resourcing decisions?

We support the inclusion of a sustainable workforce strategy within company's BPs. We believe that a number of measures could be used to hold companies to account for delivery including targets or measures relating to:

- Numbers of new recruits trained/apprenticed.
- Diversity.
- Collaboration with other companies.
- Timescale commitment with planned recruitment numbers measurable at certain milestone dates.
- Retention and turnover of workforce.

Physical security questions

CSQ28. Do you agree with maintaining the existing scope of costs that fall under Physical Security, ie costs associated with the PSUP works mandated by government? Please explain your reasons and suggest alternative definitions you believe should be considered.

We support the maintenance of the existing scope of costs falling under Physical Security.

CSQ29. Do you agree with our proposed approach of ex ante allowances for PSUP works mandated by government? Please explain your reasons and suggest alternative approaches you believe should be considered.

Yes, we agree with this approach.

CSQ30. Do you agree with our proposal to include a reopener mechanism to deal with costs associated with changes in investment required due to government mandated changes to the PSUP?

We agree that a reopener mechanism appears to be a reasonable approach to any unexpected changes in costs that may be necessary (either upwards or downwards) during the RIIO-2 period. Given the shorter (five year) period, a reopener at the half-way stage appears reasonable.

CSQ31. We would also welcome views on the frequency that is required for any reopener, e.g. should there be one window for applications during RIIO-2 and, if so, when?

No response provided .

Cyber resilience questions

CSQ32. Do you agree with the scope of costs that are proposed to fall under cyber resilience, i.e. costs for cyber resilience which are (1) incurred as a direct result of the introduction of the NIS Regulations, and (2) above 'business-as-usual' activities? Please explain your reasons and suggest further or alternative costs you believe should be considered.

We agree with the scope of costs that are proposed. We welcome the protection for consumers in only permitting costs that are necessary and above business as usual.

CSQ33. Do you agree with our proposed approach of ex ante 'use-it or lose-it' allowances? Please explain your reasons and suggest alternative approaches you believe should be considered.

We support the proposed approach of using 'use-it or lose-it' allowances to ensure that companies do not benefit at consumers' expense where planned cyber security works are not carried out.

CSQ34. Do you agree with our proposal to include a re-opener mechanism for cyber resilience costs? Please also provide your views on the design of the reopener mechanism.

We agree with the proposal to include a re-opener mechanism for cyber security given the possibility of a changing regulatory or risk landscape necessitating additional work. We support the monitoring of delivery of these investments to ensure that only proportionate and appropriate measures are being put in place.

Managing uncertainty

CSQ35. Do you have any views on our proposed factors to consider in deciding on appropriate input price indices? Do you have any evidence justifying the need for RPEs and any initial views on appropriate price indices?

We support the move to using real world prices indices wherever possible, so as to avoid forecasting risk. We point to our publication 'Energy Consumers' Missing Billions'[13] which highlighted the risks associated with forecasting price movements and the highly detrimental impact that this has had on consumers' bills amounting to many billions of pounds in unjust enrichment to the energy network companies. We ask that the recommendations relating to using real market price and risk data be incorporated fully within the RIIO-2 methodology, including a mechanism to ensure that any unjust enrichment be returned to consumers.

CSQ36. Do you agree with our initial views to retain notional cost structures in RIIO-2, where this is an option?

Yes, we agree with this.

CSQ37. Do you agree with our initial views to update allowances for RPEs annually and to include a forecast of RPEs in allowances? Do you have any other comments on the implementation of RPE indexation?

No response provided.

[13] Energy Consumers' Missing Billions, Citizens Advice, July 2017

Ongoing efficiency questions

CSQ38. Do you agree with our proposal to use the EU KLEMS dataset to assess UK productivity trends? What other sources of evidence could we use?

No response provided.

Managing the risk of asset stranding questions

CSQ39. Do you think there is a need for a utilisation incentive at the sectoral level? If so, how do you think the incentive would operate coherently with the proposed RIIO-2 price control framework for that sector?

No response provided.

CSQ40. Do you have any views on our direction of travel with regard to anticipatory investment?

We support the use of separate mechanisms to consider single higher risk or more speculative investment projects; a specific methodology will allow potentially valuable (to consumers) investments to proceed where their additional cost and risk profiles would otherwise result in such investments not progressing. It would be useful to ask companies to provide information not only on the costs and benefits of a highly anticipatory investment but also on the various risks that they perceive this investment has, which has resulted or may result in any additional costs.

We further welcome the move to a higher hurdles testing regime for anticipatory investment including the use of probabilistic cost benefit analysis (CBA) using multiple forecast scenarios. Anticipatory investments that become stranded assets represent an unnecessary cost burden to the consumer and a tougher test regime is welcomed.

We support the intention to establish a body similar to the Energy Networks Strategy Group (ENSG), to assist in the evaluation of highly anticipatory investments and welcome the intention that Ofgem will have the approval for any such investment. We would welcome a high degree of membership of the evaluation body to be represented by experts beyond industry insiders.

It would be useful to have further guidelines from Ofgem on what constitutes an anticipatory or highly anticipatory investment, and the risks underpinning them, to better understand the scenarios when each type of mechanism would be triggered. It may be that this guidance will only follow from further consideration by Ofgem in combination with the proposed body which is intended to be used to assist in evaluating these types of anticipatory investments.

CSQ41. What type of projects may be appropriate for a risk-sharing approach?

A risk-sharing approach may be appropriate for anticipatory investments as it should encourage the company to submit realistic risks, costs, benefits, and investment forecasts.

CSQ42. How can we best facilitate risk-sharing approaches for high-value anticipatory investments?

No response provided.

CSQ43. How can we guard against network companies proposing risk-sharing arrangements for project they may have undertaken as business as usual?

A clear and well defined set of guidelines for such investments would be useful to assist in identifying when risk-sharing is appropriate. It would be appropriate for any such investments where risk-sharing is proposed to be subject to the scrutiny of the body similar to the ENSG which could evaluate whether the project is truly beyond business as usual. Ofgem should have the final approval of any risk-sharing projects.

Innovation questions

We welcome the potential to involve more third parties in enabling new business models and technological solutions and that they should be able to access direct funds from Ofgem for these purposes. We believe that there will be a need to ensure that network companies provide data access to third parties, where necessary, to enable innovation. There may also be the requirement for network companies to permit third parties to connect to their infrastructure to test new products and services. The access to data and infrastructure connection may require firm Ofgem guidance or legislative underpinning.

CSQ44. Do you agree with our proposals to encourage more innovation as BAU?

We are in agreement with the proposals for more innovation to be undertaken as business as usual. Continuous improvement and innovation should be part of any company's activities and built into business as usual. In addition, as consumers are funding the innovation projects through their bills, we agree that lower-risk operational and maintenance projects should be undertaken by companies internally and through the totex mechanism. We agree that consumer engagement and challenge groups are a useful mechanism to scrutinise innovation proposals as part of a company's Business Plan, but Ofgem should look to ensure that the outputs are easily interpretable and consistent across companies.

CSQ45. Do you agree with our proposals to remove the IRM for RIIO-2?

We have previously argued that the IRM should only be used in cases where without it the innovation in the future would not be realised[14]. Given the evidence of limited successful applications, and the focus on establishing more innovation activities as usual, we agree that the use of the IRM in the Innovation framework becomes more redundant.

CSQ46. Do you agree with our proposals to introduce a new network innovation funding pot, in place of the Network Innovation Competition, that will have a sharper focus on strategic energy system transition challenges?

We support the proposals to focus innovation projects on wider strategic challenges and interlinkages with other areas of the energy system, and thus agree with the principles behind a new innovation funding pot. We are also supportive of efforts to limit duplication between funded projects and other public sources of funding. Flexibility with design and accessing this funding pot is welcomed to ensure that innovations that may emerge during the RIIO-2 process become funded. We also welcome the proposals to work with external stakeholders such as BEIS, UK Research and innovation, network companies and third parties in defining the system transition innovation challenges.

[14] Citizens Advice (2015), 'Consultation on the assessment of benefits from the roll-out of proven innovations from the Innovation Roll-out mechanism',

If introduced, we agree that the funding pot should seek to increase the involvement of third-parties within the innovation framework, as this could provide additional benefits for consumers through, for example, reduced costs, the speed of delivery of innovation and technological solutions and the additional expertise that could be provided in particular areas such as research. We believe that the application framework should allow for clear demonstration of collaboration with third parties. However, we are uncertain at this stage as to whether there should be a requirement for successful bids to have demonstrated third-party collaboration, as the evidence of the benefits to date in RIIO-1 is limited.

We would argue, however, that there needs to be a greater emphasis placed in RIIO-2 on developing innovations that support consumers in vulnerable circumstances. There is a lack of clarity within the consultation document as to how these innovations would fit within the Innovation framework, and whether they would form part of the strategic challenges associated with the new funding pot or projects associated with the NIA. Although the system challenges are still to be defined, we would argue that the scoring criteria for projects should include the option for demonstrating how projects have supported, or will benefit, consumers in vulnerable circumstances.

As highlighted in our previous RIIO-2 consultation response, we believe that care should be taken to ensure that wider system challenge issues also encompass the behavioural, psychological or financial constraints that could impact on the uptake and/or willingness to use new technologies and energy efficiency measures, as noted to date in areas relating to electric vehicle trials.

CSQ47. Do you have any views on our proposals for raising innovation funds?

We note the proposal to raise funds for the new innovation funding pot through the Use of System charges as per the current Network Innovation Competition and whether electricity innovation funds should be raised through BSUoS charges. The document also highlights that although it is expected that funded projects would likely be of a similar scale to those of the NIC, that the maximum level of, and frequency of funding would would still need to be determined.

We would note however that any increase in funding- and consequent increase in UoS charges- would likely indirectly benefit IDNOs/IGTs in their relative price control mechanism, even if the values would be small when distributed across all users. Therefore we would encourage Ofgem to consider how IDNOs/IGTs can be integrated further within the innovation framework funding mechanisms.

CSQ48. Do you think there is a continued need for the NIA within RIIO-2? In consultation responses, we would welcome information about what projects NIA may be used to fund, why these could not be funded through totex allowances and what the benefits of these projects would be.

We broadly agree with the proposals in that the shift in focus towards wider strategic innovation challenges in the framework would reduce the need for the Network Innovation Allowance. We also agree that operational and maintenance projects and those that could be considered as business as usual should not be funded through this funding mechanism but through Totex allowances. However, given the lack of evidence as to the benefits and shortcomings of the NIA in RIIO-1 we cannot give a firm view on whether we believe the mechanism should be removed. Given that most third party engagement on projects to date has been through the NIA, if removed, Ofgem would need to ensure that the appropriate frameworks could be developed to enable increased third party engagement through the new innovation funding pot.

CSQ49. If we were to retain the NIA, what measures could be introduced to better track the benefits delivered?

If maintained, we also believe that the gap in evaluation and learning from previous projects could be addressed through projects such as the Network Innovation Framework currently being developed by Energy Innovation Centre which could help to standardise and concisely evaluate a range of outputs from various innovation projects.

CSQ50. Do you agree with our proposals for electricity distribution companies prior to the commencement of RIIO-ED2?

We welcome the proposal that the electricity DNOs, which are subject to RIIO-1 price control until 2023 should be collaborating in innovation with the network companies under RIIO-2. The ability to achieve whole system outcomes and wider GB energy system benefits will be contingent on effective cross collaboration on projects between network companies.

Competition questions

Competition is welcome and we want to see Ofgem use competition more to drive better value for consumer for high value projects. We note that primary legislation is needed to enable Ofgem to progress a full competition approach.

The benefits (savings to consumers) of running a competition for a particular project should outway the costs of administering the competition. Our assessment, based on the potential cost and savings ranges in the consultation document, shows that in some cases the benefits of competition model may not outweigh the savings. The table below shows the overall potential savings based on the cost of competition (as a percentage of Capex) and the anticipated reduction in project cost.

	Pessimistic view	Central view		Optimistic view
	High cost low saving	High cost high saving	Low cost low saving	Low cost high saving
CATO	8.2%	12.2%	14.8%	18.8%
SPV	-6.8%	8.2%	-0.2%	14.8%
CPM	-0.8%	1.2%	5.8%	7.8%

One size does not fit all. The approach taken for each project needs to be proportionate and practicable. For example, if the system need dictates urgency a shorter more practical procurement method might be more appropriate.

System needs change over time. It's not clear how projects tendered under an 'early model' will be re-assessed to ensure they are still required ahead of delivery.

We question the threshold of £100m as 'high value' for gas and electricity distribution, which seems too high. If this were to remain in place for these sectors it is reasonable to assume that no projects would meet the criteria.

CSQ51 - 63.

No response provided.

CSQ64. What views do you have on an approach where totex allowances would be based on costs revealed through competition, with a margin or fee for the competition-running entity?

See response to CSQ77 below.

CSQ65. Do you think the ESO could have a role to play in facilitating competition in the gas sectors?

Yes. As a legally separated entity the ESO would be well placed to facilitate competition in the gas sectors.

Business Plan and totex incentives questions

CSQ66. What are your views on our proposed approach to establishing a Business Plan incentive?

We believe that a Business Plan incentive is a useful mechanism to encourage good Business Plan outcomes. It will be important for companies to have clear guidelines to demonstrate a highly stretching Business Plan. A relative advantage of the Business Plan incentive is its simplicity compared with other potential models.

"Enhanced engagement" is key to the Business Plan but at present Ofgem has not defined what good enhanced engagement looks like. In PR19 Ofwat has set out high level views of what good engagement is and we would like to see Ofgem do this and go further is possible. Ofgem need to be clearer how they assess the "quality" of the Business Plan. The cost assessment methodology is very clear. Ofgem needs to define what goes into the "quality" assessment and how much weight each element of that quality assessment is given.

At present we also see a risk that the bar for a "poor" Business Plan is low and that it will be easy for companies to avoid penalties

CSQ67 & 68

No response provided.

CSQ69. What should be the range for the Business Plan reward/penalty? Is the range of ±2% of totex equivalent appropriate for incentivising high quality and ambitious Business Plan submissions (e.g. Value or Good Value)?

The proposed range seems reasonable and in principle proportionate (subject to understanding the overall impact of the final incentives package) , and we would expect to see persuasive evidence should Ofgem consider it necessary to alter it ahead of RIIO-2. Similarly, we don't support moving from the proposed 'shared' nature of the 2% reward. If Ofgem were to move to a more guaranteed incentive range, then it should consider introducing a 'checks and balances' process to ensure that the promises are being delivered in RIIO-2, part way through the price control. If a company cannot evidence that they have delivered in line with their plan, then they should not receive the associated benefit.

CSQ70. Do you agree with our assessment of the IQI? (If not please provide your reasons). Do you agree with our proposal to remove the IQI?

We agree and think Ofgem is right to remove the IQI. the intentions behind the IQI were sound, but it's ability to deliver didn't materialise, so it's good that Ofgem are reworking the method this time around.

CSQ71. Do you have views on the effectiveness of the blended sharing factors approach and in particular the incentive it provides on companies to submit more rigorous totex submissions?

Although there are merits to the proposed blended sharing factors approach, we do not see these as a perfect solution. For certain standalone items (typically when large and expensive), tendering should be encouraged (i.e. introducing competition and working outside of the sharing factor). This approach will reduce information asymmetry, drive down costs and improve efficiency - all objectives of the blended approach. Naturally, Ofgem would need to develop a system to ensure liabilities for projects delivered by third parties are clear (and workable) both in the delivery phase but also for enduring maintenance.

We look forward to seeing further detail from Ofgem regarding how these proposals will work, but are pleased that the unnecessarily high sharing factors allowed under RIIO-1 appear to be being brought into much more reasonable territory.

CSQ72-74.

No responses provided.

CSQ75. Do you have any views on whether the proposed Business Plan incentive coupled with the blended sharing factor will drive the right behaviours?

We think it is too early to say, and want to see more detail about how the Business Plan incentive will be judged.

CSQ76. What views do you have on our assessment of the sharing factor ranges?
We welcome sharing factors as an incentive to promote real efficiencies. However we recognise that companies may underspend their allowance without having benefited consumers through cost efficiencies or infrastructural improvements; this would unjustly enrich companies at consumers' expense. A reduction in the sharing factor to a range between 15% to 50% should have the effect of diminishing unjust returns.

