

# RIIO-ET Policy Working Group 5



**ET Policy Team**  
08/11/2018

*This is our last WG before our consultation comes out in December!*

### **Purpose of today**

- Today we will seek to give an overview of the key issues we plan to consult on in December
- We have yet to go through our internal governance process, so all materials presented today are for the purpose of discussion only

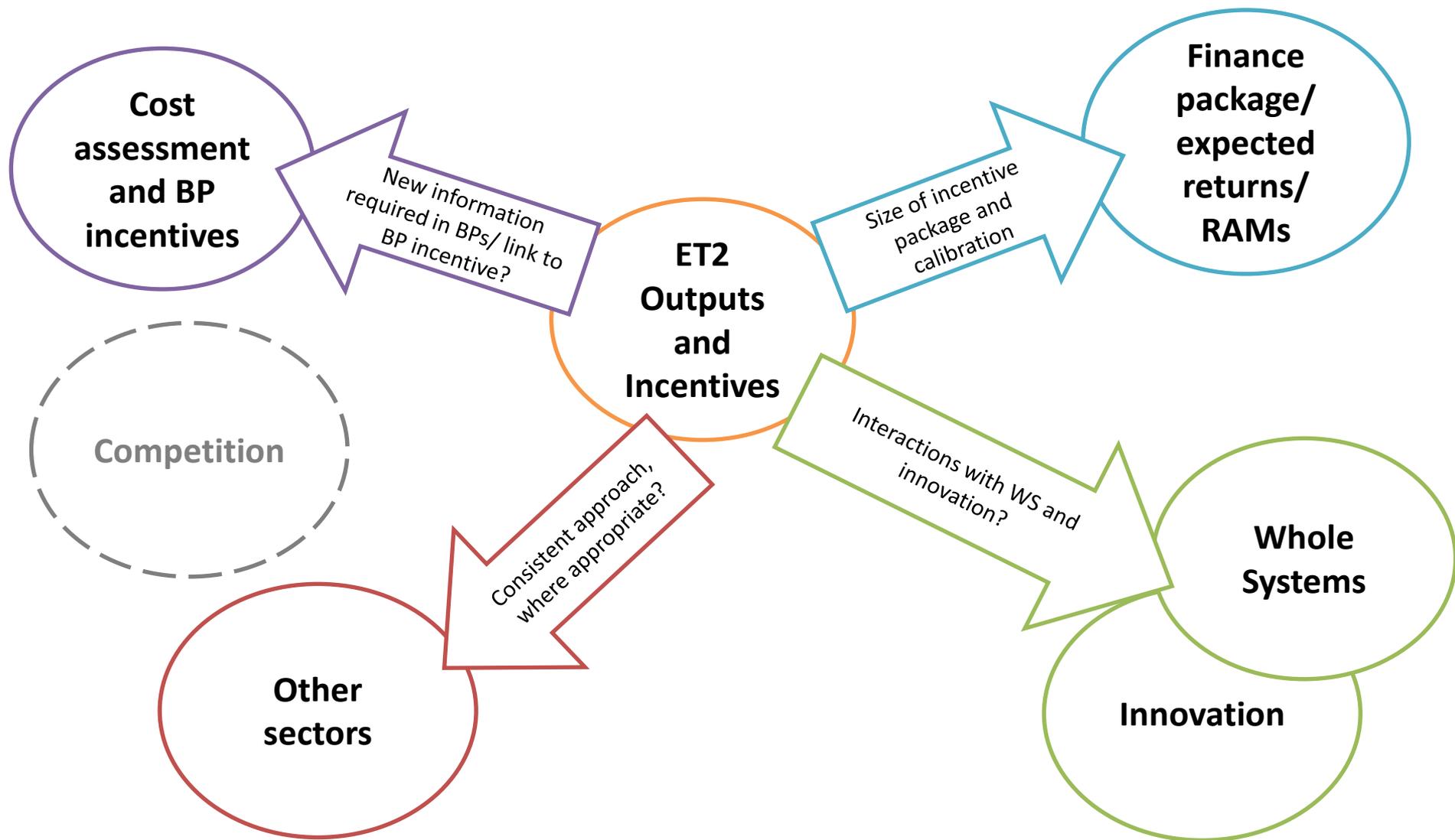
### **We are particularly interested in –**

