

# RIIO-ED2 CSVC Working Group: Customer Satisfaction and Vulnerability



27 February 2020

## Purpose of today's meeting:

- On **customer satisfaction**, review:
  - The current design and scope of the Broad Measure of Customer Satisfaction; and
  - Evidence and analysis to understand whether there is a case for change in ED2
- On **vulnerability**, gain a better understanding of:
  - How DNOs can identify opportunities to effect positive change in ED2 (and when they should);
  - How DNOs are using SROI, WTP and other methodologies to measure social value, and how they can be aligned to assess the social value of DNO activities in ED2
  - Output and incentive arrangements that could be used to drive DNO behaviour in ED2

Timings	Agenda item
10:00 – 10:30	<b>Introduction/Aims of session</b>
10:30 – 11:30	<b>1. Customer Service – Broad Measure of Customer Service (BMCS): what is the case for change?</b> <ul style="list-style-type: none"> <li>a) Scope of the BMCS – Update on gap analysis into services and customers currently covered by BMCS and what ED2 customers' needs will be <b>(SPEN)</b></li> <li>b) Scope and design of the BMCS – Ofgem slides and roundtable discussion</li> <li>c) Actions and next steps</li> </ul>
11:30 – 12:15	<b>2. Vulnerability – How to identify opportunities to effect positive change in ED2 and how to measure it?</b> <ul style="list-style-type: none"> <li>a) What are DNOs touchpoints with consumers: identifying opportunities to effect positive change? <b>(SSE)</b></li> </ul>
12:15 – 12:45	Lunch
12:45 – 15:15	<b>2. Vulnerability – How to identify opportunities to effect positive change in ED2 and how to measure it?</b> <ul style="list-style-type: none"> <li>b) Measuring social value of DNO activities – Update from DNOs on methodologies and potential for aligning approaches <b>(DNO-led, WPD to present)</b></li> <li>c) NPg to present proposed approach to vulnerability in ED2 <b>(NPg)</b></li> <li>d) Update on 'Social Constraint Management Zone' project <b>(NEA and SSE)</b></li> </ul>
15:15 – 15:30	<b>Actions and next steps</b>

**Item 1: Scope of the BMCS – Update on gap analysis into services and customers currently covered by BMCS and what ED2 customers' needs will be (DNO-led)**

# BMCS

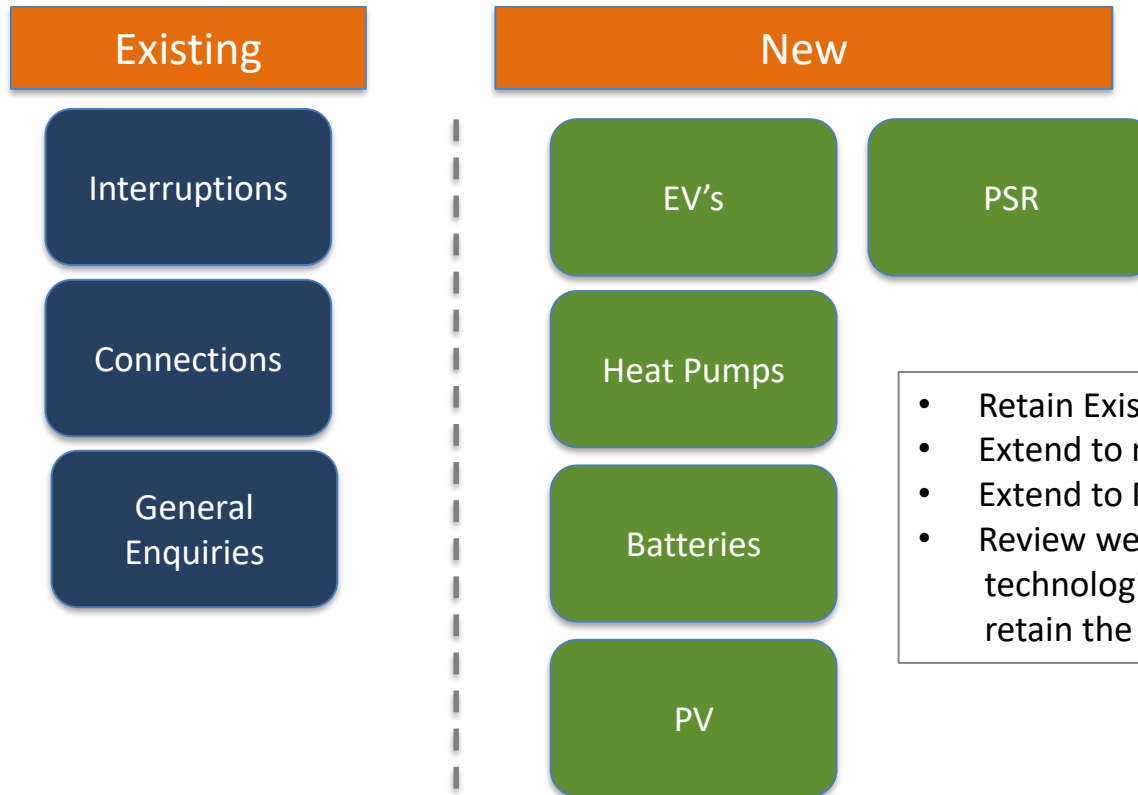


27/02/2020



- BMCS has significantly improved Customer Satisfaction across ED1
- Important to protect this for customers and ensure this is fit for purpose through to the end of ED2.
- Customer Satisfaction should be maintained but extended to take account of new and emerging technologies
- We should also take the opportunity to ensure as wide a range of customers as possible are included where appropriate.

# What should be included



- Retain Existing BMCS Categories
- Extend to new technologies
- Extend to PSR
- Review weightings to ensure new technologies have a focus but retain the balance with all categories.

# Customer Segments

- It would be appropriate for some customer segments to move back into BMCS to capture broader segments of customers under the BMCS Qualitative survey.

Proposed Changes to BMCS Market Segments		
Market Segment	Licence Reporting Category	Comments
LVSSA	Single Service LV Connection	In current BMCS
LVSSB	Small project demand connection	In current BMCS
DGLV	LV Generation	New
HVHV	HV End Connections involving only HV work	New
LVAL	All Other LV (with only LV work)	New
LVHV	LV End Connection involving HV work	New

### GD2 Customer Service Package

<b>Customer Service Satisfaction Survey</b>	Retained the output from GD1 as a financial ODI with both rewards and penalties possible <b>against a new target score. The content and methodology of the surveys will also be updated.</b>
<b>Complaints Metric</b>	Retained a penalty-only financial ODI with a common static target.



### Current state of play

- 6 month pilot ongoing currently and targets will be based on this.
- Some bespoke reputational ODIs proposed that use a balanced scorecard approach.

### Relevant Considerations...

- The GD2 package was broadly similar to GD1, but there is significant amount of work ongoing to prepare for GD2 and set appropriate targets. If we broaden the scope of the BMCS, what would need to be done to ensure the incentive was fit for purpose at the beginning of ED2?



## **Scope of the BMCS:**

- For the customer segments identified, would the volume of services provided by the DNO be sufficient to be included in the BMCS?

**We have considered the case for change regarding the scope of the BMCS. If the scope of the BMCS changes for ED2, are there implications on the design of the incentive?**

- How to ensure that if we broaden the BMCS, we don't dilute it's effectiveness?
- What evidence is there regarding the value customers attribute to continued service quality improvements in ED2?
- Should some services be included as penalty only?