CSQ77. Are there any other factors that you think we should take into account in the design of sharing factors?
We have a concern that the blended sharing factor (and other mechanisms proposed for RIIO-2) are sometimes over-reliant on the assumption that companies will overperform. Given the possibility that the blended sharing factor leads to a high sharing rate on the side of consumers, it is not clear how Ofgem seeks to mitigate this risk should a company actually underperform (by overspending on their totex allowance). Regardless of the baselined level of confidence, the spending decisions are ultimately in the hands of the network companies, and consumers should not pay disproportionately more where a company has not kept to agreed costs. Ofgem needs to provide more consumer protections in case of this outcome, however unlikely it seems today.

CSQ78. Do you have any evidence on the scope for productivity improvements in the different sectors?

No response provided.

CSQ79. Do you have views on whether adjustments to sharing factor levels after the price control is set are desirable or necessary?
There are advantages and disadvantages to this suggestion. Consumers may benefit from this proposal as totex allowances and returns should be more fairly set reducing the likelihood of unjust enrichment. However, should Ofgem choose to incorporate an adjustment mechanism of this sort, it needs to be completely clear about the circumstances in which it might be applied. Further, if Ofgem do ultimately decide to implement such a mid-flight change, the weight of evidence for needing to do so should be transparent and persuasive.

CSQ80 - CSQ81.

No response provided.

CSQ82. Do you agree with our comparative assessment of RAMs set out in Table 18 in Appendix 4?

We think this assessment is reasonable.

CSQ83. Do you agree with our proposal not to give further consideration to using discretionary adjustments?

We support the proposal to not give further consideration to use discretionary adjustments.

CSQ84 - 85

No response provided.

CSQ86. Do you agree with our proposal we should not adjust companies downward if they perform below their base cost of equity or upwards if they perform above their base cost of equity?

We do not agree where this protects investors. Our view is that investors must genuinely have their money at risk in order to be properly incentivised to outperform.

CSQ87. Would a return adjustment threshold of ±300bps RoRE achieve a good balance between providing scope for companies to outperform and ensuring return levels are fair?

Given the precedent set by RIIO-1, we think that this seems a reasonable approach.

CSQ88. What are your views on the proposed use of RoRE as a return adjustment metric? Would it be suitable for the gas and electricity transmission sectors and the gas distribution sector?

Return on regulated equity (RoRE) seems a sensible metric to use in this case, however, we would encourage publishing a range of RoRE metrics alongside that used by Ofgem in their assessment.

CSQ89-90

No response provided.

RIIO-2 Achieving a reasonable balance

CSQ91-93.

No response provided.

CSQ94. Do you agree with our consideration of the risks facing these companies? Do you think the measures we are proposing will mitigate these risks? Does the expected level of return indicated by our proposals reflect these risks?

Our view is that the risk faced by companies is lower than Ofgem have indicated. In addition to our comments elsewhere regarding the equity beta and CoD, there are some other relevant factors to take into account. Unlike RIIO-1, the proposals for RIIO-2 provide two failsafe mechanisms that will provide some new protection for debt investors (namely the cashflow floor and RAMs).

Additional, moving to CPIH will likely reduce forecasting risk, as it is statistically less volatile than RPI. Further, plans to automatically update the CoE for changes in the risk-free rate (rather than forecasting it) will protect investors from unduly low forecasts or large increases in interest rates during (or in anticipation of) an economic recovery. Finally, for GD, the ratios of totex to RAV (or to RAV depreciation) are in decline. With expenditure (totex) likely to be a smaller proportion of both size (as measured by RAV) and income (as measured by RAV depreciation), these indicate greater protection for company returns and cashflows.

CSQ95. Have we achieved a reasonable balance with our proposals in seeking to achieve an accurate price control with return adjustment mechanisms only being used as a failsafe? Should we instead have a simpler price control and put more reliance on return adjustment mechanisms?

In our view, the use of RAMs should be exceptional, we would prefer the price control to be optimised as this is in the best interests of consumers, both in terms of realistic costs but also in terms of providing certainty.

CSQ96. Have we achieved a reasonable balance in our proposals in considering return adjustment mechanisms alongside the expected-allowed return wedge? Should we instead only rely on one mechanism? What additional value would this bring?

See CSQ95 above.

CSQ97. Have we got the right focus on the areas that are of most value to consumers?

We have outlined five key areas which we think are key for consumers in our five principles, we have detailed these in our Executive Summary. We think Ofgem have broadly got this right. But, we are concerned about the way that environmental issues and low carbon ambitions are tackled by the proposals and would like to see more focus on this.

CSQ98. Are we proposing a methodology that allows us to achieve a reasonable balance between the interests of different consumer groups, including between the generality of consumer and those groups that are poorly served/most vulnerable? Are we missing any group?

Overall we are pleased with the balance between different consumer groups, the emphasis on achieving a lower cost of capital in line with real market data will benefit consumers now and in the future.

But, we are concerned that the current methodology potentially disadvantages future energy consumers who may have to endure higher costs to decarbonise the network because of lack of action in the RIIO-2 period. Please see our Executive Summary for our views on this issue.

The gas distribution methodology rightly puts a strong focus on consumers in vulnerable circumstances. They will see additional protection with the introduction of a principles-based licence condition, an enhanced Guaranteed Standard 3, a reputational incentive around vulnerability and the use-it or lose-it allowance. Off-gas customers will be supported through the Fuel Poor Network Extension Scheme. However, the generality of consumers is also served well by the GD methodology through the complaints metrics, the Guaranteed Standards, and the emergency response licence conditions. Across GD, GT and ET, all consumers benefit from the continued use of customer satisfaction surveys, continued focus on enhanced engagement, and incentives to reduce interruptions.

However, the current definition of vulnerability will come under pressure in the face of ongoing changes in the energy system. Ofgem and the network companies need to consider the distributional impacts of the smart and low carbon energy changes in terms of people's ability to participate and access new products and services, and where the benefits and costs fall. This is relevant in electricity, for example, in relation to the network charging review, and in gas if the gas network starts to play a declining role and fewer users pick up an increasing bill over time.

Ofgem should work with the energy networks and other stakeholders within this and the future price control period to build a full inventory of the emerging ways that future markets and systems might generate unfairness and leave consumers behind in the energy transition.

In addition, we would ask Ofgem and network companies not to take too narrow a view of the definition of vulnerability so as not to miss any relevant group. In some instances, it may be appropriate to equate customers in vulnerable circumstances to the PSR, however, the PSR may not fully reflect every vulnerability and may not capture transient vulnerabilities. We have further addressed these issues within GDQ5.

CSQ99. Are we proposing a methodology that allows us to achieve a reasonable balance between the interests of existing and future consumers? Preliminary impact assessment questions

Broadly yes, but we are concerned about the way that environmental issues and low carbon ambitions are tackled by the proposals and would like to see more focus on this (see Executive Summary).

CSQ100. What are your views on the approach we are proposing for assessing impact of our RIIO-2 proposals?

We are supportive of Ofgem's approach but we would appreciate Ofgem sharing the model it uses to assess the impact so we can see the combined effect of the incentive packages.

CSQ101-103.

No response provided.

Finance questions

Cost of debt questions

FQ1. Do you support our proposal to retain full indexation as the methodology for setting cost of debt allowances?
Yes we support this. We have long supported the full indexation of debt allowances, as this ensures that expectations are transparently benchmarkable and that companies are incentivised to seek the most efficient bond and loan debt.

FQ2. Do you agree with our proposal to not share debt out-or-underperformance within each year?
We are sympathetic to the considerable difficulties in calculating true cost of debt performance, in part due to the problems associated with analysing sometimes complex derivative portfolios as well as intra-company loans.

We are strongly of the opinion that consumers should always be protected where companies have poorly managed their debt. In line with this, we consider it essential that Ofgem force the owners of the two outliers (the two companies with distinctly poor debt portfolios) to take advantage of the current low interest rate environment to restructure their debt portfolios. This would enable the balance of companies to outperform on their debt, enabling Ofgem to shift the benchmark to a more ambitious level (both in terms of credit ratings and debt indexation) in RIIO-3. Forcing these companies to improve their debt portfolios should be a key priority for Ofgem ahead of RIIO-2, given the significant long term benefits that it would deliver to consumers.

FQ3. Do you have any views on the next steps outlined in Finance annex paragraphs 2.22 to 2.25 for assessing the appropriateness of expected cost of debt allowances for full indexation?
At present, most of the network companies can outperform their debt allowances, especially with the use of bank loans, intra-company loans, credit facilities and finance leases. However, for two of the network companies, due to past decisions made around raising debt, their debt portfolios are in a distinctly poor state. In order for Ofgem to be able to set a suitable CoD allowance across

the sector, these two outliers must improve their position significantly. This will enable Ofgem to reduce the index in RIIO-3.

FQ4. Do you have a preference, or any relevant evidence, regarding the options for deflating the nominal iBoxx as discussed in Finance annex paragraph 2.14? Are there other options that you think we should consider?

No response provided.

Risk-free rate questions

FQ5. Do you agree with our proposal to index the cost of equity to the risk-free rate only (the first option presented in the March consultation)?

In principle yes, we support indexation where it can be sensibly achieved as we stated in our response to the framework consultation.

FQ6. Do you agree with using the 20-year real zero coupon gilt rate (Bank of England database series IUDLRZC) for the risk-free rate?

We support this approach in principle.

FQ7. Do you agree with using the October month average of the Bank of England database series IUDLRZC to set the risk-free rate ahead of each financial year?

No response provided.

FQ8. Do you agree with our proposal to derive CPIH real from RPI-linked gilts by adding an expected RPI-CPIH wedge?

We do not have any objections to this proposal.

TMR questions

FQ9. Do you have any views on our assessment of the issues stakeholders raised with us regarding outturn inflation, expected inflation, and the calculation of arithmetic uplift (from geometric returns)?

We note Ofgem’s view (para 3.80) that the long run outturn may be upwardly biased, indicating that the TMR assumption of 6.25% to 6.75% (real CPIH) (para 3.84) may be generous.

We are uneasy with Ofgem's implicit acceptance of the assertion that a long run TMR is always the most appropriate approach. The economy has experienced distinct economic phases since 1901, some of considerable duration (see *Figure 1* below, from CEPA's 2018 review of Ofgem's RIIO-2 CoC ranges). For example, if the long run average was applied in 1990 then this would be irreconcilable with the environment at the time. The current climate is considerably different to a century ago, and using a more appropriate (shorter run) TMR will lead to a more suitable metric. In our view, there is no evidence to support the approach of starting the data series at 1901, or indeed anytime before 1945.

When setting final determinations in December 2020, we would encourage Ofgem to look at supplementing outturn TMR values up to 2019 with a simulation of expected returns for years 2020-2023. Providing Ofgem were mindful of any risks that this approach might introduce, this could be a useful way of combining outturn TMR data with various expectations of TMR for the additional 4 years. If the focus for RIIO-2 is on long run averages, then arguably the relevant period should run until 2023.

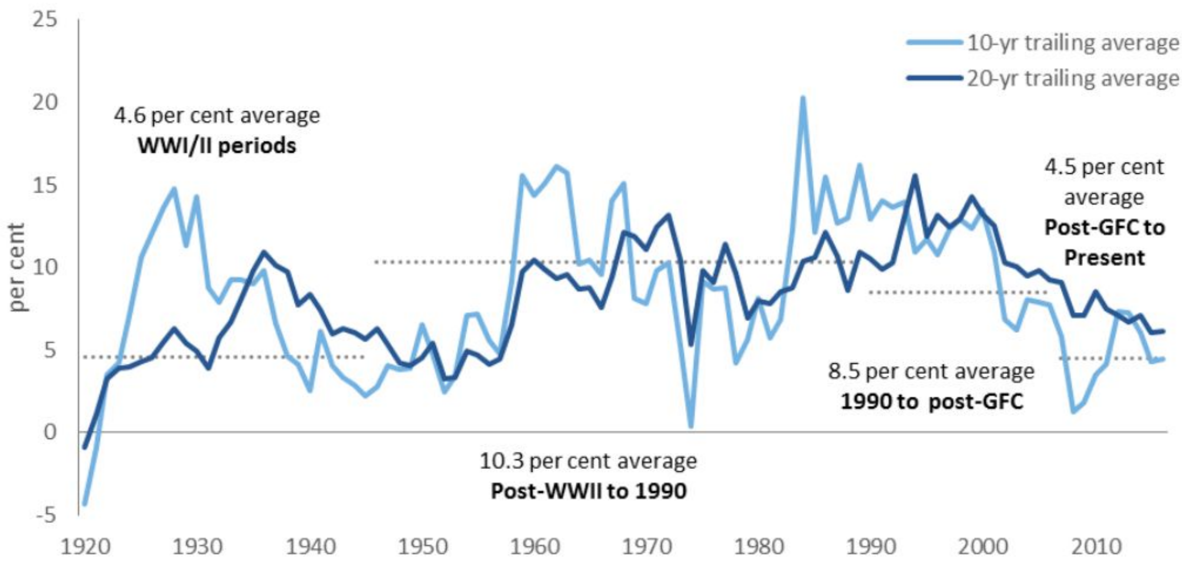

Figure 1 - Historical real equity market returns in the UK (graph from CEPA[15])

[15] CEPA, 2018. CEPA analysis of Credit Suisse Global Investment Returns Yearbook 2017. Available (page 105): https://www.ofgem.gov.uk/system/files/docs/2018/03/cepa_report_on_baseline_allowed_returns_for_riio-2.pdf.

FQ10. Do you have any views on our interpretation of the UKRN Study regarding the TMR of 6-7% in CPI terms and our 6.25% to 6.75% CPIH real working assumption range based on the range of evidence?
We agree with Ofgem's interpretation, which appears to be internally consistent.

FQ11. Do you have any views on our reconciliation of the UKRN Study to previous advice received on TMR as outlined at Finance annex appendix 2?
No response provided.

Equity beta questions

FQ12. Do you have any views on our assessment of the issues that stakeholders raised regarding beta estimation, including the consideration of: all UK outturn data, different data frequencies, long-run sample periods, advanced econometric techniques, degearing and re-gearing, and the focus on UK companies?

We agree with Ofgem's assessment of the arguments from NERA and Oxera, and we note Ofgem's consideration of our points.

FQ13. What is your view on Dr Robertson's report? & FQ14. What is your view on Indepen's report?
We were pleased to see that both reports extended the analysis beyond the two pure-play companies (Severn Trent and United Utilities), which is a more appropriate approach. We note that both reports indicate that caution is needed when using any high frequency OLS estimates.

FQ15. What is your view of the proposed Ofgem approach with respect to beta?

Based upon the available evidence, we would strongly encourage Ofgem to stick to the lowest end of the stated range (para 3.109), if they are not willing to move lower than this. Market data (e.g. National Grid returns) indicates that 0.5-0.6 would be a more appropriate assumption. Similarly, the Indepen report recommendation is slightly below Ofgem's working assumption of a raw beta range of 0.6-0.7.

Further, we consider Ofgem's re-gearing adjustment to be generous. Firstly, market data is more reliable and relevant than relying on the method of de-gearing and re-gearing. Secondly, even if this latter method is applied by Ofgem, the effect is not as great as Ofgem present as actual gearing is higher than the assumed 50.8% and notional gearing arguably could be lower than current levels.

FQ16. Do you agree with our proposal to cross-check CAPM in this way?
See FQ18 below

FQ17. Do you agree that the cross-checks support the CAPM-implied range and lend support that the range can be narrowed to 4-5% on a CPIH basis?
See FQ18 below

FQ18. Are there other cross-checks that we should consider? If so, do you have a proposed approach?
To supplement the proposed cross-checks, we recommend Ofgem refer to the license applications in Northern Ireland, by companies who sought to extend the gas networks there ('Gas to the West'). As part of its 2014 gas license application, Scotia Gas Networks (SGN) set out a range for its cost of capital (proposing a figure at the low end of the range) based in part on a (post tax) cost of equity of 5.6%[16]. For RIIO-2, the SGN application can be interpreted in the following way. Firstly, the risk-free rate should be updated to the latest advice from Oxera (to the Energy Networks Association), reflecting changes in the 5 years since SGN's submission. Based on that advice, the rate should be reduced from 1.25% to -0.5%[17]. Secondly, to interpret the SGN application in a RIIO-2 context (in SGN's view the Northern Ireland project carries a higher risk profile than gas distribution in mainland Great Britain), the asset beta should be revised downwards. Accounting for SGN's view, the asset beta used in SGN's application (0.43) should be replaced with the asset beta from the GD1 settlement (which

[16] See pages 154 and 199 (Oxera's backup workings) of Scotia Gas Networks in partnership with Mutual Energy, 2014. Low Pressure Operational Business Plan. Available: https://www.uregni.gov.uk/sites/uregni.gov.uk/files/media-files/2014-08-12_4_SGN_LP_Operational_Plan_and_Appendices.pdf
[17] See the low end of the range (page 6) of Oxera, 2018 (February). The Cost of Equity for RIIO-2. Available: https://www.oxera.com/wp-content/uploads/2018/07/ENA-cost-of-equity_2018-02-28.pdf.pdf#page=10

Oxera list as 0.32). Combining these adjustments, a (post-tax) cost of equity for SGN of 2.5% (RPI real) is implied[18].