- Whether you consider we have “missed” anything – this could be within the context of existing RII01 outputs we are looking to retain/ amend, or in terms of new proposals you would like to put on the table
- Interactions with other areas of work – in particular business plans. How do proposals discussed today interact with the business plan process? Is there any new information we need to start collecting?

### **Next steps**

- Ofgem will continue to pull together the RII0-ET2 outputs package for consultation
- We will engage with policy leads in other areas to ensure we are proposing a holistic package and that we avoid issues, such as for example a proliferation of discretionary type rewards
- Are there any outstanding issues which WG participants think we should discuss further ahead of December? We could do this via telco
- Is there any merit in scheduling in time in January/ February for additional WG meetings/ telco if required?

*We are very mindful of interactions with other areas of work – unfortunately we cannot cover all of these today. Do you think we have accurately captured these?*



# Network Access Policy



**Stephanie Gallo Mendoza**  
**Keren Maschler**



### WG feedback;

- TOs noted improvements in interaction, communication, behaviour and culture across TO and SO planning teams, including biannual stakeholder events well attended and jointly delivered Improved engagement.
- Outage Planning Teams restructured and now organised around planning timescales.
- Process for security and **economic** justification utilising 'NAP Forms' for every outage change with significant impact
- Feedback to date came mainly from TOs

### Additional considerations

- We will be seeking views on how the NAP has operated from a wider range of stakeholders, including directly from the SO.
- This will feed into to further analysis on how to evolve the NAP.
- We also note potential interactions with other areas of work, in particular Whole Systems.
- Consequently, it is likely that our consultation position on NAP will be more open than in other areas. These slides set out our initial thoughts on changes we could explore.

Policy area	RIIO1	Proposed consultation position for December
<p><b>Incentive Structure</b></p>	<p>Licence condition obligation to have NAP in place</p> <p>This incentive is in Special Condition 2J of the TO Transmission Licence</p>	<ul style="list-style-type: none"> <li>Propose that this incentive should remain in RIIO2 as an obligation only in the TO Licence Conditions</li> <li>Make sure NAP is aligned with other work streams, i.e. SO incentive</li> <li>No additional financial incentive for additional reduction in constraint costs</li> </ul>
<p><b>SO-TO separation</b></p>	<p>Currently 2 NAPs in place: one for England and Wales (NGET) and one for Scotland (Scottish TOs)</p> <p>Current policies very similar</p>	<ul style="list-style-type: none"> <li>Propose one NAP for all TOs, to:               <ul style="list-style-type: none"> <li>Enable streamlined processes (for the SO) and thus more efficiency, and</li> <li>Enhance transparency and clarity</li> </ul> </li> <li>Existing NAPs are already similar (NGET NAP currently undergoing change to reflect separation)</li> <li>Slight differences in priorities could be amalgamated into the NAP</li> </ul>
<p><b>Scope: third party engagement</b></p>	<p>Currently NAP does not cover third party engagement, though engagement taking place informally (and encouraged by Ofgem to some extent)</p>	<ul style="list-style-type: none"> <li>We propose to seek views on extending /covering third party engagement in the NAP</li> <li>Input needed from DNOs, Generators and SO</li> </ul>
<p><b>Monitoring benefits to consumers</b></p>	<p>Currently success based on qualitative feedback. No real data or visibility on reduction in constraint costs</p>	<ul style="list-style-type: none"> <li>We propose to seek views on metrics to quantify success</li> <li>Reporting-only requirement (no additional incentive)</li> </ul>