**Actions and next steps?**

**Item 2a: Vulnerability – Identifying opportunities to effect positive change – update from DNOs on touchpoints with consumers (DNO-led)**

Citizen's Advice - DNO touchpoints with consumers	Touchpoint Opportunity Utilised Currently (Y/N)	Review of DNO Touchpoints and what we do currently	What new DNO Touchpoints may exist in the future or enhancement of existing touchpoints
Attending an interruption/Volta ge Issue	Y	<ul style="list-style-type: none"> <li>Trained all staff in identifying consumer vulnerability (front office and in field).</li> <li>Proactively contact known PSR customers to provide assistance during fault.</li> <li>Staff on site actively supporting and promoting PSR services</li> <li>Use the opportunity to update our records on every call</li> <li>PSR Team to arrange additional support for vulnerable customers ie generator, welfare visit</li> </ul>	<ul style="list-style-type: none"> <li>Actively promote PSR and signpost customers to the offering through use of branded information boards or livery</li> <li>Design an internal application that field staff can use on tablets to allow customers to register there and then.</li> </ul>
Attending a planned interruption	Y	<ul style="list-style-type: none"> <li>Use of vulnerability mapping to understand impact of planned shutdown on vulnerable customers over and above those that we know of on the PSR</li> <li>Letter informing of outage posted and physical door knock</li> <li>Reminder texts sent prior to outage</li> <li>Inbound/outbound telephony contact</li> <li>Home visits to carry out welfare checks during outages</li> <li>Onsite presence during outage</li> <li>Restoration text</li> <li>PSR Team to arrange additional support for vulnerable customers ie generator, welfare visit</li> <li>Field Staff have stock of PSR Leaflets to hand out</li> </ul>	<ul style="list-style-type: none"> <li>Distribution of small suitcase generators (6kVA) could be carried on all vehicles</li> <li>Broaden the distribution of crisis packs already carried in our dedicated welfare vans (items such as torch, wind up radio, thermal blanket, analogue phone etc)</li> </ul>
Moving a meter*  *we do not move meters under a DNO duty, but some DNOs may do this contracted via a MOP	N/A	<ul style="list-style-type: none"> <li>See "making a new connection/altering a connection" below</li> </ul>	
Making a new connection/alterin g a connection	Y - partially	<ul style="list-style-type: none"> <li>Identification of vulnerability at application stage by training our connections staff on vulnerability</li> <li>Changes to cut-out i.e. upgrade to allow for smart meter installation opportunity to identify vulnerability / support.</li> <li>Electric heating being installed as part of fuel poverty initiative</li> <li>LCT being installed as part of fuel poverty initiative</li> <li>EV charging point for disability provided vehicle</li> <li>modification to electricity supply as part of renovation work for fuel poverty or to install disability access eg downstairs toilet, chairlift etc.</li> </ul>	<ul style="list-style-type: none"> <li>There is a real opportunity to expand on this touchpoint to address vulnerability eg modification to electricity supply as part of renovation work for fuel poverty or to install disability access</li> <li>There is an opportunity to review how the cost of connections be funded for ED2 in relation to those least likely to afford it.</li> <li>In addition to the above have a fund specifically for vulnerable consumers to pay for meter moves and this could be same criteria as suppliers for consistency.</li> <li>Community EV charging points i.e. close to social housing</li> <li>As with our regional staff there could be opportunities to raise awareness of PSR services whilst in the property.</li> <li>Design an internal application that field staff can use on tablets to allow customers to register there and then</li> </ul>

Citizen's Advice - DNO touchpoints with consumers	Touchpoint Opportunity Utilised Currently (Y/N)	Review of DNO Touchpoints and what we do currently	What new DNO Touchpoints may exist in the future or enhancement of existing touchpoints
Outreach events	Y	<ul style="list-style-type: none"> <li>Local and organisational stakeholder events</li> <li>Community events</li> <li>Community volunteering opportunities</li> <li>Resilience forums</li> <li>Fuel Poverty events</li> <li>Charity group events</li> <li>Proactively target gaps in PSR Vs social indicators on the Vulnerability Mapping tool to partner organisations to close gaps</li> </ul>	<ul style="list-style-type: none"> <li>Opportunities to work with partners: <ul style="list-style-type: none"> <li>to identify blockers in accessing low carbon technologies</li> <li>to encourage more efficient use of energy and reduce bills</li> <li>to explore opportunities to provide services to Networks (explore financial benefits and opportunities)</li> <li>Work with other utilities to share information</li> </ul> </li> </ul>
Indirect touchpoints through partners	Y	<ul style="list-style-type: none"> <li>Referral schemes to energy efficiency experts, debt management, benefit entitlement checks, Citizen's Advice, Energy efficiency household installers, Hospital discharge units, Utility Partnerships, etc.</li> <li>Proactively target gaps in PSR Vs social indicators on the Vulnerability Mapping tool to partner organisations to close gaps</li> </ul>	<ul style="list-style-type: none"> <li>Opportunities to work with partners: <ul style="list-style-type: none"> <li>to identify blockers in accessing low carbon technologies</li> <li>to encourage more efficient use of energy and reduce bills</li> <li>to explore opportunities to provide services to Networks (explore financial benefits and opportunities)</li> </ul> </li> </ul>
Customer service centre calls (including Digital - Social Media, Online etc)	Y	<ul style="list-style-type: none"> <li>Trained all staff in identifying consumer vulnerability (front office and field staff).</li> <li>Proactively contact known PSR customers to provide assistance.</li> <li>Use the opportunity to update our records on every call</li> <li>Referral schemes to experts as above HES and YES</li> <li>Prewarning calls to the most vulnerable PSR customers</li> <li>Training and awareness for staff on subjects such as Autism, Dementia/Alzheimer's to further increase the knowledge of staff and provide support to vulnerable customers</li> <li>Provision of adapted communications such as large print, Braille, audio and alternative languages</li> <li>Dedicated PSR team with 24/7 available telephone number</li> </ul>	<ul style="list-style-type: none"> <li>More engagement with groups such as Occupational Therapists and Palliative care to understand the specific support needs and tailor services accordingly</li> <li>Referral opportunities to identified partner groups as above</li> </ul>

Additional DNO touchpoints with consumers identified	Touchpoint Opportunity Utilised Currently (Y/N)	Review of DNO Touchpoints and what we do currently	What new DNO Touchpoints may exist in the future or enhancement of existing touchpoints
Elected Officials (MPs, MSPs, Local Authorities, Govt Bodies)		<ul style="list-style-type: none"> <li>Engagement with MPs and MSPs and other political stakeholders, seeking their involvement in promoting the PSR and other customer facing services</li> <li>This had led to significant proactive media activity, social media engagement and even an early day motion lodged in Parliament to promote the PSR service.</li> <li>A series of regional booklets have been created for each region which describe our services and investments. These booklets have been sent to each MP and MSP with the offer of a visit at either at one of our sites or in parliament.</li> </ul>	<ul style="list-style-type: none"> <li>Continue to step up engagement with elected officials to aid communication of support services for all vulnerable customers, wider than just the DNO.</li> <li>Work to develop common approaches to LAEP and LHEES to support efficient roll out of LCT ie co-ordinated EV and Heat strategies to reduce the risk of vulnerable customers getting left behind</li> </ul>
General Enquiries eg fuse replacement, switch mains off, meter board change, disconnection	Y	<ul style="list-style-type: none"> <li>Trained all staff in identifying consumer vulnerability (front office and field staff).</li> <li>Hand out PSR leaflets or pass potential concerns to the PSR Team</li> </ul>	<ul style="list-style-type: none"> <li>Have PSR on all handhelds for either registering or awareness and updates on new changes in PSR</li> <li>Have suitcase generators on each vehicle</li> <li>Have a small box with some essentials/crisis pack – torch, wind up radio, plug in phone etc</li> </ul>
Complaints	Y	<ul style="list-style-type: none"> <li>Trained all staff in identifying consumer vulnerability (front office and field staff), throughout the complaints journey to validate/update requirements</li> <li>Use the opportunity to update our records, through pulse checks on PSR via inbound telephone complaints and on-site and home visits</li> </ul>	<ul style="list-style-type: none"> <li>Have PSR on all handhelds for either registering or awareness and updates on new changes in PSR</li> <li>Actively signpost customers to partner organisations for appropriate assistance</li> </ul>
Capital Investment Works and Maintenance (Major Upgrades)	Y	<ul style="list-style-type: none"> <li>Community engagement on proposed works</li> <li>Use of vulnerability mapping to understand impact of proposed planned works on vulnerable customers over and above those that we know of on the PSR (even when there is no impact on Network)</li> <li>Trained all staff in identifying consumer vulnerability (front office and field staff).</li> <li>Hand out PSR leaflets or referrals to DNO's PSR Team</li> </ul>	<ul style="list-style-type: none"> <li>Have suitcase generators on each vehicle</li> <li>Have a small box with some essentials/crisis pack – torch, wind up radio, plug in phone etc</li> <li>Have PSR on all handhelds for either registering or awareness and updates on new changes in PSR</li> </ul>