NERA's advice to the utility regulator (July 2014) is also relevant, in presenting a cost of equity of 5.5% on a pre-tax RPI real basis (low end of the range)[19]. Using the Oxera approach to adjusting for tax costs (by first converting real values into nominal values and then accounting for tax), the NERA cost of equity would be equivalent to 3.82% on a post-tax basis[20]. Therefore we note (depending on the conversion method from pre-tax to post-tax) NERA's estimation is either:

a) 3.82%, and thus 11 basis points below the high end (3.93%) of Ofgem's CAPM-implied range (using Oxera approach to tax); or
b) 4.40%, and thus 58 basis points above the high end (3.82%) of Ofgem's CAPM-implied range (using NERA approach to tax).

Expected and allowed return questions

FQ19. Do you agree with our proposal to distinguish between allowed returns and expected returns as proposed in Step 3?
We are sympathetic to Ofgem's view that investors expect companies to outperform on costs and outputs in RIIO-2, and that this compels them to consider decreasing the baseline cost of equity allowance to reflect this. At the least, we would like to see a more formal approach for landing at the proposed 0.5% adjustment. This will aid duplication of such a mechanism for RIIO-3, and ensure that the drivers and justification for such an adjustment are completely clear and measurable. We are supportive of the rationale behind this proposal, but consider it to lack robustness in its currently proposed form.

Additionally, as the low point of the CAPM-implied range could be materially lower than that proposed by Ofgem (as set out in our answer to FQ18 above), Ofgem's proposed offset of 0.5% could be viewed as overly-cautious, especially given that it fundamentally does not reflect the actual past outperformance levels of about 3% in RIIO-1. We note that this possibility of significant

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[18] This interpretation holds the other elements of SGN's application constant (Equity Risk Premium of 5.25%, gearing of 55% and a debt beta of 0.1)
[19] See NERA, 2014. Gas to the West, A Report for the Utility Regulator. Available: https://www.uregni.gov.uk/sites/uregni.gov.uk/files/media-files/NERA_-_Gas_to_West_Advice_on_Financial_Costs.pdf
[20] Using the tax rate stated by NERA (20%) and an RPI inflation assumption (3%)

outperformance is implicitly supported by National Grid's Chief Executive, who said in September 2018[21]:

> "...where is the outperformance going to come from? I'm very confident we've got the capability and the organisation... ...to be able to identify those opportunities. And let's not forget as well technology is always moving forward, and therefore technology also offers a great opportunity for us to outperform in delivering the output."

Finally, we consider it important to emphasise that whilst this proposed expected to allowed returns offset may be considered necessary by Ofgem in order to safeguard against its mistakes from RIIO-1, there is a wider issue at play here. That issue is the sustained and pervasive operational outperformance that has been allowed under RIIO-1. This is an error that must be remedied partly in the design of the incentive schemes, specifically by updating them to reflect the ongoing reality, rather than leaving targets unchanged over a price control (as in RIIO-1).

FQ20. Does Finance annex appendix 4 accurately capture the reported outperformance of price controls?

No response provided.

FQ21. Is there any other outperformance information that we should consider? We welcome information from stakeholders in light of any gaps or issues with the reported outperformance as per Finance annex appendix 4.

We welcome Ofgem's intention to integrate greater transparency by expecting the licensees to publish their dividend policies and disclose more information on executive pay. On the latter, we consider it sensible to also request information on bonus pay and other incentives offered to company executives and leading staff where they have a material impact on the performance or outputs of a company. These can have a key impact on how well the price control is delivering value for consumers, and should be considered by Ofgem as part of the overall incentives package.

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[21] See page 44 of National Grid, 2018. UK Investor Teach-In. Available: https://investors.nationalgrid.com/~/media/Files/N/National-Grid-IR-V2/seminar-centre/2018/World%20TV%20-%20National%20Grid%20-%20UK%20Investor%20Teach-In%20-%2021-09-18.pdf

Financeability questions

FQ22. What is your view on our proposed approach to assessing financeability? How should Ofgem approach quantitative and qualitative aspects of the financeability assessment? In your view, what are the relevant quantitative and qualitative aspects?

As demonstrated in Table 12 of Ofgem's Finance Annex (and para 3.109), converting raw equity beta values into notional values relies heavily on:

a) the assumption that risk and gearing are positively correlated; and
b) the estimation of:
    i) Actual gearing.
    ii) Notional gearing.
    iii) Debt beta.

An issue here is that, as presented, actual gearing estimations are based on book values of debt rather than market values. We are of the view that market values should be used instead, in line with views of academics and practitioners [22]. To accept that risk is based on book values implies that borrowing via derivatives or leases (or other off-balance-sheet items) does not have any impact on the risk profile of the borrower. Clearly that is not the case. Similarly, mortgage lenders assess risk based on market value (not book value). Residential mortgages are not obtained based on a past property price purchase value, but rather the current market price (i.e. the value of the property today).

Whilst the CoD is based on book values, CoE is, by definition, a decision-making tool. In Ofgem's own view the CoE should be based on *expectations*. Therefore, to ensure consistency, the underlying values for gearing should (where used to adjust the equity beta) be based on market values. Furthermore, a methodology that uses market values for market capitalisation and raw equity beta, but book values for debt, is internally inconsistent.

[22] See: Damodaran, A., 2002. In Investment Valuation (2nd ed., p. 50). Wiley;
Brealey, R., Myers, S., & Marcus, A., 2014. In Fundamentals of Corporate Finance (8th ed., p. 405). McGraw-Hill; and
Brealey, R., Myers, S., & Allen, F., 2017. In Principles of Corporate Finance (12th ed., p. 446). McGraw-Hill.

This issue is particularly relevant in the current low interest rate environment. Contrastingly, when the Monopoly and Mergers Commission set a precedent in 1993 by using book value of debt in its gearing definition, that was at a time when the difference between book and market values was not as great as they are now.

As noted below in our answer to FQ33, using a lower notional gearing in RIIO-2 (of 55% compared with 60%) would:

a) Relieve pressure on financial ratios.
b) Be more consistent with measures of actual gearing of listed companies.

FQ23. Do you agree with the possible measures companies could take for addressing financeability? Are there any additional measures we should consider?

No response provided.

FQ24. Do you agree with the objectives and principles set out for the design of a cashflow floor?

Citizens Advice is sympathetic to the objectives of the cashflow floor mechanism, and supports the idea in principle. However, we would like to see more detail from Ofgem about how it would function, following this consultation. In addition we think the cashflow floor needs to be able to demonstrate that overall the balance of risk in in favour of consumers.

We do consider it as a positive (in terms of risk) for debt issuers, as well as a potential benefit to consumers due to the avoidance of arbitrarily increased CoE used to address possible financeability concerns. Critically, it needs to be mechanistic, rigorous and enduring, so that it leads to improved ratings with ratings agencies. Ofgem should work with the latter to ensure that this is achieved.

FQ25. Do you support our inclusion of and focus on Variant 3 of the cashflow floor as most likely to meet the main objectives?

Question not answered.

FQ26. Do you support our proposal that companies should seek to obtain the "Fair Tax Mark" certification?
We are strongly supportive of of the Fair Tax Mark. We note that SSEN have achieved this on a voluntary basis, we think this is a very positive development and welcome SSEN doing this. Given that other companies have not done the same, we expect Ofgem to do more than simply encourage other networks to follow suit, for example, by making it easy for them to become accredited. Ofgem should then publicly name companies who do not sign up ahead of RIIO-2. Whilst the Mark is not currently available to companies owned outside the UK, Fair Tax Mark Ltd intends to issue (within the next two years) accreditation to companies that are non-UK owned. Therefore, we consider accreditation to be a reasonable expectation for all networks ahead of RIIO-2.

Further to this, we do think that Ofgem needs to work with Fair Tax Mark Ltd to develop how it assesses network companies. They are a unique type of business, and their assessment will need to be developed, in order to ensure that accreditation is genuinely reflective of good practice and that it delivers what is needed.

FQ27-28.

No response provided.

RAV indexation (CPIH) questions

FQ29. What is your view on our proposal for an immediate switch to CPIH from the beginning of RIIO-2 for the purposes of RAV indexation and calculation of allowed return?

As we responded in the 2018 framework consultation , this is the ONS's preferred measure, and so we think this measure should be used.

FQ30. Is there a better way to secure NPV-neutrality in light of the difficulties we identify with a true-up?
No response provided.

Regulatory depreciation question

FQ31. Do you have any specific views or evidence relating to useful economic lives of network assets that may impact the assessment of appropriate depreciation rates?
We appreciate that the economic lives of network assets are mainly (gas transition being the exception) in a transitional phase to bring them into line with expected economic lives. We support this principle and consider that the current changes should be given time to complete before being re-examined.

Capitalisation rates question

FQ32. Do you agree with our proposed approach to consider capitalisation rates following receipt of company Business Plans?
No response provided.

Notional gearing question

FQ33. Do you have any comments on the working assumption for notional gearing of 60%, or on the underlying issues we identify above?
We note that Ofgem's current working assumption (in advance of receiving Business Plans) is that a notional gearing value of 60% will be set for both RIIO-GD2 and T2. Gearing is used in Ofgem's CAPM equation in two ways. Firstly, it is used in setting betas, as part of the de-gearing and re-gearing process. Secondly, it is used as a component in the WACC, which is what this answer focuses on.

Citizens Advice considers that a lower level of notional gearing, such as 55%, would have various benefits. With low CoE resulting from contemporary spot observations and high CoD resulting from the historical trailing average of the index, traditional relationships (where lower gearing would mean a higher WACC) have been reversed. Therefore, lower gearing in RIIO-2 would:

1. Relieve pressure on financial ratios.
2. Be more consistent with measures of actual gearing of listed companies.

Notional equity issuance costs question

FQ34. Do you agree with our proposed approach to consider notional equity issuance costs in light of RIIO-2 Business Plans and notional gearing?
No response provided.

Pension funding question

FQ35. Do you agree that for RIIO-2 we align transmission and gas distribution with electricity distribution and treat Admin and PPF costs as part of totex?

No response provided.

Directly Remunerated Services question

FQ36. Do you have any views on the categories of Directly Remunerated Services and their proposed treatment for RIIO-2?
No response provided.

Disposal of assets question

FQ37. Do you have any views on the potential treatment of financial proceeds or fair value transfers of asset (including land) disposals for RIIO-2?
No response provided.

Electricity system operator questions

ESO roles and principles questions

ESOQ1. Do you agree with our proposal to maintain the current roles and principles framework for RIIO-2?
We agree with Ofgem's proposal to maintain the current roles and principles framework for the ESO for RIIO-2. However, they need to be be reviewed and, if necessary, updated on a regular basis. The views of the ESO's stakeholders should be sought on any changes to the roles and principles, and the ESO RIIO-2 Stakeholder Group and Performance Panel should be able to recommend changes to the roles and principles.

ESOQ2. Do you agree with our proposals to keep the ESO's code administration, EMR delivery body, data administration, and revenue collection functions in place for RIIO-2? Do you believe that any of these functions (or any other functions) should be opened up to competition, either now or in future?
Code Administrator: The ESO's code administration function has been lagging behind other code administrators for example, in stakeholder satisfaction. We recognise that satisfaction levels have been increasing[23] and the ESO has been making concerted efforts to improve the service they provide to industry and stakeholders. There is now more resource available to industry and we note that this is slowly making a difference to the experience stakeholders have with the codes. We believe that it is not the right time to remove the code administration function from the ESO. Therefore, we agree with Ofgem's proposal for the ESO to maintain this function. This does not mean that the ESO should retain this function indefinitely, and should sustained below-standard levels be evident then Ofgem should revisit this decision and open it up for competition.

EMR Delivery Body: We agree with Ofgem's assessment that there is no compelling case to support opening up the ESO's delivery body function up to competition, and, therefore, we agree that this should remain an ESO function.

[23] See Code Administrators Survey 2018. Available: https://www.ofgem.gov.uk/system/files/docs/2018/10/code_administrators_survey_2018_-_report_final.pdf

However, as per our reflections on the code administrator function, the ESO should not retain this role indefinitely without sufficient challenge.

Data administration and information provision, revenue collection and pass-through: We agree with Ofgem's assessment that there is no strong evidence to support opening up the ESO's delivery body function up to competition. We note that there is no obvious candidate to take on these roles, and doing so may add further unnecessary costs and administration.

ESOQ3. Do you consider the ESO is best-placed to run early and late competitions?
The ESO is now structured as an asset-light service organisation and will be legally separate from National Grid TO on 1st April 2019. In our view, the ESO is better set up to run early competitions and not late competitions. A late competition model could trigger the need for additional resource.

Price control process questions

ESOQ4. Do you agree with our proposal to move to a two-year Business Planning cycled price control process for the ESO? If not, please outline your preferred alternative, noting any key features (e.g. uncertainty mechanisms or re-openers) that should be included.
We agree with Ofgem's proposal to move to a two-year Business Planning cycle for the ESO. We note that this will run for two cycles before evaluation. We agree with this because it is important that the ESO maintains focus on the relevant issues at the right time and is able to adjust quickly to external demands.

We also agree that this proposal should be reassessed after 2 cycles. This proposal has the potential to place increased demands and burdens on the ESO, Ofgem and other industry stakeholders from a reporting and monitoring perspective.

ESOQ5. What stakeholder engagement mechanisms should be put in place for the ESO's Business Planning and ongoing scrutiny of its performance? Do you agree with our proposal to maintain, and build upon, the role of the Performance Panel?
We refer to our overarching comments on Enhanced Engagement within the

introduction section above to our response which also apply to the ESO. Stakeholder engagement for the ESO should not only include its traditional stakeholders but we believe that there should be effective engagement with end consumers. Company stakeholders may have different priorities and perspectives from end consumers and the ESO will need to demonstrate that they have captured these different viewpoints and explain how they have reconciled or selected a particular viewport to reach decisions for the Business Plan.

Additionally, the Performance Panel is currently chaired by Ofgem. To maintain sufficient independence, Ofgem should seek to appoint an independent Chair as soon as possible, ideally before April 2021.

ESO output and incentives questions

ESOQ6. Do you agree with our proposed approach of using evaluative, ex-post incentives arrangements for the ESO?

No response provided.

ESOQ7. Do you agree that we should continue to apply a single 'pot' of incentives to the ESO, and that this should be a symmetrical positive/negative amount? If not, why not?

We support this proposal. A single pot of incentives allows the ESO to flex based on consumer benefit and stakeholder feedback.

ESO cost assessment questions

ESOQ8. Do you agree with our proposed approach to assessing the costs of the ESO under RIIO-2? Do you think we should assess costs on an activity-by-activity basis? How would you go about defining the activity categories? Are there alternative approaches we should consider?

We support the proposed approach to assessing the costs of the ESO. It is appropriate to assess costs on an activity-by-activity basis.

ESOQ9. Do you consider the types of cost assessment activities we outline in this chapter are the right ones? Are there additional activities you think we should consider?

We agree with the assessment activities outlined. We have not identified any additional activities.

ESO finance questions

ESOQ10. Do you agree with our proposed remuneration model for the ESO under RIIO-2? Do you think it provides the right incentives for the ESO to deliver value for money for consumers and the energy system? Are there other models you think are better suited?

It is appropriate for the ESO to be remunerated differently from other companies. The ESO is now an asset-light service company and the funding model should reflect that. We recognise that the proposed remuneration model tries to balance the need for ESO to be confident to spend money where it needs to be spent to facilitate the transition to a low-carbon energy system and we support this. However, we note that the proposed remuneration model does not explicitly incentivise the ESO to be efficient, and therefore we would support an incentive which has the aim of placing downward pressure on costs.

ESOQ11. Are there any risks associated with our proposed remuneration model that you do not think have been effectively captured and addressed? Do you think that we should put in place any of the mechanisms intended to provide additional security to the ESO outlined in this chapter – e.g. parent company guarantee, insurance premium, industry escrow or capital facility?