**What are your thoughts on the proposed changes to the NAP?**

**Lisence Condition:**

*2J.1 The purpose of this condition is to set out the requirements upon the licensee to publish, no later than 30 days after 1 April 2013, and from then on to act consistently with a Network Access Policy (“the NAP”) designed to facilitate efficient performance and effective liaison between the System Operator and Transmission Owners in relation to the planning, management, and operation of the National Electricity Transmission System (NETS) for the benefit of consumers.*

**Authority decision to approve NAP (2015):**

*Effective coordination, cooperation and communication between onshore transmission owners (TOs) and the GB system operator (SO) is fundamental to the energy system delivering for its customers including providing long-term value for money. The NAP should contribute to effective coordination, cooperation and communication. It includes what can be expected in terms of TO long-term planning, managing changes to that plan and how the TO will work with the SO in managing unplanned network outages.*

<https://www.ofgem.gov.uk/publications-and-updates/authority-decision-approve-network-access-policy-nap>

# Energy Not Supplied



**Cissie Liu**

## Summary of stakeholder views:

- Some stakeholders consider that high levels reliability should be BAU, and not incentivised.
- TOs maintained that ENS has allowed them to become better at managing risk. TOs also stated that the incentive allows them to be proactive in managing new risks to reliability.
- TOs provided evidence of considerations of ENS within works and projects.
- Other views were that TOs have shown they can reduce ENS close to zero, therefore we should not continue to reward financially, rather, ENS should move to a penalty-only scheme.
- Stakeholders asked Ofgem to consider changing the ENS measure from MWh lost to number of Customers Interrupted (CI) and Customer Minutes Lost (CML).

## Proposed position for December consultation

After further internal discussion...

- Consultation will retain an open stance and consult on a wider variety of options.
- We will ask respondents to provide further evidence to show value for money for consumers of the incentive.

Policy area	Proposed consultation position for December
Scheme structure	Ofgem will consult on whether the reliability should continue to be incentivised under a reward and penalty scheme for RII02, or whether it should move to penalty-only, setting out arguments for both options.
Baseline	Baseline targets should be challenging and achievable. If reward is retained, we propose to introduce an annual improvement factor to baseline (similar to Electricity Distribution) to account for long-term improvements driven by asset health framework, as well as encourage the TOs to be proactive in evolving current strategies and mitigation actions.
Incentive Rate	We plan to consider external developments and wider strategic thinking to inform an updated Value of Lost Load (VoLL) value.
Financial collar	No evidence that indicates this is unreasonable and should change from RII01 value of 3%.
Excluded and exceptional events	We propose consulting stakeholders during WG5 whether the definition for excluded and exceptional events should be amended first, before considering consulting on this in December.
Embedded generation	After further internal consideration, Ofgem will consult on how to account for embedded generation. Ofgem will consider the practicality, and a reasonable way to approximate embedded generation, if needed.
Baseline metrics	Stakeholders voiced that CI and CML could be used to measure reliability on transmission level. Ofgem current preference is to consider the implications of changing metrics in the longer term (i.e. RII03).

## Policy areas

Policy area	Reasoning
Scheme Structure	<ul style="list-style-type: none"> <li>Lack of financial reward may result in “bare minimum” performance, rather than taking more consideration of risk and more efficient management of ENS.</li> <li>TOs have provided Ofgem with concrete examples of ENS mitigation actions. From an engineering perspective, examples are BAU. Ofgem welcomes more detailed evidence from consultation respondents.</li> </ul>
<b>How would removing the reward affect business considerations?</b>	
Baseline targets	<ul style="list-style-type: none"> <li>RIIO2 target will likely be lower given performance over RII01.</li> <li>Baselines should take into account NOMs &amp; SQSS, experience in mitigation actions, potential increase in modernisation projects, etc.</li> <li>Ofgem welcomes views on an annual improvement factor and the method on setting baselines.</li> </ul>
<b>Is a baseline modelled on past performance reasonable? How should we account for other issues?</b>	
Excluded events & exceptional events definition	<ul style="list-style-type: none"> <li>Some definitions have not been changed since TPCR4.</li> <li>Ofgem welcomes views from stakeholders.</li> </ul>
<b>What are your thoughts?</b>	
Embedded Generation	<ul style="list-style-type: none"> <li>Based on NGET’s presentation, there are a series of barriers related to data collecting and sharing, as well as level of detail of data on embedded generators.</li> <li>Ofgem will consider and consult on how to address these barriers for RII02.</li> </ul>
<b>What measures need to be in place to facilitate this? What info is needed from DNOs?</b>	