**Lunch**

## **Item 2b: Vulnerability – updates on actions from previous session**

# Measuring social value

Ofgem RII0-ED2 working group:  
*Customer Service, Vulnerability & Connections*

27<sup>th</sup> February 2020



# Agenda

- The importance of social value measurement
- Current approaches – stated preference (WTP)
- Current approaches – SROI
- A view on if, and how, these methodologies could be aligned for a more consistent application in ED2



# Current situation

## Significant development and alignment of approaches to date

- Driven by SECV, DNOs are increasingly focused on delivering *measurable* social impact
- We have begun to consistently derive the value to consumers of the various qualitative outcomes DNOs deliver (e.g. *vulnerable customers feeling more prepared/resilient ahead of potential power cuts*)
- This has led to:
  - Sizeable, multi-faceted initiatives, raising the complexity of value assessment, and
  - Advances in WTP research, and the introduction of SROI



## The need for collaboration and consistency

- With non-standard inputs, there's the possibility of DNOs using different values for the same benefit
- Much progress has been made on methodology, but the rules of application need joint development (ahead of ED2):
  - Can lead to discrepancies: e.g. mixture of single-year vs multi-year value measurement
  - Without a standard format to report results, comparing gross impact, value for money, and quality of research is difficult



# Ways of measuring social value

## Background

- The outcomes DNOs deliver are a combination of quantitative and qualitative
- In 2017, WPD tasked PWC to undertake a study of 13 existing social value measurement techniques to draw out best practice principles for energy networks
  - They engaged 11 companies considered leaders in the area, incl. Social Value UK & Big Society Capital
- First step is a common definition for all DNOs, e.g:  
*“The value customers place on the effects DNOs have on people and society by enabling them to input to their strategic and operational direction and by addressing the needs of vulnerable customers.”*
- While there is also not a universally-accepted technique, the study concluded that the best way to overcome the limitations of different methods is to combine them →

### Step 1: Quantitative reporting

Wherever possible express the impacts of our actions in measurable, numerical terms

### Step 2: Social value research

Methods to derive the intrinsic value customers place on a range of possible qualitative outcomes. E.g:



The monetary amount that a customer would be hypothetically willing to pay for a network to deliver a given initiative.



A measure of money gained by customers and costs avoided by society as a result of a given initiative.

### Step 3: Qualitative testing

Feedback explaining the qualitative impacts/benefit of our initiatives.

Test and provide context behind the social value research findings, understand what's driving customers' responses and prioritisations and provide a qualitative source of prioritisation



# Stated preference (willingness to pay) - Context



## What?

- A technique underpinned by econometrics, to establish priorities:
  - **determines how people make choices**
  - **how important each priority is**
  - **what value each has**



## How?

- Asks participants to make choices between statistically designed service/product pairs
- Focuses on what we do as consumers/public all the time (within competitive environments)

## Used across multiple sectors



Utilities



Transport



Postal services



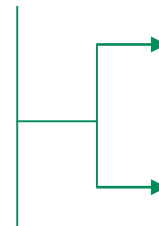
Financial services



Health

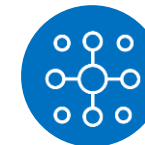


Retail



### Economic valuation:

- Cost-Benefit Analysis
- Regulatory incentives
- Impact assessment



### Market simulation:

- Value prediction
- Service optimisation



# Stated preference - Purpose

## Objective

- Use specially constructed stated preference questionnaires to derive the intrinsic value customers place on a range of possible outputs DNOs deliver. E.g:
  - ☐ *Power cut information in a range of formats and self service options*
  - ☐ *Access to network information to enable customers to assess options to participate in a 'smart' network*
  - ☐ *Engage local stakeholders to explain local investment plans to aid their future planning*
  - ☐ *Identify customers likely to be vulnerable during a power cut and sign them up to the PSR*
  - ☐ *Provide support to vulnerable customers also impacted by fuel poverty via a range of outreach support and advice services*
- Social value is inferred from the amount of money people would ***hypothetically*** be willing to pay to see them delivered
- **We are not asking customers to pay more to fund these activities, but using the technique to reveal the intrinsic value to them of the actions we can deliver**



# Stated preference – A joint DNO approach

- In 2018/19 (all DNOs) and 2019/20 (5/6 DNOs) we commissioned research via specialists, Accent
- **Common values across all DNOs were obtained** (for use in cost-benefit analysis) for service initiatives common to all DNOs
- Combination of online and face-to-face surveys (ensure inclusion of bill-payers without internet access/capability)
- 2,400 customers surveyed - representatively split by DNO area, and proportions by age, gender, socio-economic grade and rural-urban status within each DNO area
- In 2 years, tested 31 potential actions DNOs can deliver, split across five categories: 1) Customer support; 2) Vulnerable customers; 3) Resilience; 4) Smart networks; and 5) Sustainability
- While all outcomes tested were deemed to have value, insight is not be used to justify every action DNOs subsequently deliver to achieve them.
  - Within a number of categories there was a considerable range in the value attributed to each action - for example, the value of DNOs supporting small businesses to improve their resilience (41p per customer, per year) while significant, was dwarfed by actions to support domestic customers ahead of power cuts (valued 6.5x higher at £2.67)
- DNOs should use the findings to inform the scale of our activities, giving greatest priority to achieving outcomes customers have the highest intrinsic value to them



# SROI - how it differs from Willingness to Pay

## What is it?

**Social Return on Investment (SROI)** is a powerful method for measuring value that is not commonly reflected in traditional cost-benefit analyses. This includes:

- Environmental benefits (e.g. a reduction in CO2 emissions);
- Health benefits (e.g. a reduction in hospital visits); and
- Financial benefits to customers (e.g. reduction in future household utility bills)

It assigns a monetary value to the positive outcomes enjoyed by society to ultimately demonstrate the value of a network's actions *in full*.

**The SROI is backed by the Cabinet Office.**

## How does it differ from WTP?

The SROI methodology we employ uses *financial proxies* to estimate value delivered to society. These **proxies**, sources from reputable sources (e.g. BEIS, UK and local governments, WHO, reputable charities and think tanks) **represent real monetary values** – examples include the cost of an hospital stay, the cost to society of an additional kg of carbon emitted in the atmosphere.

Typical WTP studies source values from customer research. These values represent the monetary amount that a customer is willing to pay for an initiative that may benefit themselves or society at large. Therefore, **these values convey a subjective opinion and will vary** depending on the sampling strategy and quotas.