No response provided.

ESOQ12. Do you agree with our proposal relating to remove the cost sharing factor? Can you foresee any unintended consequences in doing so, and how could these be mitigated?

No response provided.

ESOQ13. Do you agree with our proposal to introduce a cost disallowance mechanism for demonstrably inefficient costs? What criteria should we apply in considering what constitutes 'demonstrably inefficient'?

We agree with the proposal to introduce a cost disallowance mechanism for demonstrably inefficient costs.

ESO innovation questions

ESOQ14. Do you agree with our proposals to retain an innovation stimulus for the ESO, but tailor aspects of this innovation stimulus to take account of the nature of the ESO business?

Yes. We agree that it is appropriate to continue to provide an innovation stimulus for the ESO which needs to be tailored from the wider RIIO-2 approach. We support Ofgem's preferred option 3.

ESOQ15. What ESO-specific issues should we consider in the design of the ESO innovation stimulus package?

No response provided.

Gas distribution questions

GD: Meet the needs of consumers and network users

GDQ1. What are your views on the overall outputs package considered for this output category?

No response provided.

Consumer vulnerability

GDQ5. What activities beyond those outlined in paragraph 3.12 should we consider when defining the role of the network companies in supporting consumers in vulnerable situations?

Gas distribution networks interact with consumers in vulnerable situations every day. They also impact a lot of people with vulnerabilities that might not be their direct customer through, for example, the street works they undertake. As responsible businesses they need to take account of, provide extra help to, and try to mitigate the impact of their actions on consumers in vulnerable situations. We welcome the debate Ofgem is starting in this consultation about the remit of GDNs in this regard. This will help guide companies' vulnerability strategies and criteria for the use-it or lose-it allowance.

Though we agree the activities Ofgem lists under 3.12 in the consultation[24], we believe some points need clarification and others need adding to, as we believe GDNs should have a wider remit than Ofgem envisaged.

[24]Ofgem, RIIO-2 Sector Specific Methodology Annex: Gas (2019) "We think that the GDNs' role in addressing vulnerability should be related to their existing areas of competence, activity, and consumer interaction. For example, we think that the GDNs should:

- Assist vulnerable consumers during **outages.**
- Recognise and take proactive measures to address vulnerability when responding to **emergencies.**
- Provide subsidised **connections** to fuel poor households.
- Recognise and appropriately take into account vulnerability through their **customer service** functions.
- Identify consumers in vulnerable situations and offer them some **additional assistance free of charge.**"

- **Consider vulnerabilities in decisions around asset investment, resilience and the Repex programme.** This strikes us as a key omission in Ofgem's thinking on the GDNs' remit and biggest area of development for GDNs. When companies conduct cost benefit analyses, plan the future of their network, and prioritise their workload, we would like them to consider how they can either bring benefits to or mitigate the impacts on different groups in vulnerable situations. For example, in planning their Repex work, they could prioritise areas with more PSR customers that would benefit from the increase in reliability that plastic pipes bring sooner rather than later.
- **Appropriately consider and mitigate the impact of street works and construction sites on citizens in vulnerable circumstances**, such as those with visual impairments and mobility issues who may struggle to navigate their usual paths if they have been disrupted by a gas networks' works.
- **Facilitate gas consumers finding sources of help.** Gas network companies have contact with gas consumers every day. They frequently visit people's homes through their mains replacement programme and emergency responses. This point of contact is an opportunity for GDNs to provide help directly or facilitate contact with other organisations who can. In our upcoming letter to Ofgem on the Vulnerability Strategy we are calling for distribution networks to build stronger referral networks to ensure more people get the help they need. At minimum, this should include referrals for energy efficiency measures and boiler replacements, energy saving and tariff advice. For people who are likely to be in fuel poverty it should also include income maximisation advice, such as benefits checks.
- In order for companies to fulfil their function of providing "subsidised connections to fuel poor households", we outline under GDQ12 that we do think that it should be in a GDN's remit to **fund first time heating systems**. It would be undesirable for a household willing to get a gas connection to be left in fuel poverty because of lack of funding for heating equipment. We therefore support GDNs providing funding for first time heating equipment if they are unable to find any other source of funding (see GDQ12 for more details).

That said, we believe the role of GDNs and any other actor in the energy system is constantly evolving. Consumer vulnerabilities and needs are ever changing. The outcomes of the joint Ofgem/BEIS review of the energy retail market, could result in a review of the role of networks. After the current version of ECO finishes, it is possible that BEIS could decide to give distribution networks a greater role in delivering energy efficiency programmes.

We are also open to hearing further views from GDNs on what they think their remit is in helping their consumers in vulnerable circumstances. They would have conducted a lot of customer research in the run up to GD2 and see on a daily basis the unmet needs of consumers. Any activities in this space would have to be backed up by consumer research, ensure that activities are not unduly duplicated, and consider whether GDNs are well placed to deliver.

Finally, we'd like to appeal to Ofgem and GDNs not to take a too narrow definition of vulnerability. In some instances it may be appropriate to equate customers in vulnerable circumstances to those on the PSR, but a) the PSR will never be complete not least because vulnerability is transient, and b) depending on the issue, different people can be considered vulnerable. For example, the groups particularly vulnerable to CO poisoning are different to the ones most vulnerable during a supply outage. Therefore the target groups of certain activities need to be constantly reassessed.

GDQ6. Can you provide any evidence that shows how the boundary we have set out for the networks' role in consumer vulnerability could impact the benefits received by consumers in vulnerable situations?
No response provided.

Consumer vulnerability minimum standard

We welcome Ofgem's proposal to introduce a principles-based licence obligation (LO) which will require GDNs to "identify and understand the characteristics, circumstances and needs of consumers in vulnerable situations" and "ensure that their actions are resulting in consumers in vulnerable situations being treated fairly, and that the GDNs' actions result in good outcomes for their consumers in vulnerable situations". Citizens Advice proposed this during one of the GD2 Customer and Social working groups on the basis that the current licence obligations on gas networks are weak and outdated in relation to consumers in vulnerable circumstances. A principles-based LO should go a long way to embedding support for customers in vulnerable circumstances, whilst leaving GDNs the freedom to develop best practice.

We further hope that the LO will remove the postcode lottery around the provision of help for consumers in vulnerable circumstances. As much as regionality and network-specific customer research may lead to differences between GDNs' service provision, we are keen to ensure that all consumers receive a consistently good, minimum level of service. A recent report from Citizens Advice Scotland[25] showed that this is not the case amongst DNOs. WPD invests multiple times more money and reaches many more consumers than its Scottish counterparts, for example. We are concerned that similar discrepancies may exist amongst GDNs with each of them offering different services, referrals and funding. We would like to see the reputational incentive described below used to shed light on the extent to which this postcode lottery exists.

From the early experience of principles-based regulation in the supplier space we can already see that it has taken suppliers beyond thinking of vulnerability primarily in relation to delivering PSR and the Warm Home Discount, and has incentivised things like Energy UK's guidance on supporting customers with mental health conditions and the formation of the Vulnerability Commission. Ofgem has already investigated some companies and implemented provisional orders on the back of the principles.

In its sector-specific decision document we expect Ofgem to provide details on what the LO will actually say, and how it intends to monitor and enforce performance against it. Ofgem has more sources of information about performance in the retail market and we would assume that reports of breaches via third parties are more likely. A different approach may be needed for the gas networks which could involve more self-reporting and possibly link to the reputational incentive below. Specifically, it would be useful to understand what kind of evidence Ofgem would accept from networks to show that they are compliant. One such data source will have to be the performance against Guaranteed Standard 3 (provision of alternative heating and cooking facilities to PSR customers during an outage) which at the moment is wanting. We propose below that the reputation incentive could help in this. We are keen to work with Ofgem to develop the details around this licence obligation.

25 https://www.cas.org.uk/system/files/publications/cas_pylons_pipes_and_people_energy_networks_in_scotland_august_2018.pdf

Consumer vulnerability reputational incentives

We support a reputational ODI to highlight strong and weak performance from GDNs in how they serve consumers in vulnerable circumstances during the price control. Reporting and evaluation of actions for those consumers have been neglected during GD1 whereas they were a focus for the DNOs as part of their SECV incentive. Further, with the removal of the Discretionary Reward Scheme, GDNs do not have a strong financial incentive which would push them to excel in this area throughout the price control. Looking forward to ED-2, we could see what we describe below work for DNOs and GDNs combined if the SECV is to be reformed.

We envisage that this reputational incentive would require reporting and monitoring of the following elements at a minimum:

- Companies' activities to meet their principles-based LO around consumers in vulnerable circumstances (above). This would be especially useful since the LO is newly introduced, and Ofgem has relatively fewer sources of information to monitor performance against it.
- Learnings and evaluations of projects paid for under the use-it or lose-it allowance.
- Learnings and evaluations of referral networks
- Learnings and evaluations of innovation projects related to customer service.

Picking up on our concern around any potential postcode lottery in service provision for people in vulnerable situations above, we see this incentive as instrumental in not just driving "the best to do even better" but to share ideas and best practice to ensure "the laggards catch up".

Ofgem staff have voiced the idea of the CEGs playing a continued role in a reputational incentive on vulnerability. We have mixed views on this. Indeed, the members of the CEGs would have come to know their respective companies well and can judge to what extent a company is stretching itself to do more in this space. However, as mentioned below related to stakeholder engagement, consider that the CEGs were recruited to perform a specific function for a limited amount of time, and not all have a background in vulnerability. Secondly, consider that most energy networks have established Stakeholder Groups which also challenge them on various topics.

We would therefore support an arrangement whereby an expert panel of people judges companies' activities around customers in vulnerable situations - not dissimilar from the current process around SEI and DRS. This panel could include CEG and Stakeholder Group members who are familiar with the companies' engagement activities and are willing to join the panel. The panel would need to be topped up by further experts, Ofgem and other stakeholder representatives. This is essential to get fresh eyes to look at companies' activities and to alleviate any concerns around capture of CEG / Stakeholder Group members. Ideally, that panel would stay relatively constant in makeup over the price control period.

To make performance and learnings around consumers in vulnerable situations more transparent and public - after all there are many organisations working in this space - we would be supportive of holding an annual event where companies present on their activities and learnings, and where the judging panel shares insights gained from comparing across GDN (and potentially DNO) activity.

We would be keen to work with Ofgem on developing a possible assessment framework that should guide this reputational incentive. Several CEGs have also developed ideas in this area that would be useful to learn from.

Consumer vulnerability and carbon monoxide safety awareness use-it or lose-it allowance

We do believe that GDNs need further funding to go beyond the minimum requirements of the licence obligation. With the removal of the DRS, something needs to replace it.

Our concern with the proposed use-it or lose-it allowance approach was that companies may not be very ambitious in achieving the best consumer outcomes if they receive money via an allowance instead of having to compete against others for an incentive. However, we do see the benefits of a regime which allows companies to collaborate and share learning in this area by removing the competitive element. To push companies to deliver ambitious, high quality projects, we believe it's important that:

- Ofgem sets out some criteria or parameters for the types of initiatives that GDNs could get funding for through the allowance. What constitutes BAU and what does it mean to go beyond?
- Ofgem is rigorous in its assessment of applications for the allowance, to ensure that companies are putting forward projects that are well founded

in research and experience, deliver positive consumer outcomes, are value for money, and are informed by customer research and need.
- Ofgem makes it a condition that projects are evaluated and that part of the allowance is linked to the delivery of outcomes. That means if a company does not deliver the outcomes they promised, they do not receive their full allowance.
- The reputational incentive (described above) is used to share learnings and evaluations of projects.

Picking up on our concern around a potential postcode lottery in service provision for people in vulnerable situations above, Ofgem has a key role when assessing which projects are taken forward by which GDN in ensuring that across the country, consumers receive a consistent level of support.

Carbon Monoxide awareness

We agree that GDNs are well placed to deliver Carbon Monoxide (CO) awareness activities given their local footprint in a community and daily customer interaction. We see this as being part of their social and ethical responsibility. We would therefore welcome for CO activities to be a PCD within the allowance. However, the portion of the allowance that can be spent on CO activities should be limited and set in consideration of a) the number of poisonings and deaths that result from CO, and b) each GDNs’ stakeholder and customer appetite for these activities.

Innovation funding

In our opinion, the allowance should be used on projects which use relatively proven solutions and interventions. We would welcome if innovation funding could be used by GDNs to deliver projects around vulnerability. Real innovation will involve failures and we fear that GDNs will not spend their own money on projects which are uncertain and deliver consumer benefits rather than monetary efficiency savings for the company. Innovation funding should be spent on projects which are uncertain as to their outcomes, are conceptual or exploratory, or only deliver customer and consumer outcomes in an indirect way (for example, testing new data sources, or developing new technology).

GDQ7. What is your preference on the two approaches we have outlined to implement the allowance, and why?

While there are advantages and disadvantages to using both the Flexible Strategy and the Fixed on Business Plans (Options 1 and 2), we would prefer the flexible approach, which allows companies to come up with initiatives throughout the 5 year price control. We fear that fixing initiatives now would mean that good ideas and partnerships that emerge during the price control period, in a more collaborative regime, would not be implemented. It may also mean that emerging customer research and insight could not be acted upon flexibly.

We welcome the return to consumers of funds where the outcomes attached to the funding are not met.

GDQ8. What examples can you provide of initiatives that could be funded through the allowance, and please explain why these activities would not go ahead without specific price control funding?

No response provided.

GDQ9. What is your preference on the three potential options we have outlined for a consumer vulnerability package, and why?

We support Option 3, the Combined Package, as it offers the widest combination of incentives and minimum standards to potentially drive improvements in services for consumers in vulnerable situations. We think there is a risk that under Option 1 Enhanced Minimum, activities in this area would stagnate or even decline, as no incentive nor allowance would exist to go above the minimum required activities. With Option 2 we think there is a risk that the Business Plan incentive would not provide enough financial incentive to get companies to deliver additional benefits to consumers throughout the price control. As we argued above, we believe additional financial resource to be spent on consumers in vulnerable situations is justified and with the right monitoring and reporting mechanisms will deliver substantial benefits.

Fuel Poor Network Extension Scheme

Across Great Britain over 1 in 10 households are in fuel poverty, meaning they can't afford the energy needed to keep their home warm.[26] In England, where

[26] Note, methodologies and definitions of fuel poverty vary. We used figures from the NEA. https://www.nea.org.uk/about-nea/fuel-poverty-statistics/

around 11% of homes are in fuel poverty, the average fuel poverty gap (the amount a household would need to adequately heat their home) is £326.[27]

Heating with gas tends to be cheaper than electricity. According to a recent BEIS report: "Households in dwellings not connected to the gas grid have an average fuel poverty gap almost twice as large as those households connected to the gas grid."[28]

However, when gas is burned, it produces CO2. Though this is less than if we burn coal or heating oils, around a fifth of the UK's greenhouse gases come from burning gas for domestic heating and hot water. As a result, the Committee on Climate Change has called for no new homes to be connected to the gas grid from 2025.[29]

There is currently no vision nor guidance from the UK government on what should be the heating and cooking fuels and technologies of a low carbon future.

Our position on the FPNES and further below on questions relating to energy efficiency reflects this context.

We are supportive of the FPNES continuing during RIIO-2 and it being a PCD with company specific targets and penalties for non-delivery against targets. It is still a cost-effective solution to lift households out of fuel poverty.[30] Our support is based on the condition that the targeting rate (currently estimated to be at 30%) is improved and reported against. These connections for fuel poor homes are cross-subsidised by all gas bill payers. To achieve the best value for money, and increase the impact of the scheme by lifting people out of fuel poverty, better targeting is vital.

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[27] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/719106/Fuel_Poverty_Statistics_Report_2018.pdf

[28] Page 29, BEIS ANNUAL FUEL POVERTY STATISTICS REPORT, 2018 (2016 DATA) https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/719106/Fuel_Poverty_Statistics_Report_2018.pdf

[29] UK housing: Fit for the future? (2019) Committee on Climate Change https://www.theccc.org.uk/publication/uk-housing-fit-for-the-future/

[30] Options for the Fuel Poor Network Extension Scheme in RIIO-GD2 (2018) https://www.ofgem.gov.uk/ofgem-publications/145146

However, a gas connection is just one of many things that can help a household out of fuel poverty, and concerns around the carbon impact remain. We therefore also suggest making energy advice and energy efficiency measures part of the FPNES (see questions 12 and 13 below for detail).

We will keep our support for FPNES under review for post 2026.