## Policy areas

Policy area	Reasoning
Baseline metrics	<ul style="list-style-type: none"> <li>Stakeholders voiced CI and CML could be used to measure reliability at transmission level. This would be in line with ED.</li> <li>Originally, we considered these measures would not be relevant, as there is a limited number of directly connected customers on the transmission system.</li> <li>After consulting with ED colleagues and engineers, using CI/CML is more intuitive, would provide more accurate data on outage lengths and impact, and-should encourage TOs to think about the end user (i.e. not “their customer’s customer”). However, it may not necessarily change the behaviour of TOs or the effects of the incentive.</li> <li>Ofgem will need to think carefully about how to implement new metrics, including setting new baseline targets.</li> </ul>
<p><b>What reporting mechanisms are currently in place? How do you propose to set baselines?</b></p>	
Incentive rate	<ul style="list-style-type: none"> <li>Current estimate of VoLL is in line with recent studies (ENWL, ACER/CEER).</li> <li>TOs are doing joint WTP study.</li> <li>Does the current VoLL estimate reflect the increasing reliance on electricity in 2020s?</li> <li>Ofgem intends to consider external developments and wider strategic thinking.</li> </ul>

**Are there any developments yet from the TO study? Do you have any strong views?**

## Unchanged policy areas (subject to internal discussions and Dec consultation)

Policy area	Reasoning
<p>Incentive type: Absolute Financial</p>	<ul style="list-style-type: none"> <li>• Relative incentive may drive inefficient behaviour (e.g. reduce ENS to a level that consumers do not value) as companies may be more driven to “place 1<sup>st</sup>” amongst the TOs.</li> <li>• Relative incentive may be difficult to compare across networks due to difference in size, weather, etc.</li> <li>• Financial incentive encourages development and focus on processes TOs may not otherwise improve on (e.g. embedding culture change, etc.).</li> <li>• Reputational incentive not likely to be strong enough (especially in relation to smaller loss of supply events compared to large events).</li> </ul>
<p>Financial Collar</p>	<ul style="list-style-type: none"> <li>• There is no evidence that this needs to change.</li> <li>• TOs unsupportive of widening the collar.</li> <li>• 3% of base revenue is significant and should continue to drive good behaviour.</li> </ul>

**Our proposed consultation position is to retain the absolute financial incentive, and financial collar for ENS**

# APPENDIX

## Baseline setting

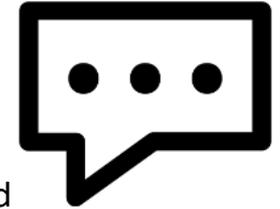
Ofgem will be consulting on how to set baselines for RII02. Below are our current views after further analysis following our proposals in WG4.

Methodology	Reasoning
Roll over of RII01 Methodology	<ul style="list-style-type: none"> <li>• Would reflect RII01 good performance therefore targets would be lower.</li> </ul>
Percentage annual improvement factor	<ul style="list-style-type: none"> <li>• Increasingly challenging targets year-on-year to reflect expectation of better contingency plans, embedded generation(?), and asset health framework.</li> <li>• In line with DNO scheme.</li> </ul>
5 year rolling target based on historic performance	<ul style="list-style-type: none"> <li>• If there is poor performance the previous year, new targets would increase. This is not the intended purpose of the ENS scheme.</li> <li>• Additional level of risk carried by TOs for increasingly large volume of modernisation works can be considered elsewhere.</li> </ul>
Rolling Target (carry over)	<ul style="list-style-type: none"> <li>• TOs could have good performance for 4 years, then in the last year have a bad performance.</li> <li>• If TO surpasses target in Year 1, then it would be penalised for the remaining 4 years.</li> </ul>
Deadband	<ul style="list-style-type: none"> <li>• There is no incentive within the deadband, therefore this does not reflect customers' value of each MWh lost. This may be unfair to consumers who are paying to receive a high level of reliability.</li> </ul>
Additional target (# of loss of supply events)	<ul style="list-style-type: none"> <li>• No evidence that this is needed, as the number of loss of energy events has not been increasing.</li> </ul>