**SROI and WTP are not substitutes, they play a complementary role in assessing the full scope of benefits we deliver.**



# How we use the SROI

We use the Social Return on Investment during (1) our stakeholder engagement process and (2) after an initiative has taken place.

- **Using the SROI during our engagement process** allows us to compare the costs and benefits of each project in a structured manner, making an informed and data-driven decision on **which projects create the most value for our customers.**
- **Using the SROI after an initiative has taken place** allows us decide how it should evolve; whether to scale up, change, or discontinue services. Doing so we ensure that we continually deliver the most value for money for customers.



By using the SROI method we can:

- 1 Maximise the value delivered to customers, stakeholders and society as a whole
- 2 Identify the initiatives that deliver the largest possible value for the smallest possible cost to our customer base



# Using the SROI in conjunction with other methods

We use the SROI along with other methods to comprehensively assess our impact on society.

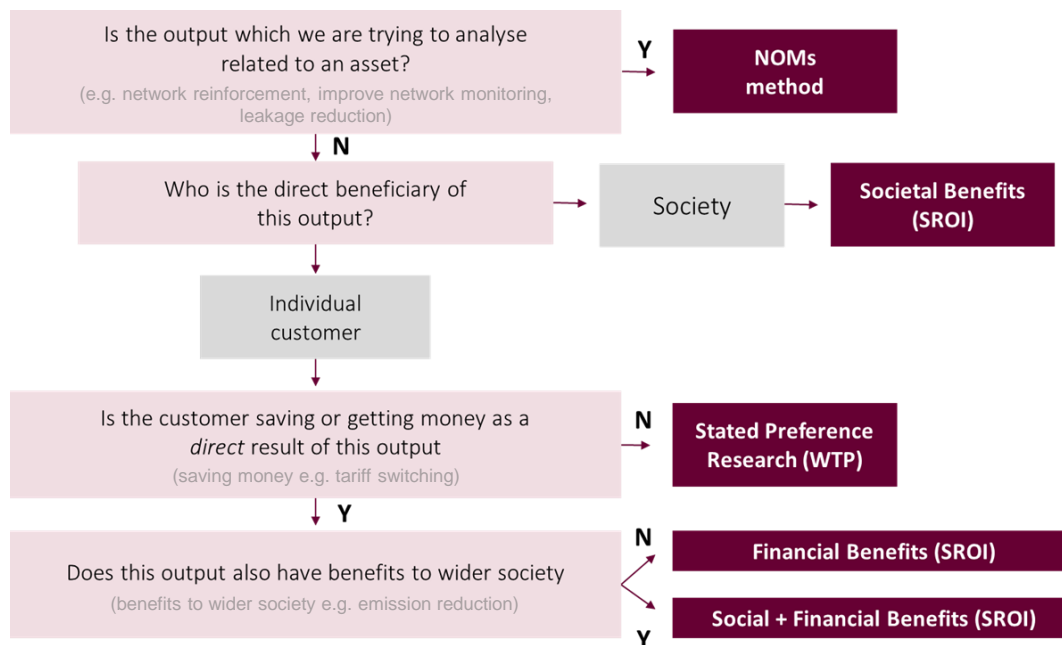
The method we use depends on the nature of the benefit we measure.

We use the **SROI** whenever an initiative:

- **Saves or gives the customer some money;**
- **Avoids a cost for society.**

For all initiatives that benefit customers directly but not in the ways listed above, we apply **Willingness to Pay** research. This research is carried out on the **specific initiatives with a representative sample of customers from our network areas.**

The NOMs model is used for any initiative tied to an asset (e.g. network reinforcement)

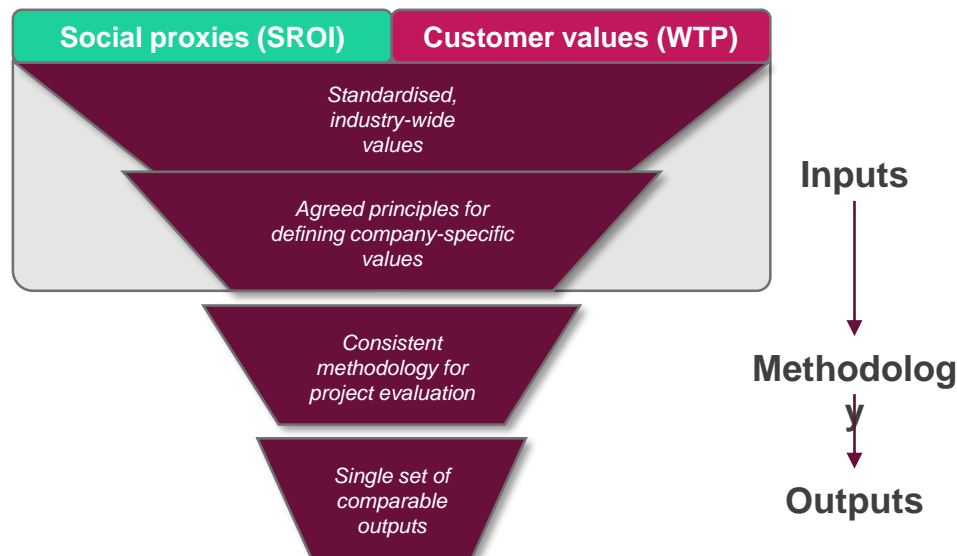


*Decision tree guiding our decision on which method we should use to measure the value of any given initiative (here referred to as an 'output').*

# Developing a combined approach

## A future approach, compatible across networks

- **Objective:** Define a methodology that allows for consistent, comparable social impact valuation



### Proposed solution

- A transparent methodology that allows the forecasting and measurement of socially focused initiatives.
- The methodology would build on an agreed list of values (with set principles for custom work), including WTP figures and social proxies across the DNOs.
- This work would produce a comparable set of reported figures (e.g. gross value created, £ of value per £ spent, and net present value) at both a project and company level.



# Developing a combined approach (2)

## Steps to implement

- 1 Socialise and agree a methodology for analysing initiatives, building on the guidelines laid out in the Cabinet Office's Green Book.
- 2 With the methodology, agree a standard set of figures (GPV, NPV, value for money) that each company should produce on a project and programme basis.
- 3 Through the working group, identify typical outputs that should have industry-standard values. Determine the most appropriate valuation methodology (SROI or WTP) for each, and agree a list of values that will be used across the industry.
- 4 Agree as a group the principles that will guide companies when creating new, or company-specific values, either through further WTP work, or SROI research.

**Deliverable:** A standardised methodology that allows both forecasting and measurement of socially focused initiatives, providing comparable results.

## Benefits

- **[For Ofgem]** Transparent and comparable values, providing a clear yardstick for the process of judging the SECV incentive
- **[For DNOs]** A standard approach to valuation, simplifying, and thereby reducing the administrative costs of, outcome reporting each year
- **[For society]** Increased focus on *measurable* social impact, driving value and scale that delivers for customers



## **Item 2c: Potential approach to vulnerability in ED2 (NPg-led)**

# Northern Powergrid thoughts on addressing customer vulnerability in ED2

Customer Service, Vulnerability and connections  
ED2 working group

27 February 2020



# Here's one we prepared earlier...and our view hasn't changed

## ***Ofgem needs to maintain and enhance the strong, clear, output incentives that have driven significant performance improvements under RIIO-1***

- Ofgem needs to put in place clear incentives for companies to improve their performance. Whether or not you agree with the exact targets that were set, RIIO-1 has unarguably been a success in terms of incentives leading to service improvements for consumers.
- RIIO-ED1 in particular sets the benchmark for output incentives. At RIIO-2 Ofgem needs to build on this success rather than undermine it.
- Strong and clear incentives remain essential in relation to those areas where consumers value improvements the most, and where investment decisions need to be optimised over time (such as power interruptions and customer service), and where performance can be measured objectively and reasonably accurately.