GDQ10. What should we include in the FPNES eligibility criteria in RIIO-GD2 to facilitate a well targeted, but effective scheme?

We agree with Ofgem's desire to keep FPNES eligibility criteria aligned with other schemes to enable easier cross-referral between schemes and facilitate whole house solutions.

For the purposes of aligning FPNES with ECO, we would support the eligibility criteria reflecting that of ECO. From now until 2022 this includes:

- People in receipt of benefits.
- Those who are highlighted by their local authority at risk of fuel poverty, through the ECO flexible eligibility scheme.

Eligibility should also reflect the criteria for other major fuel poverty schemes, such as:

- Nest in Wales.
- Warm Homes Scotland.
- Future or revised schemes that come online during the price control period, notably ECO after 2022, and a potential Clean Growth Fuel Poverty challenge fund after 2020.

We recognise that benefits, as currently used in ECO are not a close proxy for fuel poverty, because:

- Many households on benefits are not in fuel poverty.
- Many people who should be on benefits do not claim them.

It would be desirable to move to more effective targeting of those in fuel poverty. As discussed in the next question we suggest that incentives could be used to encourage more effective targeting within these eligibility criteria.

GDNs are working on mapping tools which identify households in fuel poverty by overlaying various data sets. We welcome this. However, these tools are only as good as the data that is fed into them. Many of them use energy efficiency ratings of homes, as found in the Energy Performance Certificate (EPC), as a key data point. But the quality of EPCs often falls short, for example, because they can be up to 10 years out of date. As set out in a recent consultation response, efforts need to be made in a variety of areas, to improve the quality.[31]

Secondly, fuel poverty is dynamic - people move in and out of it. We would like to understand how networks update their data to take account of this. We would encourage GDNs to test the results of their data tools with local stakeholders, including charities who work with fuel poor households, who can assess whether the results are realistic.

Finally, there could be benefit to combining best practice from the tools developed to create a consistent assessment approach across the country. Given these tools are still in development and the confidence of the results would need to be quite high before making them an eligibility criterion in itself, they will not be ready to be used at the start of GD2.

Assessment whether gas is the best solution for a household

Once a GDN or its partners have identified an eligible household, they have to assess whether a gas connection is the best solution to meet the needs of that household. We have encouraged Ofgem to review whether the methodologies used for this assessment need updating in the face of technological advancements and the agenda around whole system outcomes.

Specifically, it seems important that the assessment takes into account alternatives to gas such as solar or batteries, which have become cheaper over recent years, and (hybrid) heat pumps which support multiple decarbonisation paths. In the pursuit of whole system outcomes, Ofgem should consider whether the role of GDNs should be enhanced to allow them to spend the FPNES voucher value on non-gas interventions such as hybrid heat pumps.

Given local authorities are playing an increasing role in shaping the energy futures of this country, it may also be appropriate for the assessment to require

[31] Citizens Advice, 2019, Energy Performance Certificates in Buildings - Citizens Advice response to Call for Evidence from BEIS and MHCLG

to coordinate with them on whether additional gas connections fit their local decarbonisation agenda, and whether other energy solutions such as district heating are planned for the area in the near future.

GDQ11. How should we incentivise the GDNs to improve the targeting of the FPNES?

The Sia Partners study into FPNES found that the scheme is value for money with a targeting rate of 50%. However, it is desirable to have a target rate that lifts more people out of fuel poverty. We think therefore that a financial up and downside incentive around targeting would be beneficial because through a higher targeting rate GDNs will deliver better outcomes for people in fuel poverty and better value for money of the scheme overall. The incentive should be designed in a way that network companies are only rewarded for achieving higher targeting rates than they had previously, ensuring that consumers only pay for further gains, not for standing still. We also see value in the ex post incentive suggested by Ofgem in that it focuses on the outcome - reaching households in fuel poverty - and leaving companies freedom to do this in the most efficient way.

It is for the same reason that we would not support an incentive suggested by some networks, where they get rewarded for the partnerships they build to deliver FPNES. Incentives should be closer linked to achieving better consumer outcomes, rather than to proxy activities.

Any incentives based on fuel poverty should reflect different national fuel poverty metrics in England, Wales and Scotland, and the potential for the English definition to change as a result of the ongoing review of the Fuel Poverty Strategy for England.

GDQ12. How can we ensure that the FPNES is better coordinated with other funding sources to provide a whole house solution for the household?

We welcome the ambition from Ofgem wanting to better link up FPNES with other funding sources to provide a whole house solution for households. However, neither the consultation document, nor the working groups that we attended and that fed into it, defined what a "whole house solution" means. This is necessary if we are to say what actions are needed to provide it.

What a whole house solution entails will differ for every house but it is likely to include retrofitting energy efficiency and heating measures. To tackle fuel poverty, we also think it should include other help for the people living in a home such as energy usage advice, tariffs switching, benefits checks, and budgeting advice.

We will comment on the question of energy efficiency measures in detail in Q13.

We believe GDNs have a social responsibility, once they have identified a household in fuel poverty, to help them find a way forward, even if that is simply through referring them to other places of help. Where households have accepted to receive a gas connection, this is a particularly good window of opportunity to talk about further measures in the home and provide broader energy advice.

We would like to see GDNs build more comprehensive referral networks - not just related to FPNES but to any vulnerable circumstance they may find a customer in. A number of distribution networks (DNOs included) have set up referral programmes - some more strategic and extensive than others - than can provide best practice and lessons learnt.

In particular, we would like it to be a core part of FPNES that households in receipt of a connection:

- Are referred to receive tailored energy usage advice, tariff switching, benefits checks and budgeting advice,
- Are made aware of the Warm Home Discount,
- Are added to the PSR if required,
- Receive guidance around how to most efficiently use their new gas heating system - just as it is part of the smart meter rollout to give people guidance on how to use their smart meter.

This advice package would further assist households to save money and come out of fuel poverty. Thinking longer-term, this knowledge will stay with them even if they move to another home in which they may again find themselves paying higher energy bills.

We believe that the above referral activities could be funded through the new use-it or lose-it allowance. The extent to which companies are implementing referral networks in general, and whole house solution referrals for their FPNES customers in particular, could be subject of the vulnerability reputational incentive.

Funding for first time heating equipment

One activity GDNs have been asking for price control funding for is to pay for the heating equipment that needs to go into a house when it gets a gas connection for the first time. Finding funding for this is a prerequisite to making a connection.

There are various funding sources that can pay for first time heating equipment. GDNs have not been able to answer our question on whether they have been unable to make connections (and how many) because they were not able to find funding. However they have said that some funding pots will cease to exist during GD2.

It would be undesirable for a household willing to get a gas connection to be left in fuel poverty because of lack of funding for heating equipment. We therefore support GDNs providing funding for first time heating equipment with several conditions. GDNs should continue to find funding from other sources in the first instance. As a last resort, GDNs could use money from their use-it or lose-it allowance to pay for heating equipment. However, the overall amount used for this purpose should be capped to protect all bill payers from GDNs using this as an 'easy' source of funding. In their application for the use-it or lose-it allowance GDNs should provide evidence to Ofgem as to why they believe they need to use this last resort route. Appropriate ways of providing evidence and assurance need to be agreed beforehand.

GDQ13. What are your views on us requiring or incentivising the GDNs to ensure that households receiving FPNES connections also achieve a target level of energy efficiency?

We support incentivising GDNs to ensure that households receiving FPNES connections also achieve an energy efficiency level of up to EPC Band C. How we think this should be done and funded is set out below.

Rationale

There are three key drivers of fuel poverty: household income, household energy efficiency and fuel prices. A household's energy needs also play a role. GDNs cannot influence fuel prices, and through the above mentioned referral networks they would help households increase their income, use less energy, and access funding for more efficient appliances. The missing puzzle piece is energy efficiency.

Action on energy efficiency has traditionally been undertaken by Local Authorities, suppliers, and government. But their efforts are not enough. In 2016, 91.3% of fuel poor homes were in Band E or above; 65.9% of fuel poor households were in Band D or above; and 7.7% of fuel poor households were in Band C or above.[32] The Fuel Poverty Strategy for England pursues the target to improve the homes of fuel poor households, as far as reasonably practicable, to EPC Band C by 2030. However, the number and proportion of energy inefficient housing is going up, not down.

Secondly, energy efficiency delivers wins on many fronts: the current inhabitants of the home will spend even less on energy bills; so will any future inhabitants. When added up, energy efficiency will help to avoid building more generation assets, benefiting all energy bill payers. The general citizen will benefit from less CO2 in our atmosphere. That's why the Committee on Climate Change has highlighted energy efficiency as one of the least regrets activities this country should do more of to achieve its carbon targets.[33] And finally, these carbon targets are crucial to meet as according to the IPCC there are only 12 years in which action can be taken to avoid a rise in global temperatures of 1.5℃.

Linking all this back to FPNES, it seems particularly important that households with a gas connection - given we know that around a fifth of the UK's greenhouse gases come from burning gas for domestic heating and hot water[34] - are made more energy efficient.

[32] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/719106/Fuel_Poverty_Statistics_Report_2018.pdf
[33] CCC (2018) Reducing UK emissions – 2018 Progress Report to Parliament https://www.theccc.org.uk/publication/reducing-uk-emissions-2018-progress-report-to-parliament/
[34] CCC (2019) UK housing: Fit for the future? https://www.theccc.org.uk/wp-content/uploads/2019/02/UK-housing-Fit-for-the-future-CCC-2019.pdf

Incentive and funding sources

We are supportive of an upside financial incentive whereby the company receives a larger incentive the closer they can get a household with an FPNES connection to an EPC rating of Band C. As outlined above, we believe such an incentive would be justified given the multiple benefits of the energy efficiency improvements. It would also incentivise a behaviour that GDNs would not normally engage in - so consumers would be paying for additional benefits.

To win this incentive, GDNs will likely have to facilitate households getting access to existing funding sources to deliver these energy efficiency measures. We understand, there are currently weak collaborative links between FPNES and ECO, the main national energy efficiency scheme, delivered by energy suppliers. There seems to be significant scope for improving the extent of referrals between bodies delivering ECO and other energy efficiency schemes[35] and GDNs, which would be beneficial for those households who would receive measures and for the overall efficiency of both schemes. Given Ofgem is the regulator for both suppliers and GDNs, it seems that Ofgem should play a key role in facilitating and requiring cross-referral processes.

Aside from ECO, GDNs should build better relationships with energy efficiency schemes and funding pots around Great Britain.

However, GDNs may choose other routes to winning this incentive, such as getting their shareholders to contribute to energy efficiency measures.

GDQ14. Do you think the value of the FPNES voucher would need to be amended if the targeting of the scheme is increased? Please provide any evidence to support your view.
No response provided.

Stakeholder engagement incentive

Customer, consumer and stakeholder engagement is hugely important for any business. It’s not only right that people should be able to contribute to decisions that affect their lives and their energy bill, but speaking to customers and

[35] Aside from ECO, GDNs should build better relationships with energy efficiency schemes and funding pots around Great Britain.

stakeholders also provides invaluable insights to companies and makes especially monopolies more legitimate in the eyes of those who pay for them.

For the past 5 years - and by the start of RIIO-2 it would have been 8 years - gas consumers have been funding gas distribution companies to undertake engagement activities through the Stakeholder Engagement Incentive. This has already cost them £44.15m (£50.23m when adding the gas transmission engagement incentives). How much value they have received in return is difficult to determine. Evaluating stakeholder engagement objectively is a challenge and putting a financial value on it difficult. In addition, gas networks have not been consistently and transparently reporting what they did as a result of these engagement activities.

We agree with Ofgem that high quality customer and stakeholder engagement should now be a business as usual activity for all networks and companies should include costs for engagement activities in their base allowance. We also support the idea to reward companies through the Business Plan Incentive for engagement that has gone into the plan and engagement plans during the price control period. But we do not think that a broad financial upside incentive, as was in place for 8 years, delivers good value for money for consumers going forward. Instead, we think a very targeted financial incentive, as described below, would push gas networks to advance the quality and depth of their engagement activities, and crucially deliver better outcomes for consumers. This should be complemented by a reputational incentive to ensure ongoing BAU engagement remains of high quality. Please note that our views on incentives for stakeholder engagement also apply to electricity and gas transmission companies.

Reputational incentive for stakeholder engagement

Other incentives that are part of the RIIO-2 package may well provide some pressure for companies to continue with engagement, such as the customer satisfaction, complaints and interruptions incentive. However, we don’t think these will be sufficient to ensure that gains made during RIIO-1 will be continued and further embedded within companies. A reputational incentive would serve to prevent a fallback in quality and depth of engagement.

We would support a reputational incentive that a) holds distribution and transmission companies to account to deliver the engagement strategy they set out in their Business Plan, and b) makes companies report on their engagement activities and learnings, and share them with other networks. We outline below specific ideas how this could be implemented.

Ofgem staff have voiced the idea of the CEGs playing a continued role in a reputational incentive on engagement. We have mixed views on this. Indeed, the members of the CEGs would have come to know their respective companies well and can judge to what extent a company is embedding past engagement activities or is stretching itself to do more. Firstly, the CEGs were recruited to perform a specific function for a limited amount of time, and not all have a background in engagement. Secondly, most energy networks have established Stakeholder Groups which also challenge them on various topics.

We would therefore support an arrangement whereby an expert panel judges companies' engagement activities - not dissimilar from the current process around SEI and DRS. These panels could include CEG, User Group and Stakeholder Group members who are familiar with the companies' engagement activities and are willing to join the panel. The panel would need to be topped up by further engagement experts, Ofgem and other stakeholder representatives. This is essential to get fresh eyes to look at companies' engagement activities and to alleviate any concerns around capture of CEG, User Group and Stakeholder Group members. Ideally, that panel would stay relatively constant in makeup over the price control period.

Learning from the past 5 years of SEI, it has also become clear that marking companies on a couple of pages of glossy summary of engagement activities does not do justice to the work companies put into engagement nor gives enough information to the judging panel to make a proper assessment.

We would be keen to work with Ofgem on developing a possible assessment framework of good practice principles and questions that should guide this reputational incentive. Several CEGs have also developed ideas in this area that would be useful to learn from.

Financial incentive for stakeholder engagement

A recent Citizens Advice report[36] highlighted that most of the engagement distribution and transmission network companies have carried out in the past can be classified as "informing" and "consulting" its customers and stakeholders.

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36 https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-policy-research/strengthening-the-voice-of-consumers-in-energy-networks-business-planning/

Using an internationally recognised *spectrum of engagement*[37] that means that there is room for improvement to advance to "collaborate" with and "empower" customers and stakeholders through techniques such as Citizens Juries or participatory budgeting.[38]

Secondly, we also found that engagement had very much focused on quite a narrow set of topics such as reliability, safety and service standards. We are already seeing this change in the engagement companies are undertaking for their Business Plans which is welcome. However, there is still scope to engage more widely and deeply on complex, long-term questions (beyond GD2), especially on gas networks, around the future role of gas, decarbonisation of heat and transport, attitudes to new products, and people's willingness to pay and cross-subsidise.

We therefore support a well-calibrated financial upside incentive with strict parameters for networks to carry out engagement activities on topics that are complex, future-looking or controversial, and use methods that ensure deep, meaningful engagement, and see customers collaborate with the network company and empowers them to contribute. This is because we recognise that such engagement can be time-intensive and costly. Without any incentive GDNs may stick to the methods and topics of engagement they established during RIIO-1.

To ensure such engagement delivers value for consumers, any financial incentive would have to be contingent on the companies demonstrating what changes to policy and practice resulted from it, and reporting on engagement costs and benefits.

Finally, we do not think that competition in the above mentioned engagement activities would be desirable and financial and reputational incentives should not be designed in a way that discourages collaboration on engagement activities and sharing of findings and learning. Indeed preference could be given to cross-GDN, cross-electricity and gas, and cross-distribution and transmission

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[37] International Association of Public Participation, Spectrum of Participation, https://c.ymcdn.com/sites/iap2.site-ym.com/resource/resmgr/files/IAP2_Federation_-_P2_Pillars.pdf

[38] We do recognise that this report would not have captured any engagement that gas networks might now be undertaking as part of their Business Plan development.

engagement activities. These are crucial to walk the talk of whole system thinking and problem-solving.

Customer satisfaction survey

Incentive design

A happy customer is what any business should strive for. In a monopoly context however there is a lack of competitive pressure that would otherwise drive customers to leave a company that disappointed them and seek out one with better customer service. Hence we are supportive of a financial incentive with rewards and penalties for networks to mimic those competitive market conditions (as per Option 1 in Table 14 in the GD2 Annex). RIIO-1 performance has shown that the incentive has driven positive change in company behaviour.