# Connections

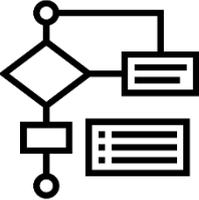


**Dale Winch**



### Summary of stakeholder views

- ❑ There is broad agreement that the current penalty-only incentive (and the connect and manage arrangements it was built on) has been successful in ensuring the timeliness of connection offers for customers looking to connect to the Transmission Network.
- ❑ Feedback suggested that due to the success of the timeliness of the connection offer process, the quality of the connection offer is now seen as the most important factor for customers.
- ❑ Generally a good connection offer would be one that is robust and provides the customer with a range of transparent options and costs.
- ❑ There is broad support for linking the incentive more widely to a stakeholder engagement incentive (such as the Stakeholder Satisfaction Output). However, it would need to ensure that the roles of the SO and TO are clear to the customer, to ensure that this is an accurate measure of their performance.

Policy area	RIIO1	Proposed consultation position for December
<p><b>Incentive Structure</b></p> 	<p>A financial penalty-only incentive applies to connection offers.</p> <p>TOs have 3 months to provide a connection offer to the SO.</p> <p>This incentive is contained in Standard Condition C18 of the Transmission Licence.</p>	<ul style="list-style-type: none"> <li>Propose that this incentive should remain in RII02.</li> <li>Despite the success of this incentive, there remains a need to ensure that connection offers continue to be made in a timely manner.</li> </ul>
<p><b>Deadline</b></p> 	<p>TOs have 3 months to provide a connection offer to the SO, who then provides this to the Customer.</p>	<ul style="list-style-type: none"> <li>We propose retaining the timeliness aspect of the connection offer incentive.</li> <li>We do not propose to amend the 3 month deadline for offers as we consider a reduction in the deadline would not be of significant benefit to customers, and could risk the quality of connection offer.</li> </ul>
<p><b>Incentive Type</b></p> 	<p>Penalty-only incentive of up to 0.5% allowed revenue.</p>	<ul style="list-style-type: none"> <li>We propose retaining the timing aspect of the incentive as penalty-only, with the level of the penalty to be decided at a later date.</li> <li>A penalty has worked well with the licence conditions and has shown success to date.</li> </ul>

**What are your thoughts on the proposed incentive structure, type and deadline?**

Policy area	RIIO1	Proposed consultation position for December
<p><b>Incentive Scope</b></p> 	<p>Applies to Scottish TOs only (SHET &amp; SPT), not NGET TO.</p> <p>The incentive applies to the timeliness of connection offers only.</p> <p>Connection offerers are not currently required to be surveyed on the quality of the connection offer.</p> <p>TO and SO functions of NGET will be separate entities from April 2019.</p> <p>Standard Condition C18 of the Transmission Licence already applies to NGET TO.</p>	<ul style="list-style-type: none"> <li>• We propose to seek views on potential barriers around expanding the incentive to NGET TO.</li> <li>• We propose to consult on the options and barriers to linking this incentive to the SSO (or a wider stakeholder engagement initiative).</li> <li>• Linking to the Stakeholder Satisfaction Output would allow for the quality of offer to be assessed. This should provide TOs with both a reputational and financial incentive to improve the quality of connection offer for the customer.</li> <li>• We are looking at whether introducing an ED-style Incentive on Connections Engagement (ICE) would be of benefit, and may consult on this.</li> <li>• We are looking at what more could be done to incentive improvements to the end-to-end connection process.</li> </ul>
<p><b>What are your thoughts on the proposed incentive scope?</b></p>		