## ***We can also see areas where minimum licence standards may be appropriate***

- We set out above the circumstances in which strong financial incentives are appropriate, to encourage companies to optimise performance levels on behalf of consumers and in light of the costs.
- But in other areas Ofgem's proposal to move to licence minimum standards is sensible. In electricity distribution, the stakeholder engagement and consumer vulnerability incentive, and the incentive on connections engagement, are two areas where this would be appropriate. These incentives have driven a step change in company performance, but their nature means they will continue driving ever higher levels of investment in the area, to the point that the costs will not be in the interests of consumers in general. The arrangements are also highly bureaucratic, both for Ofgem and licensees. By codifying licensee responsibilities into explicitly stated licence requirements, Ofgem could simplify its regulatory arrangements and avoid unnecessary costs to consumers through incentives to further improve administrative processes that have already been brought up to a good standard.

***NPg RIIO-2 Framework consultation response – April 2018***

## The SECV has driven a step change in company performance...

- The SECV has led to:
  - significant improvements in the DNOs' understanding and identification of customer vulnerability and fuel poverty;
  - innovation to deliver improvements in the services and support offered to vulnerable customers;
  - greater recognition of the value, to stakeholders and the DNOs, of stakeholder engagement in the development and delivery of strategic plans, and
  - innovation to develop new approaches and services.
- Through the SECV, Ofgem sought to ensure that companies embedded both stakeholder engagement and consideration of vulnerable customers throughout their strategic planning and business processes. This has been achieved, permanently.

...however, the process has some significant flaws that means it has run its course.

- Over time the mechanism has become cumbersome. The submission and panel process is a distraction on management time for both the network companies and Ofgem.
- The assessment process lacks transparency and is open to accusations of subjectivity.
- The mechanism rewards the quality of the submissions rather than the quality of the services provided.
- It is asymmetrical in that rewards are scaled to revenues, so it will always play out that larger companies will do well. In the short term, smaller companies can compete but that level of performance is not sustainable given their size and the variation in rewards year-to-year.
- It drives competition rather than best practice sharing.



We believe the required outcomes for ED2 are most effectively achieved through a different approach. *(1 of 6)*

- The ED2 approach should:
  - continue to ensure that addressing vulnerability is embedded throughout organisations.
  - Identify and implement industry best practice
  - Drive continuous improvement
  - Encourage ambition and progressive thinking in business plans
  - Incentivise innovation

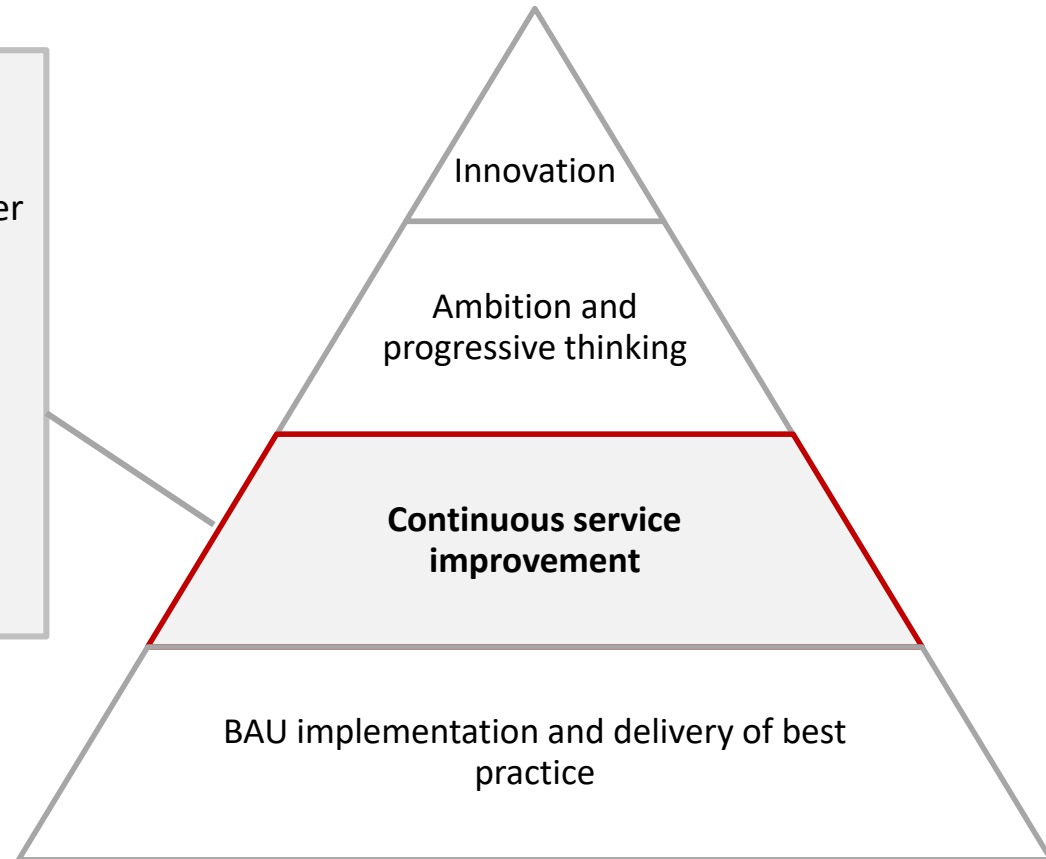
We believe the required outcomes for ED2 are most effectively achieved through a different approach. (2 of 6)

- Use licence conditions to mandate the minimum required standards, based on current best practice.
- Fund through base totex allowances following assessment of business plan propositions.
- Use reputational incentives. Companies to hold themselves accountable to its stakeholders for the commitments it makes in its business plans.



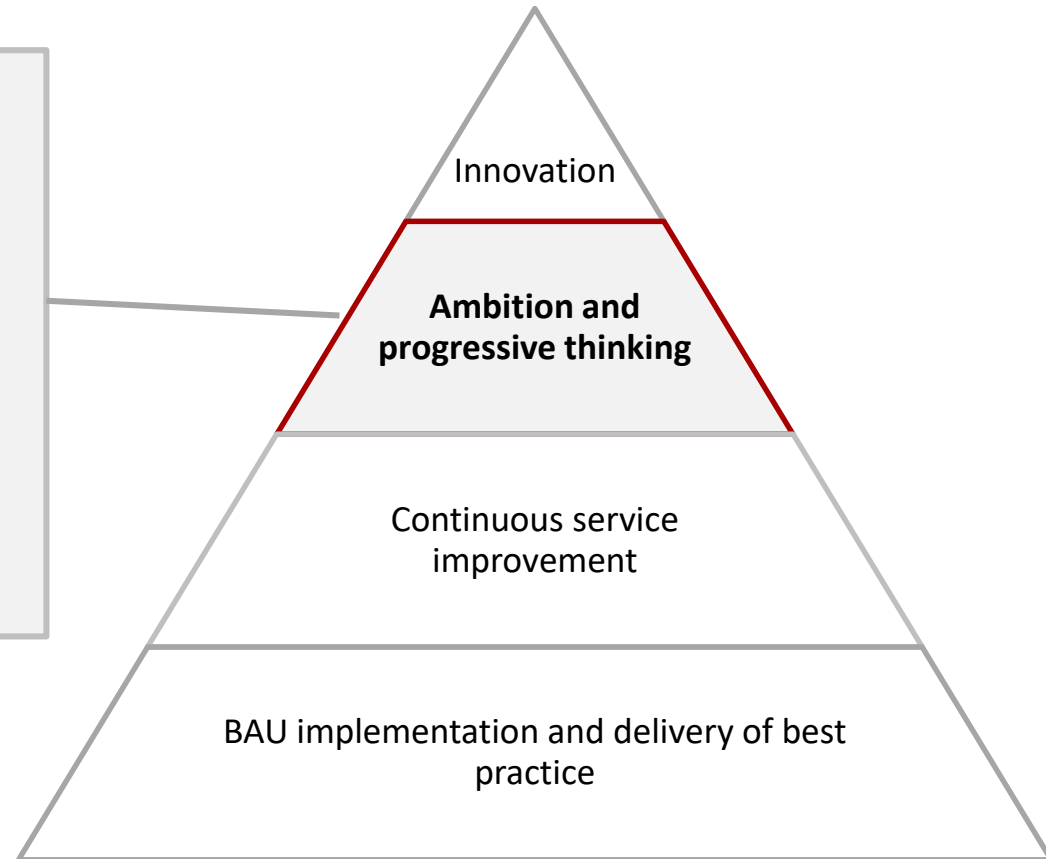
We believe the required outcomes for ED2 are most effectively achieved through a different approach. (3 of 6)