Survey method

What is crucial in the implementation of the incentive is, that the comparative customer satisfaction survey on which the incentive is based reaches a wide range of customers that are affected by the network company. Otherwise companies could game the incentive by focusing only on the customer group that is being surveyed. We therefore welcome the proposals around widening the reach of the CSAT survey, and updating its communication channels by introducing text and phone survey methods.

Targets

GDNs have achieved relatively high satisfaction scores in the past years. We are supportive of increasing target scores to adjust for gains made during RIIO-1 - achievements in RIIO-1 must be bankable for consumers. However, the targets need to be achievable to incentivise companies to further deliver improvements for customers.

Ofgem’s suggested dynamic relative approach is welcome as it would engender competition between networks and update targets to reflect recent achievements. We would support this if “the only way is up”, i.e. targets would never go down, even if industry average scores went down, to protect consumers from declining customer service levels.

Customer segmentation

Thus far the survey differentiates between planned interruptions, unplanned interruptions, and connection customers. There is precedent for customer satisfaction scores for utility companies to be lower for those in vulnerable circumstances. We believe it would be valuable for Ofgem to require segmented customer satisfaction scores. To implement this simply, the two segments could be the general population and those on the PSR (though we recognise that not everyone who should be on the PSR is). The current effectively blended customer satisfaction score is too crude to capture whether networks are delivering a good service in the eyes of those who may have additional needs. The same high customer satisfaction targets should be used for both segments.

Complaints metric

We agree that complaints activities should be continued to be incentivised with a financial incentive. A customer who needs to submit a complaint is a sign of customer service failure - the detriment the customer suffers should be mirrored in a penalty only regime.

To reflect gains made during RIIO-1, it is right to update the 2011-12 target score. We would be supportive of Option 1, a relative static target, given this approach has worked in RIIO-1. It also gives companies a level of certainty to plan with to be able to avoid penalties, when they already face dynamically changing targets under the customer satisfaction incentive. Finally, we are also concerned that if targets are too challenging, companies revert to solving complaints with “quick fixes” rather than achieving the most sustainable outcome for their customers.

That said, the Option 1 description states that the target would be based on a GD1 industry average, which we would be supportive of as long as that average is above the current target. Customers should not be worse served in RIIO-2 but better.

Guaranteed Standards of Performance

The Guaranteed Standards (GSoPs) provide a protection to all GDN customers in that they set out minimum performance requirements. They are also the only tool through which GDN customers get directly compensated for company failings. In 2017[39], we called on Ofgem to update the gas GSoPS since they were 10 years out of date and some were not in line with customer expectations or with the real service GDNs could deliver. We therefore greatly welcomed the review of standards that took place ahead of this consultation.

In our report, 'Living up to the Standards'[40] which details performance of energy network companies against the Guaranteed Standards of Performance in 2015-16, we highlighted the poor performance of network companies across gas interruptions and customer service standards, and particularly by some companies. Our forthcoming report builds on this analysis to assess the performance of companies between 2015-16 and 2017-18. The analysis demonstrates that there has not been a noticeable trend in improved performance on these standards and by the same companies. As such, we make the following recommendations to Ofgem to modify the standards to ensure that they better meet consumer outcomes:

- Ofgem should consider implementing **automatic compensation** for all standards and remove the requirement for customers to submit a claim for compensation. Our analysis has demonstrated that too many customers miss out on due compensation on just one standard alone, and few claim the compensation they are due. We acknowledge that some network companies have taken steps to implement this recommendation, and their progress should be monitored closely.
- In the absence of full implementation of automatic compensation, Ofgem should **extend the negative revenue adjustment** to the remaining electricity and gas standards. This would prevent network companies from keeping unpaid compensation.
- Ofgem should consider the **introduction of penalties** for poor performance.
- Ofgem should use the evidence of high performance of electricity networks to consider the **tightening or modification** of some of the standards, as currently underway in gas. For example this could include tightening time frames associated with particular standards, setting a 95% target for both Interruptions & Customers service and Connections standards, or doing more to assist consumers in vulnerable circumstances.

[39] Citizens Advice (2017), '[Living up to the standards: energy networks performance against the Guaranteed Standards of Performance in 2015/16](#)', October 2017
[40] ibid.

GDQ15. What is your preferred option for revising customer payment caps?
We agree, compensation caps should be removed (Option 2) to ensure that the worst affected customers receive appropriate compensation for the poorest performance. The lifting of payment caps would also be in line with the electricity distributors' methodology.

GDQ16. Where, within the consultation ranges, do you think the standard and payment levels should be set?
Payment levels should at least be raised by CPIH to align them with inflation. Beyond this, we have conducted no research to inform the setting of payment levels. Wherever consumer research by companies can inform this exercise, we would like to see those findings considered. Comparing compensation levels across water and electricity is useful to inform ballpark figures but shouldn't determine exact payment levels since gas, water and electricity are presumably very differently valued by consumers.

GDQ17. Should any existing GSOP exemptions be removed or changed and should any additional exemptions be considered?
In line with our recommendation that payments against the GSoPs should be automatic, we would like to see the exemption in GSoP 13 removed, which allows GDNs not to compensate a customer "if the customer fails to submit a valid compensation claim within three months of the interruption to the supply." [41] This leaves a loophole whereby, even if the company is aware that they did not notify a customer more than 5 days in advance of a planned interruption, they do not have to provide compensation.

There is a generic exemption that GDNs do not have to pay compensation if "it wasn't possible for the GT to take action because of industrial action by the GT's employees or contractors." We do not believe that this exemption is in the interest of consumers. Industrial action of a GDNs' employees is partially within its control and shouldn't prevent consumers from receiving their rightful compensation.

[41] Ofgem, RIIO-GD1 Gas Distribution Price Control – Regulatory Instructions and Guidance: Version 5.0, Annex 10
https://www.ofgem.gov.uk/system/files/docs/2018/04/riio-gd1_gas_distribution_rigs_version_5.0.pdf

GDQ18. Do you support the proposal to make all GSOP payments automatic for RIIO-GD2 and why?

We greatly welcome that Ofgem proposes to make all payments automatic. Our soon to be published report 'Standard Issue' identified that over 125,000 customers between 2015-16 and 2017-18 missed out on compensation of at least £2.6 million. The evidence also suggests that consumers are unlikely to claim for compensation where they are required to, with at least 99% of customers who were entitled to claim not doing so. Some companies only paid out between 0.5 and 0.9% of compensation as consumers were required to claim and did not do so.

Providing automatic payments is already a feature within the water/wastewater industry and therefore there appears little reason not to also apply the same methodology to the gas distribution industry which will benefit consumers who will then no longer need to make a claim.

Citizens Advice's previous research[42] into consumer detriment shows how important consumer behaviour is in securing compensation. We found 55% of people do not seek redress or compensation because the process was too long or complicated, consumers didn't think they would succeed, or they were not clear on how to make a complaint. Many consumers in Great Britain do not know who their gas and electricity network operators are. If they do, it is also unlikely that they know about the Guaranteed Standards, their rights to compensation and how to receive it. Regulation does require distribution networks to publish an annual statement outlining customers' rights under the Guaranteed Standards. But behavioural economics insights tell us why this is unlikely to be effective: consumers may have an optimism bias, meaning they underestimate the likelihood of them ever experiencing a power cut or a gas leak for example; and the timing of information provision is key - if we feel information is not relevant to us at the point when we receive it, we are more likely to forget it. If the aim is to ensure consumers are adequately compensated, energy customers should not have to submit a claim in order to receive compensation against any of the standards.

[42] 1 "Consumer detriment: Counting the cost of consumer problems." Citizens Advice, September 2016.
https://www.citizensadvice.org.uk/Global/CitizensAdvice/Consumer%20publications/Final_ConsumerDetriment_OE.pdf

In our report 'Living up to Standards'[43] we explained on page 10 how we think this could be implemented to address company concerns around not being able to see which customer is on or off supply at any one time.

GDQ19. Are new GSOPs (or amendments to existing GSOPs) required and what might these look like?

We agree with the proposed amendments to the existing standards through the tightening of several timescales, and particularly the increase in compensation provided to customers. However, we do have some concerns over changing GS1 to 18 hours.

GS1: Supply restoration

We have some concerns about the introduction of tighter timeframes for GSoP1. Our analysis tells us that in 2017-18, companies performed quite poorly on this important standard.

On average[44], GDNs restored customers within 24 hours 90% of the time, but the worst performing network only managed to do so 72% of the time. Performance was even worse when looking at those customers who had not been reconnected after 24 hours. Only in 48% of cases did GDNs manage to then reconnect them within the subsequent 24 hours.

It therefore appears unlikely to us that network companies would be able to meet the tighter timeframe of 18 hours suggested by Ofgem. In fact, Appendix 1 of the GD consultation document shows that currently in only 79% of cases are customers connected after 18 hours. Of course we would like GDNs to improve performance in this area but we believe this should be achieved through incentives such as an enforceable 90% target rate to get companies to meet the 24 hour timeframe. We would like to understand Ofgem's rationale behind suggesting a shorter timeframe in the context of current poor performance.

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43 https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/Living%20up%20to%20the%20Standards-_2015-2016_Final.pdf

44 Our full analysis of 17/18 performance will be published in our forthcoming report "Standard Issue" on our website. https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-policy-research/

GS3: Support to priority customers during an outage

We particularly welcome the review of GS3, the support provided to PSR customers during a supply interruption. Although we have no research to show what it is that should be offered, we know that simply providing alternative heating and cooking arrangements doesn't cover all the needs consumers might have in that situation. For example, by providing electric heaters and cookers, people's electricity bill will go up, hitting households on low incomes. We also question whether it is fair to charge gas customers the standing charge during especially long outages when they are not being supplied with gas. We welcome that GDNs are conducting research to identify things they can do to better assist priority customers during outages. Most importantly, actions must ensure that consumers are warm and safe in their homes and that help is tailored to the needs of the individual household.

New GSoPs: timed appointments

From a customer service point of view, it seems important to offer customers a timed appointment when they will be back on gas supply after a planned interruption, so they can plan their lives accordingly. There is a risk that this may lead to inefficient practices, e.g. if an engineer has to wait for hours because one household wants to be reconnected at 1pm and the other at 8pm. The relevant working group should explore how the design/wording of the standard could take this into account and strike a balance between customer convenience and efficient workforce planning.

GDQ20. Should there be a licence condition to prevent standards for the restoration of unplanned interruptions deteriorating (GSOP1)? If so, how should we set the target, and should we take into account geographical differences. Please consider alongside our wider proposed interruptions package.

We believe the tool that Ofgem should use to prevent GSoP1 performance from deteriorating is to set a 90% performance target. In fact, in GDQ22 below, we would welcome 90% targets against all GSoPs.

As outlined above, performance on GSoP1 has been relatively poor, indicating that the compensation GDNs have to pay out to consumers is not a big enough incentive to even meet the current minimum standard, let alone a tighter standard of 18 hours.

We don't believe that the suggested incentive on unplanned interruptions is a substitute for a target rate in the licence. Ofgem itself in the consultation document states that the interruptions package is there to go above and beyond - not deliver minimum standards. Because large events as well as interruptions caused by third parties would be included in this interruption incentive, the targets put forward by companies might be very cautious. We therefore still see merit in having a 90% performance target for GSoP1. This will add additional pressure to reconnect customers within the required timeframe, and it will be more durable than the proposed 5 year running incentive.

Please see our response on GDQ2 for our arguments for a target of 90%. We do not believe that target rates should depend on geographical differences. The point of minimum standards that apply to all GDNs and all customers is that they ensure a level of consistency in service that customers can expect regardless of where they live. This is important in a monopoly market where customers don't have a choice who serves them.

GDQ21. Is the existing 90% target pass rate for connections GSOPs still appropriate, if not how should it be revised?

Our analysis of GSoP Connection standards found that performance was overall very good. Networks easily surpassed the overall 90% connections target in each year, and the lowest performing networks still managed to achieve scores of at least 95% in each year.

Such good performance levels may indicate that customer expectations have advanced since the standards were written and companies are eager to meet them, also to score well in the customer satisfaction incentive. Consistently good performance against minimum standards can also mean that current standards are easy to meet by now and companies could do even better - after all it has been 10 years since they were written. Unfortunately, we are not aware of any consumer research that shows how customer expectations have developed over time on connections. Ofgem reviewed detailed performance data and considered tightening timescales for delivery.

We are surprised that Ofgem are only proposing to raise timeframes of two connection standards (GS4 and 9) by reducing the number of days GDNs have to deliver the associated services. This strikes us as quite few changes given the very good performance against most connection standards. In the absence of broader changes to all the delivery timescales of connection standards, which we would prefer, we would welcome a raise of the target level to 95% to ensure a consistently outstanding performance for consumers.

GDQ22. Should licence conditions with target pass rates be introduced for any other GSOPs?

We support the introduction of targets against all standards to give more weight to the GSoPs which are meant to be guaranteed minimum levels of service. We don't see a logical reason for there being enforceable targets in the connections space, but not for standards related to interruptions and customer communication, which are arguably more relevant to domestic customers.

Currently performance in the interruptions and communication standards doesn't meet what one would expect as a minimum level of service so targets may help that performance along.

We support target levels of 90% as this comes close enough to 100% which would make it a truly "guaranteed standard" but leaves companies some breathing space. This is taking into account that there is a long list of exemptions companies can apply to explain their failure to deliver against a standard. Finally, 90% mirrors the targets in other GSoPs areas including electricity standards.

Interruptions

GDQ23. What do you think of the proposed new output based on average restoration time for total unplanned interruptions?

We welcome the focus on unplanned interruptions as performance in this area has declined over GD1 and we know that consumers can suffer greatly from unannounced gas interruptions. The current incentive framework is not working: the reputational incentive in GD1 has proven too weak, and Guaranteed Standard 1 has no target against it, which means companies don't have to fear being penalised if they don't reconnect a customer within 24 hours.

We would support the suggested penalty-only incentive on unplanned interruptions. Restoring gas to consumers in an efficient and timely manner should be a BAU activity and not something for reward. A penalty in this area reflects the detriment to customers from an unplanned interruption and mirrors competitive markets in which GDNs with higher interruption rates would lose customers. Given the different asset structures of GDNs, it seems more appropriate for companies to set company-specific targets and be measured against those (i.e. an absolute target regime).

The hybrid approach to setting targets suggested by Ofgem sounds sensible, as it brings together the benefits of relative benchmarking and historical performance, and allows to take account of regional differences. The scrutiny of CEGs and stakeholders should assist in setting an appropriate target level, however, the aim should be clearly stated to see improvement in unplanned interruption average restoration times for all companies from the RIIO-1 period.

We are aware of company arguments that this incentive for shorter interruptions will drive the wrong behaviours, and that safety and customer welfare should be priorities during an unplanned interruption. Though we agree with the latter, we believe it is the company’s job to balance all those consumer desires and needs, and come up with realistic targets that enable them to not compromise on any of those outcomes.

GDQ24. Should any interruption events be excluded from the average restoration time incentive for total unplanned interruptions, and why?

We agree with Ofgem that large events should be included in this measure. The data presented showed that there is a minimum correlation between the number of customers affected and average restoration time, meaning larger events don’t necessarily mean that customers are off for longer.

However, we are concerned that because large events as well as interruptions caused by third parties are included in this incentive, the targets put forward by companies will be very cautious. We therefore still see merit in having a 90% performance target as a licence condition for Guaranteed Standard 1. This will add additional pressure to connect customers within 18-24 hours, and it will be more long-lasting than this proposed 5 year running incentive.

Finally, it seems paramount that Ofgem and GDNs iron out issues around data quality, especially clock stopping practices, to encourage honest reporting by companies and make this incentive meaningful.

GDQ25. What are your views on separating interruptions that occur in MOBs into a specific output?

We would support the split between unplanned interruptions in Multiple Occupancy Buildings versus non-MOB cases. MOBs appear to be at least partially the cause for a decline in unplanned interruption performance in some GDNs. A focus on those cases would enable a better incentivisation and tracking of performance for consumers living in MOBs which appear to have been often less well served than other consumers. It hopefully also incentivises specific behaviours that GDNs need to build to tackle MOB interruptions such as better local stakeholder engagement.

Emergency response time

We agree to keep this licence obligation unchanged with the current performance standards continuing. Emergency response is a key activity of GDNs and deserves to be a licence obligation. We are not aware of any customer research that shows people would like a quicker emergency response time than currently provided.

