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Dear James,

HS2 Ltd. Response to RIIO-ED2 Sector Specific Methodology Consultation: Annex 1 - Delivering value for money services for consumers - Non-confidential response

Thank you for the opportunity to provide input through this consultation in into the development of the methodology for RIIO-ED2.

Summary of consultation response:

HS2 Ltd. has significant experience of working with the DNOs predominantly through Phase 1 of HS2 (London to West Midlands) and is using this response to raise a number of key issues on delivering value for money services for customers:

- 1) The Ofgem 'customer' group definition needs to include 3rd Party Works where the DNO's have a Licence obligation to undertake those works. This is to be matched with an appropriate incentive mechanism which requires DNO's to seek feedback from Major Projects customers like HS2 Ltd.
- 2) The specific requirements of large-scale connection customers must be understood and met by DNOs through tailored approaches. This is to be matched with an appropriate incentive mechanism which requires DNO's to seek feedback from major projects customers like HS2 Ltd.
- 3) Closer scrutiny of these activities (1 and 2 above) by Ofgem, acting as a point of escalation/ arbitration outside of the incentive mechanism will encourage standardisation and accelerated performance improvements which are urgently needed.

Introduction.

HS2 is a new high-speed railway linking London, the Midlands and the North. It will provide much-needed rail capacity across the country and is integral to rail projects in the North and Midlands – helping rebalance the UK economy. Once fully operational, HS2 will serve over 25 stations, connecting around 30 million people and is critical for the UK's low carbon transport future. Phase One of HS2 is now in construction and will involve high speed trains travelling between London and the West Midlands on 140 miles of dedicated track. The trains will pass through more than 32 miles of tunnels and over 10 miles of viaducts.

High Speed Two Limited (HS2 Ltd.) is the Nominated Undertaker which has been tasked by the Department for Transport (DfT) with managing the delivery of HS2. It is a non-departmental public body wholly owned by the DfT. HS2 is funded 100% by the UK Government. Delivering the new railway to programme and budget and delivering value for UK taxpayers is an absolute priority of HS2 Ltd.

In order to construct HS2, it is necessary to divert, protect, remove and assure (referred to by Utility companies as '3rd party works') a full range of existing utility assets including electricity assets owned by Distribution Network Operators (DNO). It is also necessary to secure new supplies of electricity to construct and operate the railway and HS2 Ltd. is therefore active in securing new electricity connections for both temporary and permanent electricity supplies, including large scale connections.

During Phase One, HS2 Ltd. is working with UK Power Networks, SSE Electricity Networks and Western Power Distribution. In Phase Two (where the railway will extend from West Midlands to Leeds and Manchester) HS2 Ltd. will also work with Scottish Power Energy Networks, Electricity North West and Northern PowerGrid. HS2 Ltd. will therefore interact with all the DNO operators in England.

HS2 Ltd. is working with the DNOs through the Energy Networks Association on some of the issues raised in this consultation response.

Consultation Responses:

Meet the needs of consumers and network users: Customer satisfaction

OUTQ3. Do you agree with the proposed scope and associated customer category weightings for the satisfaction survey?

On Phase 1, HS2 Ltd. will spend circa £140 million on 3rd party works undertaken by the electricity DNO's on their assets. In addition to this, HS2 Ltd. has elected to undertake works on some DNO assets through its supply chain. Where this is the case, the final connections will be undertaken by the DNO prior to the new assets being adopted by the DNOs into their networks.

Despite their scale and strategic importance to the timely delivery of HS2, 3rd party works are currently excluded from any Ofgem customer incentive. It is HS2 Ltd. 's belief that this absence of scrutiny by Ofgem has contributed to:

- DNO's seeking risk free positions in contracting with HS2 Ltd. to undertake the required 3rd party works.
- Inconsistent performance levels in the development and delivery of the contracted 3rd party works by the DNO's.

HS2 Ltd. recommend that Ofgem should expand the scope of the Customer Satisfaction Survey (CSS) to include 3rd party works (or create a new incentive specifically for 3rd party works).

In addition to establishing an incentive mechanism for 3rd party works, HS2 Ltd. recommend that Ofgem should apply greater scrutiny in this area to drive up the performance of the DNO's. By acting as a point of escalation/ arbitration, standardisation of appropriate approaches and performance improvements which are urgently required in the development and delivery of 3rd party works will be achieved more quickly.

It should be noted that to date, HS2 Ltd. has not been requested to provide feedback in support of any Ofgem incentive by DNO's. Due to the strategic importance of HS2, we would expect that HS2 Ltd. would be considered a 'mandatory customer' for future CSS feedback under the broadened scope, to ensure that DNO's are able to demonstrate their performance across all the full spectrum of customer works.

Meet the needs of consumers and network users: Connections

OUTQ7. Do you agree with our proposal to expand the connections element of the customer satisfaction survey?

HS2 Ltd. supports retaining the connections element in the CSS and welcomes the opportunity to contribute in the consultation and design of the incentive to improve the performance of DNOs in connections work.

It should be noted that to date, HS2 Ltd. has not been requested to provide feedback in support of any Ofgem incentive by DNO's. Due to the strategic importance of HS2, we would expect that HS2 Ltd. would be considered a 'mandatory customer' for future CSS feedback to ensure that DNO's are able to demonstrate their performance across all the full spectrum of customer works.

OUTQ8. Do you consider that we have identified the relevant considerations to determine which customers should be captured in its scope?

See our response to OUTQ3 and 7 regarding HS2 Ltd. 's request to be involved in the CSS as a 'mandatory customer'.