- Increase the focus on PSR customers in BMCS and weight accordingly as part of the customer satisfaction element of BMCS.
- The BMCS incentive has driven significant improvements and innovation across the industry, based on both its financial and reputational rewards. Leverage this to do the same for PSR customers.



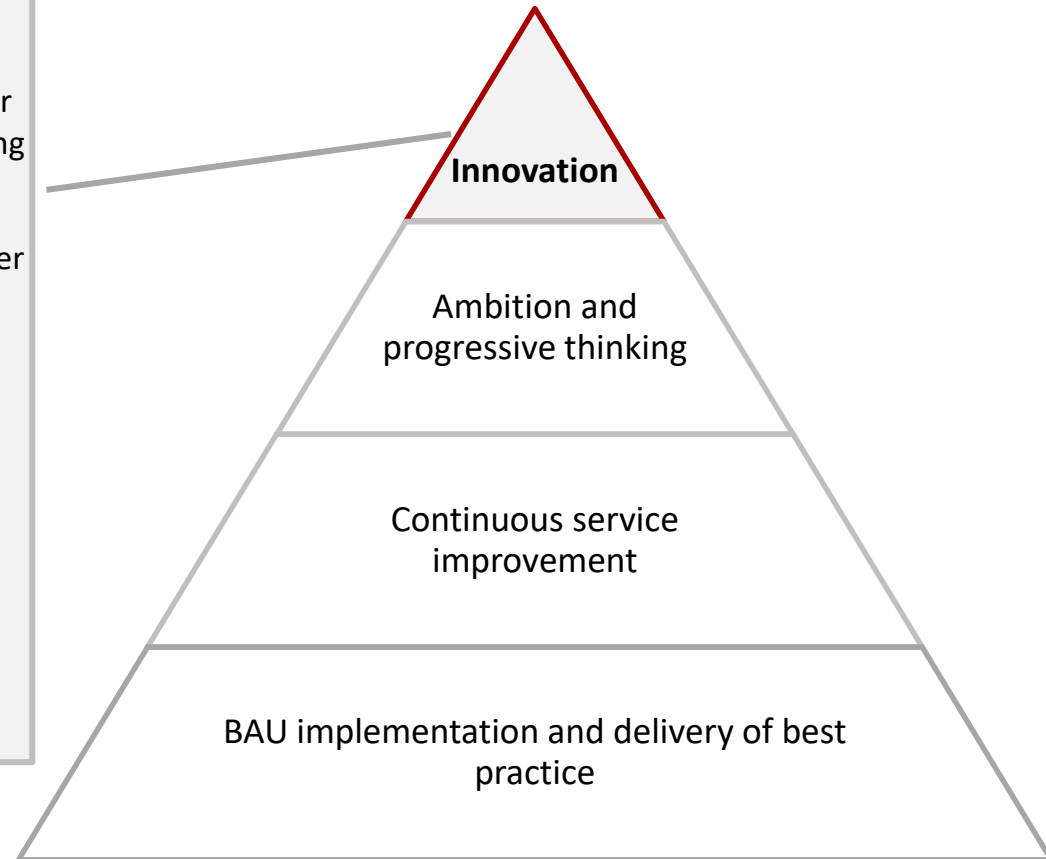
We believe the required outcomes for ED2 are most effectively achieved through a different approach. (4 of 6)

- Ofgem has introduced the business plan incentive that is set to reward ambition.
- At the moment it still isn't clear how this will work in practice, but it was created for this purpose.

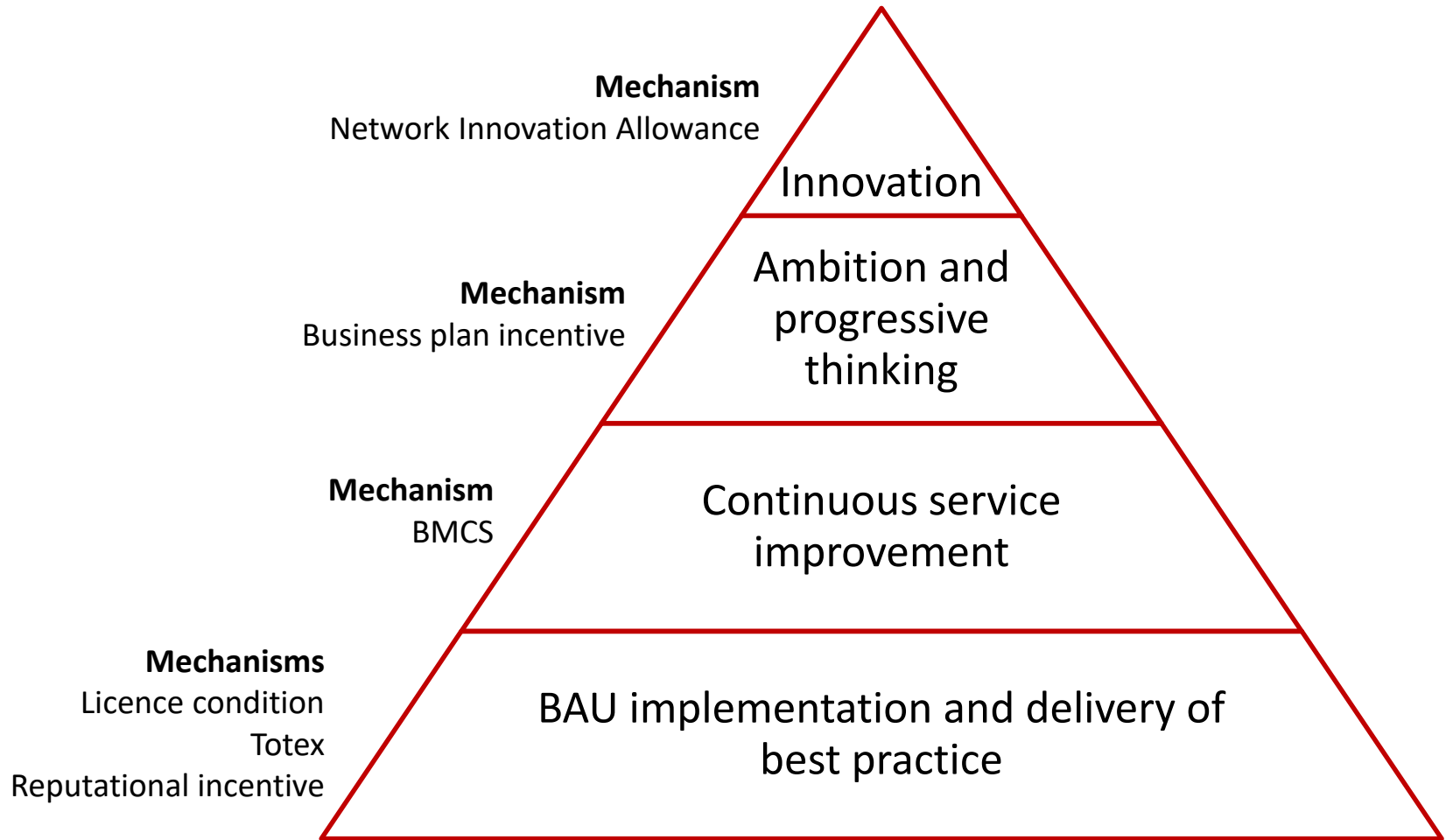


We believe the required outcomes for ED2 are most effectively achieved through a different approach. (5 of 6)