Emergency response and enquiry service

We agree with Ofgem's proposal to make this an output/licence obligation under the price control. It is inextricably linked to the above emergency response time. We welcome the suggested clarification in the licence around the line always being operational, thus aligning the gas sector with the requirements of the electricity sector.

GDQ3. What other outputs should we be considering, if any?

No response provided.

GDQ4. What are your views on the RIIO-GD1 outputs that we propose to remove?

Overall, we agree with the removal of the Discretionary Reward Scheme. The proposed vulnerability package should deliver more targeted and better funded activities, and bring greater scrutiny to the social and CO activities of GDNs.

However, the environmental element of the DRS seemed to cover important areas which are now not covered in the proposed GD-2 environmental outputs. The DRS included:

- “Initiatives that show commitment to delivering low carbon/environmental objectives within the company’s daily operations.
- Initiatives that display an innovative approach to network development/planning for low carbon future (e.g. developing standards of service for connecting bio-methane producers and/or other low carbon technologies to the network).
- Initiatives that tackle the environmental impact of gas distribution activities (leakage/shrinkage).”

We believe such initiatives should continue during GD2 but the regulatory framework doesn’t provide enough incentives for companies to do so. Please see our Executive Summary as well as our response to GDQ26 for more detail.

GD: Deliver an environmentally sustainable network

GDQ26. What are your views on the overall outputs package considered for this output category?

We have noted Ofgem’s views in respect of the proposed outputs package to deliver an environmentally sustainable network. We reiterate here our comments within the Executive Summary in the section entitled ‘Environment and Low Carbon’ where we express that we are missing any sign of holistic thinking about environmental outputs and believe that Ofgem should take a much greater lead in facilitating measurable environmental outputs and in driving the industry to help meet the UK’s 2050 carbon target.

For GDNs, we are missing any kind of incentive for encouraging uptake of greener gas. Without one, green gas connections will be driven by pure economics which will not be enough. We are also noting a winding back of reporting requirements under RIIO-1. If such tools have not had the intended effect, then they should be adapted, not removed entirely.

On gas networks’ facilitation role in promoting low-carbon heat, especially for people in vulnerable situations, the proposals are lacking, with no defined low-regrets pathway. The consultation document simply states GDNs “may propose” ideas in their Business Plan for heat decarbonisation. Given the urgency of the task, we feel this is far too weak language and more tangible outputs are required.

In terms of GDNs' environmental footprint, this should go beyond reducing shrinkage. We strongly support mandatory reporting requirements on an annual basis. There are numerous standards and expectations that Ofgem should be exploring, including: defined environmental standards for contractors; sustainable driving training for (and electrification of) vehicle fleets; and staff car sharing. There are likely many more areas that could be covered, and established disclosure and certification schemes would be a good starting point for designing this part of the package.

GDQ27. For each potential output considered (where relevant):
a) Is it of benefit to consumers, and why?
b) How, and at what level should we set targets? (e.g. should these be relative/absolute)
c) What are your views on the design of the incentive? (e.g. reward/penalty/size of allowance)
d) Where we set out options, what are your views on them and please explain whether there are further options we should consider?

No response provided.

GDQ28. What other outputs should we be considering, if any?

No response provided.

GDQ29. What are your views on the RIIO-GD1 outputs that we propose to remove?

No response provided.

GDQ30. What are your views on the priorities we've identified for the gas distribution sector in delivering an environmentally sustainable network? Should measures proposed for electricity and gas transmission, such as BCF reporting and strategies for including in Business Plans, also apply to gas distribution?

No response provided.

GDQ31. Do you agree with our proposed approaches to funding GDN activities over RIIO-GD2 related to Heat decarbonisation?

No response provided.

GDQ32. Are the GDNs' Distributed Gas Connections Guides and distributed gas information strategies helpful and effective? If not, how could they be improved?

No response provided.

GD: Maintain a safe and resilient network

GDQ33. What are your views on the overall outputs package considered for this output category?

No response provided.

GDQ34. For each potential output considered (where relevant):
a) Is it of benefit to consumers, and why?
b) How, and at what level should we set targets? (e.g. should these be relative/absolute)
c) What are your views on the design of the incentive? (e.g. reward/penalty/size of allowance)
d) Where we set out options, what are your views on them and please explain whether there are further options we should consider?

Repex

We agree with Ofgem that the Repex programme should be a PCD in RIIO-2. It delivers great safety and environmental benefits to consumers and citizens, but is after all an HSE requirement.

We do have concerns around companies having planned their Repex expenditure in a way which saw them underspend in RIIO-1 to then increase it in RIIO-2. Those companies should not be rewarded in the RIIO-1 close out unless they have made genuine efficiency gains.

For GD2, we welcome Ofgem's thinking around adjusting allowances for undelivered work which should have been quite certain, and reducing opportunities for windfall gains.

GDQ37. What are your thoughts on our proposals for Tier 1 outputs?
No response provided.

GDQ38. Do you think we should set an output for replacing non-PE services?
No response provided.

GDQ39. Do you think we should set outputs for asset maintenance repex activities?

No response provided.

GDQ40. What are your thoughts on not including Mains Replacement Level of Risk Removed, GIBs and fractures as output measures for RIIO-GD2?
No response provided.

GDQ41. Do you agree with our proposed approach to repex uncertainty mechanisms?

No response provided.

NTS exit capacity

We welcome Ofgem's critical analysis of how the design of the NTS exit incentive has led to windfall gains for companies in the past. We are supportive of the incentive being kept during GD2 to encourage efficient capacity booking by GDNs, whilst remedying the weaknesses in incentive design.

GDQ42. What are your views on our proposal to use final offtake capacity prices rather than T-3 offtake capacity price estimates in the calculation of incentive rewards and penalties in RIIO-GD2?
No response provided.

GDN record keeping

Though in theory we would be supportive of a PCD in this area, the consultation document did not make clear to what extent record keeping in general and on MOBs specifically was an issue amongst GDNs and what consumer detriment was being caused. We therefore have not formed an ultimate position on this question.

GDQ43. Do you consider that an output(s) is necessary:
a) for MOBs record keeping (in the form of a bespoke Price Control Deliverable)?
b) for other specific areas of GDN record keeping (if so which areas)?
c) to cover GDN record keeping requirements as a whole?

No response provided.

Gas holder demolition

We agree with Ofgem's proposed approach to gas holder demolition, especially the intention to return unused allowances back to consumers. Demolition is a BAU activity GDNs should undertake and should not be able to gain rewards from it.

Network Asset Risk Matrix

No response provided.

Cyber resilience

No response provided.

Physical security, PCD with common target

No response provided.

GDQ35. What other outputs should we be considering, if any?

No response provided.

GDQ36. What are your views on the RIIO-GD1 outputs that we propose to remove?

No response provided.

GD: Cost assessment

We agree in principle to Ofgem's approach but have not provided any detailed comments.

GDQ44. Do you agree with our intention to evolve the RIIO-GD1 approach for RIIO-GD2?
No response provided.

GDQ45. Do you have any comments on our initial views for cost assessment, including appropriate cost categories, cost drivers, analysis toolkit and how we combine the analysis?
No response provided.

GDQ46. Do you have any views on our proposed options for loss of metering work?
No response provided.

GDQ47. Do you agree with our proposal for implementing symmetrical adjustments for regional or company specific factors?
No response provided.

GD: Uncertainty mechanisms

General uncertainty mechanism questions

We agree in principle to Ofgem's approach but have not provided any detailed comments.

GDQ48. What are your views on the proposed uncertainty mechanisms and their design?
No response provided.

GDQ49. Are there any additional uncertainty mechanisms that we should consider across the sector and if so, how should these be designed?
No response provided.

GDQ50. What are your views on the RIIO-GD1 uncertainty mechanisms we propose to remove?
No response provided.

Supplementary uncertainty mechanism specific questions

Review of Agency (Xoserve) costs

GDQ51. What do you think is the most appropriate approach for funding the GTs' expenditure for Xoserve in RIIO-2 and why?
No response provided.

GDQ52. If Xoserve takes on any services beyond its core Central Data Service Provider role, how should we treat the costs and risks associated with these additional services through the price control?
No response provided.

Gas Transmission questions

GT Context

GTQ1. Do you have any feedback on our proposals for simplifying the RIIO-2 gas transmission price control package, or suggestions for further simplification?
No response provided.

GTQ2.
Please see our responses to GTQ7 and GTQ9.

GT: Meet the needs of consumers and network users

General output questions

GTQ3. What are your views on the overall outputs package considered for this output category?

We are broadly in agreement although we have not commented in detail.

GTQ4. For each potential output considered (where relevant):
a) Is it of benefit to consumers, and why?
b) How, and at what level should we set targets? (e.g. should these be relative/absolute).
c) What are your views on the design of the incentive? (e.g. reward/penalty/size of allowance).

Please see our responses to GTQ7 and GTQ9.

GTQ5-6.

No response provided.

Supplementary output specific questions

Stakeholder Engagement Incentive

GTQ7. We welcome views from stakeholders on the above options.
We have noted Ofgem's proposals with respect to the stakeholder engagement incentive options. We have reproduced below our views on this incentive that was provided further above within the gas distribution section, as our views apply equally to the gas transmission sector.

Stakeholder engagement incentive

We agree with Ofgem that high quality stakeholder engagement should be a business as usual activity now for all networks and companies and should include costs for engagement activities in their base allowance. We also support the idea to reward companies through the Business Plan Incentive for engagement that has gone into the plan and engagement plans during the price control period.

But we do not think that a broad financial upside incentive as was in place for 8 years delivers good value for money for consumers going forward. Instead, we think a very targeted financial incentive as described below would push NGGT to advance the quality and depth of their engagement activities, and crucially deliver better outcomes for consumers. This should be complemented by a reputational incentive to ensure ongoing BAU engagement remains of high quality.

(Please note that our views on incentives for stakeholder engagement also apply to electricity transmission, distribution and gas distribution companies as detailed elsewhere in this response).

Reputational incentive for stakeholder engagement

Other incentives that are part of the RIIO-2 package may well provide some pressure for companies to continue with engagement, such as the customer and and stakeholder satisfaction incentive. However, we don't think these will be sufficient to ensure that gains made during RIIO-1 will be continued and further embedded within companies. A reputational incentive would serve to prevent a fallback in quality and depth of engagement.

We would support a reputational incentive that a) holds distribution and transmission companies to account to deliver the engagement strategy they set out in their Business Plan, and b) makes companies report on their engagement activities and learnings, and share them with other networks. We outline below specific ideas how this could be implemented.

Ofgem staff have voiced the idea of the User Group playing a continued role in a reputational incentive on engagement. We have mixed views on this. Indeed, the members of the User Group would have come to know the company well and can judge to what extent the company is embedding past engagement activities or is stretching itself to do more. However, consider that the User Group was recruited to perform a specific function for a limited amount of time, and not all have a background in engagement. Secondly, consider that most energy networks have established Stakeholder Groups which also challenge them on various topics.

We would therefore support an arrangement whereby an expert panel judges companies' engagement activities - not dissimilar from the current process around SEI. These panels could include CEG, User Group and Stakeholder Group members who are familiar with the companies' engagement activities and are willing to join the panel. The panel would need to be topped up by further engagement experts, Ofgem and other stakeholder representatives. This is essential to get fresh eyes to look at companies' engagement activities and to alleviate any concerns around capture of CEG, User Group and Stakeholder Group members. Ideally, that panel would stay relatively constant in makeup over the price control period.

Learning from the past 5 years of SEI, it has also become clear that marking companies on a couple of pages of glossy summary of engagement activities does not do justice to the work companies put into engagement nor gives enough information to the judging panel to make a proper assessment.

We would be keen to work with Ofgem on developing a possible assessment framework of good practice principles and questions that should guide this reputational incentive.

Financial incentive for stakeholder engagement

A recent Citizens Advice report[45] highlighted that most of the engagement distribution and transmission network companies have carried out in the past can be classified as "informing" and "consulting" its customers and stakeholders. Using an internationally recognised *spectrum of engagement*[46] that means that there is room for improvement to advance to "collaborate" with and "empower" customers and stakeholders through techniques such as Citizens Juries or participatory budgeting.[47]

Secondly, we also found that engagement had very much focused on quite a narrow set of topics such as reliability, safety and service standards. We are already seeing this change in the engagement companies are undertaking for their Business Plans which is welcome. However, there is still scope to engage more widely and deeply on complex, long-term questions (beyond GT2), especially on gas networks, around the future role of gas, decarbonisation of heat and transport, attitudes to new products, and people's willingness to pay and cross-subsidise.

We therefore support a financial upside incentive with strict parameters for networks to carry out engagement activities on topics that are complex, future-looking or controversial, and use methods that ensure deep, meaningful engagement, and see customers collaborate with the network company and empowers them to contribute. This is because we recognise that such engagement can be time-intensive and costly. Without any incentive gas transmission may stick to the methods and topics of engagement they established during RIIO-1.

To ensure such engagement delivers value for consumers, any financial incentive would have to be contingent on the companies demonstrating what changes to policy and practice resulted from it, and reporting on engagement costs and benefits.

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[45] https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-policy-research/strengthening-the-voice-of-consumers-in-energy-networks-business-planning/

[46] International Association of Public Participation, Spectrum of Participation, https://c.ymcdn.com/sites/iap2.site-ym.com/resource/resmgr/files/IAP2_Federation_-_P2_Pillars.pdf

[47] We do recognise that this report would not have captured any engagement that networks might now be undertaking as part of their Business Plan development.

Financial and reputational incentives should not be designed in a way that discourages collaboration on engagement activities and sharing of findings and learning. Indeed preference could be given to whole system engagement activities.

GTQ8. Do you think it would be possible to establish clear and appropriate KPIs and deliverables in this area?

No response provided.

Satisfaction Surveys

GTQ9. We welcome views from stakeholders on the above options.

Customer satisfaction survey

Incentive design

A happy customer is what any business should strive for. In a monopoly context, however, there is a lack of competitive pressure that would otherwise drive customers to leave a company that disappointed them and seek out one with better customer service. Hence we are supportive of a financial incentive with rewards and penalties for networks to mimic those competitive market conditions.

Survey method

What is crucial in the implementation of the incentive is, that the comparative customer satisfaction survey on which the incentive is based, reaches a wide range of customers that are affected by the network company. We welcome the proposals to narrow the customer survey to apply to those customers that NGGT interacts with as part of its activities.

Targets

NGGT has achieved relatively high satisfaction scores in the past years. We are supportive of increasing target scores to adjust for gains made during RIIO-1. Achievements in RIIO-1 must be bankable for consumers. However, the targets need to be achievable to incentivise companies to further deliver improvements for customers.

External Assurance

We would encourage transmission companies to look to gas distribution companies where the need for external assurance falls away because they all use the same survey company. It allows the same comparable question to be asked across all customers, and for additional questions to be added by each company. This strikes as us an efficient solution.

Quality of demand forecasts

GTQ10 & 11
No responses provided.

GT: Deliver an environmentally sustainable network

General output questions

GTQ12. What are your views on the overall outputs package considered for this output
category?
a. For each potential output considered (where relevant):
b. Is it of benefit to consumers, and why?
c. How, and at what level should we set targets? (e.g. should these be relative/absolute).
d. What are your views on the design of the incentive? (e.g. reward/penalty/size of allowance).

Reducing the environmental impact of the gas network, and subsequently decarbonising the gas network, is necessary over the RIIO-2 period to enable the transition to a low carbon future.

Compressor emissions: It is right that compressor emissions are separated out from Business Carbon Footprint reporting and we agree with the proposed approach. We expect NGGT to carry out full Cost Benefit Analysis for any proposed investment on the system and should look to innovate to find other ways to achieving outcomes - this might be different operational practices, or technology.

GHG emissions (venting): We agree that a downside only incentive is appropriate for this output and should not be removed unless captured in another overarching environmental incentive.

NTS shrinkage: We agree with the proposed approach to this incentive. But rewards for reducing shrinkage must not come at an unreasonable cost to consumers. NGGT must be as transparent as possible and so we support any approach to increasing transparency.

BCF reporting: We believe the reporting requirement should be retained, not least because NGGT should be transparent on the impact it has in its daily operations on the environment. We agree that the reporting needs to be comparable across other sectors and would welcome any improvements, ensuring that the relevant stakeholders are able to contribute.

Low carbon energy systems and decarbonisation of heat: NGGT has a key role to pay in the decarbonisation of heat and the transition to a low carbon energy system, as all network companies have. We are pleased to see the addition of this incentive.