Improving Service Standards for Major Connections Customers

HS2 Ltd will require new supplies of electricity to construct and operate the railway. HS2 Ltd. (and its contractors) have currently contracted circa 50 DNO connections for tunnel boring machine (TBM) power, stations and construction supplies. New connections include a new 36 MVA substation for supplies to a TBM, to circa 200kVA connections for power to construction compounds. Further connections will be required for traction power (transmission connected), and for signalling and other rail systems.

HS2 Ltd. do not concur with Ofgem's assessment that the service provision for large connection customers has improved. Connection Offers are made on a one size fits all basis which do not meet the needs of large projects, such as HS2. Issues seen include:

- a) An absence in the Connection Offer, and reluctance to subsequently share the detailed information needed on scope, schedule, cost and assumptions/ risks to validate connection offers which cause significant problems for budget setting, integration of works, and change control or challenging the connection offer. This has been witnessed multiple times across smaller and larger connections. This lack of detail leads to an inability for customers to undertake detailed analysis of the connection offer to validate value for money. Any scope changes required should be subject to stringent change control measures and formally incorporated in a re-baselined connection offer.
- b) A DNO includes a 12-month validity period for a customer's works to commence after signing a connection offer or the offer is terminated (without notice). Due to the nature and complexity of major projects this timescale often cannot be worked to, but without certainty on whether the connection is available there is little certainty on schedule or cost. The DNO is unwilling to flex the time period to fit the project requirements. Infrastructure Offers have been proposed as the solution to overcome customer uncertainty; however, an Infrastructure Offer does not provide a suitable solution to the complex needs of project such as HS2.
- c) Lengthy off-site connection works often involve agreeing numerous third-party easements and wayleaves which are required to be in place prior to energising the new supplies. Where a DNO is unwilling to use its statutory powers to acquire the land rights, they can take a considerable amount of time to agree and exposes HS2 Ltd. to the risk of delay and supplies being unavailable when required.

On some of the new connections work, HS2 Ltd. has contracted contestable work to its supply chain and is planning to increase the amount of contestable work on future connection work. HS2 Ltd. supports the use of Independent Connection Providers (ICPs) and Independent Distribution Network Operators (IDNOs) and believes that increased work by non-DNOs will provide a powerful incentive to DNOs to improve performance and customer-focus. HS2 Ltd urges Ofgem to strengthen the role of both ICPs and IDNOs.

OUTQ12. Do you have views on our proposed Connection Principles and associated standards (in Appendix 4) for RIIO-ED2? Do you disagree with any of the standards we have proposed? If so, why?

HS2 Ltd. broadly agrees with the proposed high-level Principles and standards and Ofgem's intention to hold DNOs to account for their performance in delivering major connection customers' needs.

The following should be explicit requirements under Principle 2 to ensure that Ofgem's expectations are clear:

- a) An obligation on the DNO to meet customer specific requirements on the provision of information forming part of the connection offer, to include detailed information on scope, schedule, cost and assumptions, dependencies, exclusions and risks (along with other information which is reasonably required). This will enable customers to understand potential cost and programme risks.
- b) Connection offer and agreement validity periods must meet the reasonable requirements of large-scale connection customers. These offers and agreements should be open to reasonable extension not reapplication on termination.
- c) Terms and conditions should be based on normal contracting terms (e.g. NEC 3). Any 'non-standard' conditions terms imposed by a DNO in a connection offer are open to acceptance or rejection by the customer with escalation to Ofgem where an agreement cannot be reached.

Principle 3 refers to delivery of connections however delivery performance is not captured. As identified earlier in this response, there are a number of factors that need to be considered when determining the performance which include:

- d) Clarity on land use requirements, and responsibilities for delivery of land rights, with assumptions and risks identified. HS2 Ltd. expect DNOs to use the statutory powers available in the Electricity Act to compulsorily purchase land, where appropriate rather than transferring the risk to HS2 as the connecting party.
- e) Standard project management information to be provided to customers throughout the delivery phase, including monthly progress reports containing standard reporting information required by the customer.
- f) The use of delay liquidated damages as an incentive against late delivery should be used if appropriate.

HS2 Ltd. would expect Ofgem to benchmark the costs of delivering large scale connections and make this information available to customers.

OUTQ18. Do you agree with our proposal to remove the Incentive on Connections Engagement for RIIO-ED2?

HS2 Ltd. has been involved with DNO's since 2015 however has not ever been consulted as part of the Incentive on Connections Engagement (ICE). We therefore support the replacement of the incentive as it appears ineffective in representing DNO performance. It is HS2 Ltd.'s view that the replacement incentive mechanism must:

- Incentivise the customers' needs to be at the centre of working practices by the DNO, ensuring that customer's requirements are met through tailored approaches for large connection customers.
- Ensure that DNO's can demonstrate their performance across the full range of scale of connections. HS2 recommend that a 'mandatory customer' feedback requirement is placed on DNO's to achieve this. Given the scale and strategic importance of HS2, HS2 Ltd. would expect to fall within this group.

HS2 Ltd. recommend that Ofgem should apply greater scrutiny in this area to drive up the performance of the DNO's. By acting as a point of escalation/ arbitration, standardisation of appropriate approaches and performance improvements which are urgently required in the development and delivery of large-scale connection works will be achieved more quickly.

Consultation response ends.

HS2 Ltd. would like to thank Ofgem for the opportunity to respond to this consultation. Should HS2 Ltd. be able to contribute further or provide any additional information in relation to this consultation response, please do not hesitate to contact me.

Yours sincerely



Richard Holdgate
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