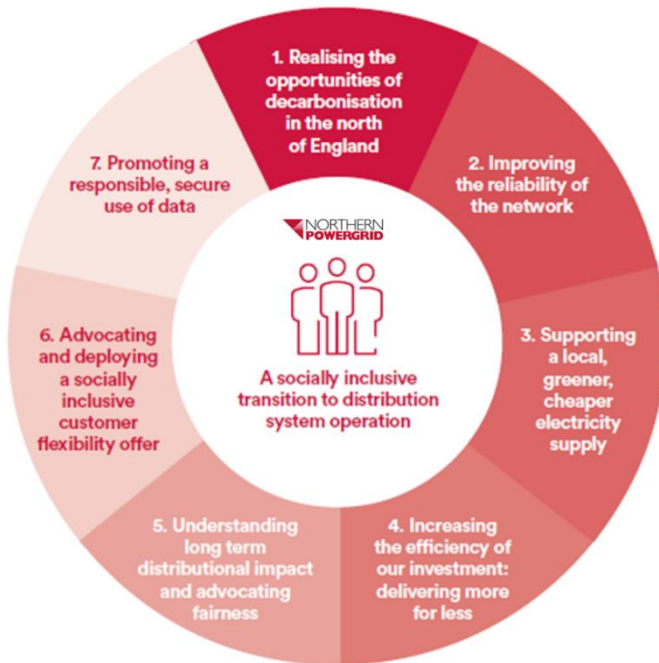
- Fund innovation via the Network Innovation Allowance. This has proven to be an effective mechanism for driving innovation in the industry. For ED2 it should be flexible enough to allow for including vulnerability projects.
- Ofgem can avoid creating, and administering, another competition. We encourage simplicity across the piece, don't create yet another process.
- This continues to embed customer vulnerability into core business. First, many innovation projects have vulnerability related benefits but also, a healthy innovation portfolio should include standalone innovation projects focussed on addressing vulnerability.
- A standalone, dedicated innovation fund is less flexible.



We believe the required outcomes for ED2 are most effectively achieved through a different approach. (6 of 6)



We don't believe an SECV mechanism is essential to deliver socially inclusive DSO...but a social conscience running throughout our organisations is



#### Seven point plan for a socially inclusive Distribution System Operation (DSO)

1. Realising the opportunities of decarbonisation in the North of England
2. Improving the reliability of the network and adapting customer service
3. Supporting a local, greener, cheaper electricity supply
4. Increasing the cost-efficiency of our investment: delivering more for less
5. Understanding long-term distributional impact and advocating fairness
6. Deploying a socially aware customer flexibility offer
7. Targeting our efforts through a responsible and secure use of data

## **Item 2d: Update on 'Social Constraint Management Zone' project (NEA and SSE)**



# Social CMZs (SCMZs) - Considerations for ED2

NEA and SSEN – A Collaboration



*Action for Warm Homes*



**Scottish & Southern**  
Electricity Networks



**Scottish & Southern**  
Electricity Networks

## Background, Aims and Benefits

### Background

Scottish and Southern Electricity Networks (SSEN) has teamed up with National Energy Action (NEA) on a new project where communities and community organisations can receive payments for helping ease constraints on the local electricity network, as an alternative to upgrading cables and substations. Energy saving projects that help the network are called flexibility.

### Aim

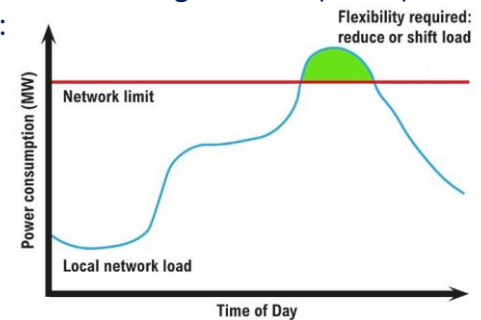
On winter evenings when electricity demand is at its highest, some parts of the local electricity network may approach their maximum capacity. SSEN is looking to address this issue with alternatives to upgrading the cables and substations, initially in two parts of our network: Drayton and Coxmoor Wood. These have been designated Social Constraint Managed Zones (SCMZ) and the aim is to provide an easily accessible route for communities to receive payments for either:

- Reducing their peak electricity demand
- Time shifting their electricity consumption or
- Reducing their overall electricity demand

### Benefits

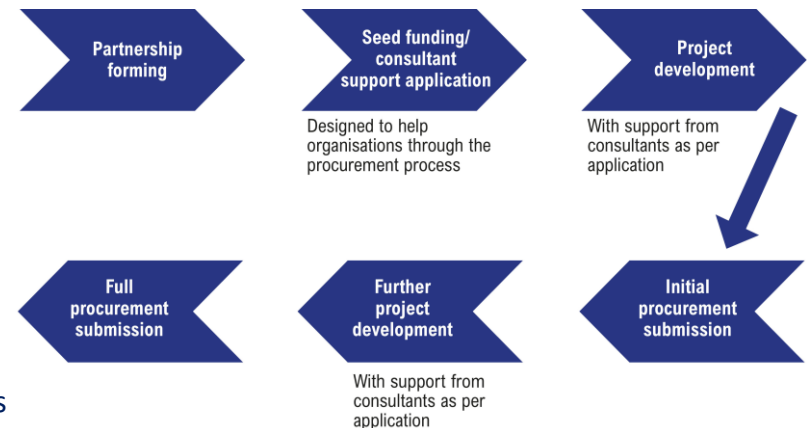
Delivering flexibility that would defer investment in the network would provide the following benefits to communities:

- Carbon reduction
- Energy efficiency
- Smart technology solutions
- Reducing fuel poverty
- Health benefits



## What have we done?

- Commissioned and worked with NEA to ensure the social aspect is delivered, not just the technical solution, and ensuring it is smart and fair
- Carried out significant stakeholder engagement and two trials in Drayton and Coxmoor Wood
  - ✓ stakeholder mapping
  - ✓ engagement through NEA
  - ✓ Webinars
  - ✓ Match Making Workshops
  - ✓ simplified qualification questionnaire (< 1 page)
- Six applications passed initial pre-qualification
- Tender process held between August and December 2019
- Along this journey five applications lost and one completed the process
  - ✓ Reasons for applications lost:
    - ☐ Commercials
    - ☐ Procurement
  - ✓ Other considerations
    - ☐ Challenges of energy efficiency outside of SCMZ market
    - ☐ Engagement costs



## What are the barriers?

### Stakeholder Feedback lessons

- It was noted the SCMZ concept is challenging given the need to measure kW output of energy efficiency and therefore takes time
- A streamlined communication process is key - one central contact point was cited as being beneficial and a consistency in language is needed
- SCMZ investment opportunities were relatively small (commercially), however we expect this to increase in the future due to increased uptake in EVs and Heat Pumps