GTQ13-16 .

No response provided.

Supplementary output specific questions

NTS Shrinkage

GTQ17. Do you think that the 'compressor fuel use' element of the shrinkage incentive should be included within NGGT's baseline Totex allowance? To what extent do you think elements of shrinkage are within

the control of National Grid Gas

No response provided.

Low carbon energy systems and decarbonisation of heat

GTQ18. Do you have any views on how NGGT's can make a contribution to the transition to a low carbon energy system and support the decarbonisation of heat?

Decarbonising the way we heat our homes and businesses is one of the biggest challenges facing the energy networks. In the absence of a clear government policy on heat, NGGT should work with the wider industry, in particular the GDNs, to establish low-regret options to progress throughout RIIO-2 to facilitate low carbon energy on to the system.

Opportunity to propose bespoke outputs

GTQ19. Do you think we should consider proposals from NGGT for additional outputs and incentives to support our environmental objectives?

We support the consideration of proposals from NGGT for additional outputs and incentives to support environmental objectives, however, we believe that these measures must be rigorously assessed. We refer back to our overarching comments on Environment and Low Carbon at the start of this consultation response.

GT: Maintain a safe and resilient network

General output questions

GTQ20-23.

No response provided.

Supplementary output specific questions

Safety

GTQ24. Do you have views on whether the proposed approach on safety is appropriate for RIIO-GT2?
We agree with the proposed approach on safety. NGGT must comply with all existing statutory obligations and we see no need for Ofgem to add to these obligations.

Network capability

GTQ25-27.

No response provided.

Arrangements for accessing unsold capacity

GTQ28. Do you agree with our proposal to require NGGT to review the arrangements for accessing unsold capacity?

We agree in principle with the proposal for NGGT to review the arrangements for accessing unsold capacity.

GTQ29. Do you agree with our proposed scope for the review? Are there other aspects of access that should be reviewed at the same time?
No response provided.

GT: Cost assessment

GTQ30. Do you agree with our intention to evolve the RIIO-GT1 approach for RIIO-GT2?
We agree in principle with the intention to evolve the RIIO-GT1 approach for RIIO-GT2.

GTQ31-39.

No response provided.

Electricity Transmission questions

ET: Meet the needs of consumers and network users

General output questions

ETQ1. What are your views on the overall outputs package considered for this output category?

Stakeholder engagement and satisfaction:

Please see our answer to ETQ5.

Timely connections output:

Please see our answers to ETQ15 and ETQ16.

Energy Not Supplied:

In principle we support the retention of this incentive for ET2, however the incentive should be realigned with the value that consumers place on this incentive. This approach is already taken by the electricity distribution companies and it would make sense for the electricity transmission companies to take the same approach. Given the high performance levels in RIIO-1 to date, we think this performance should be banked and a penalty only approach is appropriate for RIIO-2.

Environmental considerations embedded within Business Plans:

We welcome these proposals:

Annual environmental performance reporting (including BCF and losses):

We believe the reporting requirement should be retained, not least because companies should be transparent on the impact that they have in their daily operations on the environment. We agree that the reporting needs to be comparable across other sectors and would welcome any improvements, ensuring that the relevant stakeholders are able to contribute.

SF6 and other IIG leakage:

We support the proposal to retain an incentive for SF6, which we agree should include other IIG leakage. Networks should be actively reducing the use of SF6 and IIG on their assets and we hope that this incentive, alongside targeted innovation projects, will drive the replacement of these gasses.

Mitigating visual amenity impacts in designated areas:

In principle, we support retaining a mitigation scheme as we recognise that there will be some projects identified in National Grid's willingness to pay work in 2012 which have not been completed. However, it should not be assumed that these mitigation projects are still of value to consumers and therefore each TO must check that any projects are still valued by consumers before undertaking work. This check should be done through consumer and stakeholder engagement as well as through new willingness to pay work. We agree that the expenditure allowance should be informed by this work.

Network Access Policy:

The NAP should be retained as a licence obligation. Given that the ESO is now a separate legal entity to the E&W TO, it makes sense to align and consolidate the existing NAPs into one. In a world with Distribution System Operators (DSOs), distributed energy and third party interactions we would encourage the TOs to engage with a range of stakeholders to make sure it is fit for purpose.

Successful delivery of large capital investment projects:

We agree that TOs should not benefit financially from delays in delivering large capital projects. These are windfalls which are undesirable, and ultimately paid for by consumers.

Additional contribution to low carbon transition:

Electricity transmission companies have a key role to pay in the decarbonisation of heat and the transition to a low carbon energy system, as all network companies have. We are pleased to see the addition of this incentive and expect companies to work with relevant stakeholders to design appropriate outputs.

We support the removal of the Environmental Discretionary Reward.

We believe that it has increased awareness of environmental issues within each company, but the incentive was overly mechanistic and did not encourage collaboration across companies. Please see our overarching comments on Environment and Low Carbon in the Executive Summary.

ETQ2 - ETQ4.

No response provided.

Supplementary output specific questions

Stakeholder Satisfaction Output: Stakeholder Engagement Incentive

ETQ5. We welcome views on whether a specific incentive for stakeholder engagement is appropriate in RIIO-ET2, and if so, whether this should reputational or financial.

We have noted Ofgem's proposals with respect to the stakeholder engagement incentive options. We have reproduced below our views on this incentive that was provided further above within the gas distribution section, as our views apply equally to the electricity transmission sector. We support the proposal to standardise the SSO components across all TOs to ensure consistency and permit a means of comparing performance.

Stakeholder engagement incentive

We agree with Ofgem that high quality customer and stakeholder engagement should be a business as usual activity now for all networks and companies and should include costs for engagement activities in their base allowance. We also support the idea to reward companies through the Business Plan Incentive for engagement that has gone into the plan and engagement plans during the price control period. But we do not think that a broad financial upside incentive as was in place for 8 years delivers good value for money for consumers going forward. Instead, we think a very targeted financial incentive as described below would push electricity transmission networks to advance the quality and depth of their engagement activities, and crucially deliver better outcomes for consumers. This should be complemented by a reputational incentive to ensure ongoing BAU engagement remains of high quality. Please note that our views on incentives for stakeholder engagement also apply to gas transmission and gas distribution companies.

Reputational incentive for stakeholder engagement

Other incentives that are part of the RIIO-2 package may well provide some pressure for companies to continue with engagement, such as the customer satisfaction, and energy not supplied incentive. However, we don't think these will be sufficient to ensure that gains made during RIIO-1 will be continued and further embedded within companies. A reputational incentive would serve to prevent a fallback in quality and depth of engagement.

We would support a reputational incentive that a) holds distribution and transmission companies to account to deliver the engagement strategy they set out in their Business Plan, and b) makes companies report on their engagement activities and learnings, and share them with other networks. We outline below specific ideas how this could be implemented.

Ofgem staff have voiced the idea of the User Groups playing a continued role in a reputational incentive on engagement. We have mixed views on this. Indeed, the members of the User Groups would have come to know their respective companies well and can judge to what extent a company is embedding past engagement activities or is stretching itself to do more. However, consider that the User Groups were recruited to perform a specific function for a limited amount of time, and not all have a background in engagement. Secondly, consider that most energy networks have established Stakeholder Groups which also challenge them on various topics.

We would therefore support an arrangement whereby an expert panel judges companies' engagement activities - not dissimilar from the current process around SEI. These panels could include CEG, User Group and Stakeholder Group members who are familiar with the companies' engagement activities and are willing to join the panel. The panel would need to be topped up by further engagement experts, Ofgem and other stakeholder representatives. This is essential to get fresh eyes to look at companies' engagement activities and to alleviate any concerns around capture of CEG, User Group and Stakeholder Group members. Ideally, that panel would stay relatively constant in makeup over the price control period.

Learning from the past 5 years of SEI, it has also become clear that marking companies on a couple of pages of glossy summary of engagement activities does not do justice to the work companies put into engagement nor gives enough information to the judging panel to make a proper assessment.

We would be keen to work with Ofgem on developing a possible assessment framework of good practice principles and questions that should guide this reputational incentive. Several CEGs have also developed ideas in this area that would be useful to learn from.

Financial incentive for stakeholder engagement

A recent Citizens Advice report[48] highlighted that most of the engagement distribution and transmission network companies have carried out in the past can be classified as "informing" and "consulting" its customers and stakeholders. Using an internationally recognised *spectrum of engagement*[49] that means that there is room for improvement to advance to "collaborate" with and "empower" customers and stakeholders through techniques such as Citizens Juries or participatory budgeting.[50]

Secondly, we also found that engagement had very much focused on quite a narrow set of topics such as reliability, safety and service standards. We are already seeing this change in the engagement companies are undertaking for their Business Plans which is welcome. However, there is still scope to engage more widely and deeply on complex, long-term questions (beyond ET2), decarbonisation of heat and transport, attitudes to new products, and people's willingness to pay and cross-subsidise.

We therefore support a financial upside incentive with strict parameters for networks to carry out engagement activities on topics that are complex, future-looking or controversial, and use methods that ensure deep, meaningful engagement, and see customers collaborate with the network company and empowers them to contribute. This is because we recognise that such engagement can be time-intensive and costly. Without any incentive

[48] https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-policy-research/strengthening-the-voice-of-consumers-in-energy-networks-business-planning/
[49] International Association of Public Participation, Spectrum of Participation, https://c.ymcdn.com/sites/iap2.site-ym.com/resource/resmgr/files/IAP2_Federation_-_P2_Pillars.pdf
[50] We do recognise that this report would not have captured any engagement that networks might now be undertaking as part of their Business Plan development.

transmission companies may stick to the methods and topics of engagement they established during RIIO-1.

To ensure such engagement delivers value for consumers, any financial incentive would have to be contingent on the companies demonstrating what changes to policy and practice resulted from it, and reporting on engagement costs and benefits.

Finally, we do not think that competition in the above mentioned engagement activities would be desirable and financial and reputational incentives should not be designed in a way that discourages collaboration on engagement activities and sharing of findings and learning. Indeed preference could be given to cross-transmission, cross-electricity and gas, and cross-distribution and transmission engagement activities. These are crucial to walk the talk of whole system thinking and problem-solving.

ETQ6. Do you think individual components of the SSO should be combined into a single incentive mechanism in RIIO-ET2, should the SEI and components of the SSO be retained?
Please see our response to ETQ4.

ETQ7. We invite views on types of Business Plan commitments that would be appropriate for stakeholder engagement.
We set out our expectations of company stakeholder engagement in our 2018 report 'Strengthening the voice of consumers in energy networks' business planning.[51]

ETQ8. We welcome views on the potential approaches to setting a financial incentive for the SSO in RIIO-ET2, if retained. Are there any other considerations we should take into account if we move to a fixed reward pot that network companies compete for?
No response provided.

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https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-policy-research/strengthening-the-voice-of-consumers-in-energy-networks-business-planning/

Stakeholder Satisfaction Output: Satisfaction Survey, KPIs, and External Assurance components

We welcome the targeting of the survey to stakeholder groups that have had a direct interaction with the TOs. We would encourage transmission companies to look to gas distribution companies where the need for external assurance falls away because they all use the same survey company. It allows the same comparable question to be asked across all customers, and for additional questions to be added by each company. This strikes as us an efficient solution.

The TOs have achieved relatively high satisfaction scores in the past years. We are supportive of increasing target scores to adjust for gains made during RIIO-1 - achievements in RIIO-1 must be bankable for consumers. However, the targets need to be achievable to incentivise companies to further deliver improvements for customers and we recognise the change to the survey target group may result in a need for a new baseline.

ETQ9 - ETQ12.
No response provided.

ETQ13. Do you agree that the User Groups could provide guidance on the stakeholders that should be included in the survey sample? Are there any specific stakeholders that you think must be surveyed to improve the validity of the scores?
See our response to ETQ5 above.

ETQ14.Do you agree with our proposals to remove the financial incentive associated with the KPI and EA components? Should the EA component be retained as a minimum requirement/ licence obligation?
No response provided.

Timely Connections Output

ETQ15. Do you have any views on whether we should retain the RIIO-ET1 Timely Connections Output (which applies to the connection offer stage) for RIIO-ET2, including the penalty rate, and extend it to NGET?
We support the retention of the Timely Connections Output, including the penalty rate, including maintaining the rate level as the Output appears to have

driven improvement. We further welcome the proposal to extend the Output to all electricity transmission companies, including NGET, to ensure a consistent application.

ETQ16. Do you have any views on options for capturing the quality of the overall connections process through our stakeholder engagement proposals, for example through the use of a survey?

The connections process is a highly important issue for the development of the future flexibility market. We therefore believe that extensive engagement for stakeholders regarding connections will be necessary to ensure that timely and cost efficient connections will be made. This engagement could be made in a variety of ways, including by survey, however, the important features should be to capture overall satisfaction as well as the individual areas where there may be shortcomings for improvement. These areas should include costs, equipment requirements and assessment of appropriate cheaper alternatives, customer service experience, complaints handling, customer service for any follow-up work needed, and timeliness for quotes and implementation.

ETQ17. Are there any alternative options for capturing the quality of the overall connection process, not identified in this consultation document, which we should be considering?

No response provided.

ETQ18. How do you think we can ensure that transmission operators are not rewarded and/or penalised for actions actually undertaken by the System Operator?

We think it is essential that there is not double rewarding of networks for actions taken by the ESO or vice-versa. It is consumers who will pay over the odds in these instances. It is vital that clear processes are established that prevent this. We would be happy to work with Ofgem to establish what works in the interests of consumers.

Energy Not Supplied

ETQ19-ETQ28.

No response provided.

ET: Deliver an environmentally sustainable network

General output questions

ETQ29. What are your views on the overall outputs package considered for this output category?
Please see our answer to ETQ1.

ETQ30-ETQ32.

No response provided.

Supplementary output specific questions

Environmental framework - Business Plans and annual monitoring

ETQ33. Do you have any views on the extent to which company activities relating to environmental impacts should be embedded in Business Plans?
We believe that company activities relating to environmental impacts should be embedded in Business Plans.

ETQ34-ETQ35.
No response provided.

Potential for bespoke ODIs around the low carbon transition

ETQ36. We welcome views on whether we should introduce an option for the TOs to develop bespoke ODIs with stakeholders for delivering an additional contribution to the low carbon transition.
We support the development of TO's using bespoke ODIs for delivering additional contributions to the low carbon transition. Such bespoke ODIs should have clearly evidenced support from consumer engagement and have been scrutinised for such support by the company's User Group.

ETQ37-ETQ38.
No response provided.

SF6 and other insulation and interruption gases (IIG) leakage

ETQ39-ETQ42.

No response provided.

Electricity losses from the transmission network

ETQ43-ETQ44.
No response provided.

Visual amenity impacts of transmission infrastructure

ETQ45. We welcome views on incentivising the TOs' engagement with stakeholders on the development of new transmission projects through our stakeholder engagement proposals, for example through the use of a survey.

Please see our response to ETQ1.

ETQ46-ETQ48.

No response provided.

ET: Maintain a safe and resilient network

General output questions

ETQ49. What are your views on the overall outputs package considered for this output category?
Please see our response to ETQ1.

ETQ50-ETQ52.

No response provided.

Supplementary output specific questions

Network Access Policy (NAP)

ETQ53. Do you agree with our proposed approach to safety?
We agree with the proposed approach on safety. The TOs must comply with all existing statutory obligations and we see no need for Ofgem to add to these obligations.

ETQ54. Do you agree with our proposal to retain the NAP as a licence obligation?
Please see our response to ETQ1.

ETQ55. Do you have any views on the potential risks and benefits of introducing a single, consolidated NAP, and of expanding the NAP to cover interactions with third parties?
Please see our response to ETQ1.

ETQ56. We welcome views on these proposals, and on any potential interactions and/ or duplications between these proposals, the NAP and the STC.
No response provided.

Successful delivery of large capital investment projects

ETQ57. Do you agree with our proposed approach for ensuring TOs do not benefit financially from delays in delivering large capital investment projects?
We agree with the proposed approach for ensuring TOs do not benefit financially when there are delays in delivering large capital projects.

ETQ58-ETQ62.

No response provided.

ET: Cost assessment

ETQ63. Do you agree with our intention to evolve the RIIO-ET1 approach for RIIOET2?

We agree with Ofgem's approach

ETQ64-ETQ67.

No response provided.

ET: Uncertainty mechanisms

General uncertainty mechanism questions

ETQ68-ETQ70.

No response provided.

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