Because of this feedback, there has been limited appetite to proceed with applications

## Potential Solutions for ED2

### External funding streams

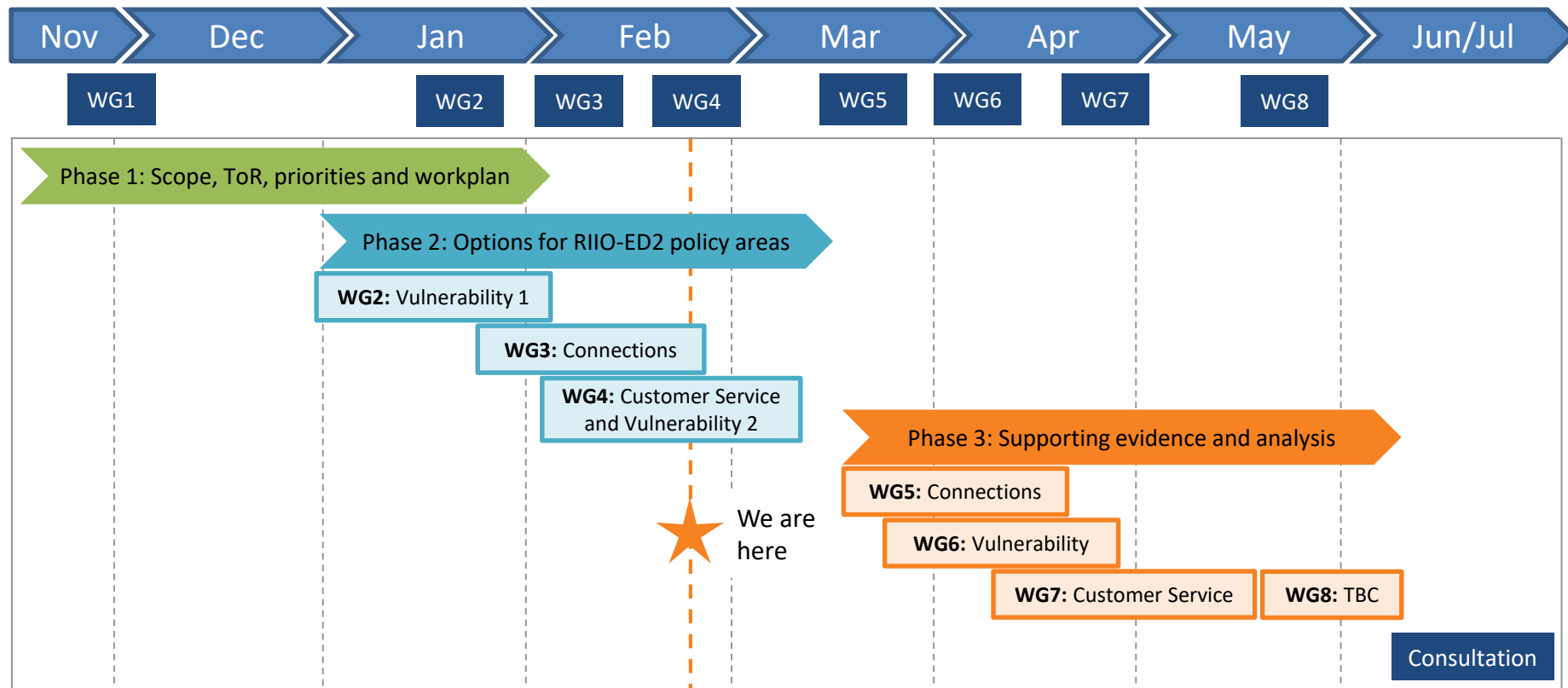
- Accounting for social externalities
  - ✓ Social Return on Investment model – wider social benefits should be included as part of any such scheme.
  - ✓ Clarity needed from Ofgem that ranking bids using a system that includes an SROI would be allowed.
- NEA note two new schemes coming in on significant value
  - ✓ Note that pairing these with SCMZ needs to be simple at the 'front-end' customers do not have resource to be 'trawling through engagements'
- Alternate policy-level recommendation
  - ✓ Re-distributive fiscal mechanisms
    - ✗ Issue: Through increased trade and ToU tariffs the 'slice of the pie' paid by customers will decrease – this, therefore should not be discouraged. However, those able to take advantage of this are those with flexible/facilitating technologies (EV, PV, battery, automation) and will tend to be wealthy. Therefore whilst overall 'pie' decreases, the share taken by those least able to afford it, will increase.
    - ✓ Alternative more reflective options would look at a more distributed fiscal measure (i.e. tax) on the technologies the wealthy are able to afford which could then subsidise these technologies/ energy efficiency for those already in fuel poverty or struggling to pay bills.
    - ✓ Stakeholders mention a reflection of general taxation to address this.
- Other access to network revenue stream
  - ✓ Account for optionality value
  - ✓ Whole system stacking of revenue streams

### Energy Efficiency Engagement

Once commercial streams are high enough to break-even, there is still a significant barrier in getting people to adopt energy efficiency technologies - this is well known within the UK and globally. Four potential resolutions are below:

- ✓ Any approach to energy efficiency policy / engagement must be behavioural, not purely economic. The economics must make a business case break-even, beyond this point behavioural measures are more important to gaining uptake.
- ✓ On SAVE opt-out and direct engagement approaches minimising customer effort worked best- by pairing energy efficiency rollout with other home visits (i.e. electrification of heat / transport) could be most effective
- ✓ Policy to help promote flexibility for households via incentives/subsidies
- ✓ Encourage and incentivise DNOs to engage with local authorities to understand where additional energy efficiency could be most beneficial, as part of the local energy planning process

## Appendix



We are here

**Phase 1** Settle scope of Group, share and agree a ToR & carry out a prioritisation exercise to inform future work (WGs 1 and 2).

**Phase 2** Explore options (for outputs and incentives) for the policy areas under consideration by the Group and the merits and drawbacks of these options. **Group members should put forward policy options for discussion and review ahead of these sessions** (WGs 2, 3 and 4).

**Phase 3** Gather evidence and analysis to support and develop options (WGs 5, 6 and 7). As such, options should be brought to the Group by end of February, to ensure sufficient time for consideration. We may require an eighth WG session, but this will be decided close to the time.

In some sessions we may discuss more than one issue area but the aim is to focus on one issue area per session. The above plan **allows us to discuss an issue area more than once where policy options can be developed over time.**



## Proposed dates and locations for CSVC working group sessions

WG session	Date	Time	Location
1. Introductory session	28 November 2019	10am-4pm	Ofgem London offices (Room 1.17)
2. Policy options: Vulnerability	23 January 2020	10am-4pm	Ofgem London offices (Room 1.13)
3. Policy options: Connections	04 February 2020	10am-2pm	Ofgem London offices (Room 1.09)
4. Policy options: Customer Service and Vulnerability	27 February 2020	10am-4pm	Ofgem London offices (Room 1.17)
5. Evidence and analysis: Connections	19 March 2020	10am-4pm	Ofgem Glasgow offices (Rooms 1 and 2)
6. Evidence and analysis: Vulnerability	9 April 2020	10am-4pm	Ofgem London offices (Room 1.05)
7. Evidence and analysis: Customer Service	30 April 2020	10am-4pm	TBC
8. Evidence and analysis: TBC	28 May 2020	10am-4pm	TBC

## Proposed alternative timetable

WG session	Date	Time	Location
1. Introductory session	28 November 2019	10am-4pm	Ofgem London offices (Room 1.17)
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