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# Forward-looking incentives

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## Environmental, social and whole system incentives

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We have some concerns about the approach the policy working group is taking to environmental, social and whole system incentives:

1. We are **not considering environmental, social and whole system issues widely enough** because the group is mainly focussed on revising existing T1 outputs and incentives.
2. The current approach to the environmental output is **input-focussed**, which will give network companies no flexibility if they find (or are required to find) new or better ways of delivering environmental outputs during the price control period.
3. The current approach to the environmental output is **not encouraging us to deliver more** than our environmental targets if we can find effective ways of doing so for consumers and society.

We also wanted to respond to **Sustainability First's** challenge that we are not proposing anything new for T2.

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# (1) Possible carbon incentives

No.	Incentive name	Purpose	Measurement
C1	SF <sub>6</sub>	To reduce the leakage of SF <sub>6</sub> from TO's assets.	SF <sub>6</sub> leakage rate. SF <sub>6</sub> leakage volume, converted into tonnes of CO <sub>2</sub> e.
C2	Insulating gases	To encourage TOs to find alternatives to SF <sub>6</sub> with the lowest global warming potential.	Progress with development of alternatives to SF <sub>6</sub> with a lower Global Warming Potential.
C3	Controllable carbon	To reduce the carbon emissions from fleet and own energy use.	Absolute reduction in controllable emissions measured in CO <sub>2</sub> e (Scope 1 & 2).
C4	Embedded carbon	To encourage TOs to reduce carbon embedded in capital projects.	PAS 2080 standard on embedded carbon. Reduction in carbon intensity of construction projects, (CO <sub>2</sub> e/£m) Carbon intensity based on project type – measured against NOM units.
C5	Business carbon footprint	Encourage the TOs to make the carbon impact of the electricity system more transparent.	Annual Reporting to stakeholders of both controllable and uncontrollable carbon emissions including transmission losses.
C6	Losses	To give our stakeholders transparency about our approach to losses.	MWh, could be converted to CO <sub>2</sub> e Fixed losses versus variable losses
<b>Grouped output</b>	'Controllable business carbon footprint' Incentive	To encourage TOs to make an absolute reduction in 'controllable' emissions from their operations and supply chain.	Balanced scorecard of carbon metrics Absolute reduction in tonnes of CO <sub>2</sub> e

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## (2) Possible environmental incentives

No.	Incentive name	Purpose	Measurement
E1	Natural environment improvements	Enhancing the natural environment at non-operational land around our energy assets.	Net environmental gain on construction projects (units) Increase in environmental value at operational sites (e.g. increase in natural capital in £). No of sites with Sustainability Action Plans demonstrating increase in environmental value/ stakeholder engagement
E2	Cable fluid leaks	To incentivise TOs to reduce cable fluid leaks.	Reduction in net oil loss.
E3	Natural Resources	To give our stakeholders transparency about how we are reducing resource use at our sites.	Reduction in volume of waste Waste intensity of construction programme % increase in recycling and reuse of waste
E4	Educating the public about the environment	To encourage the public to value their environment more and change their behaviour.	Number of visitors going to Education Centres Onsite and Offsite Community Events (number of attendees) Community satisfaction from the experience
E5	Educating businesses about electric vehicles	To facilitate the electrification of transport and reduce CO <sub>2</sub> emissions.	Number of engagements with businesses Number of resulting actions from businesses
<b>Grouped output</b>	'Enhancing the environment' Incentive	To encourage TOs to reduce the environmental impact of their operations, enhance the natural environment and engage with stakeholders to reduce their impact.	Balanced scorecard of environmental metrics.

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### (3) Possible community incentives

No.	Incentive name	Purpose	Measurement
<b>COM1</b>	Community Investment	To encourage TOs to support community initiatives	Employee volunteers (number) Volunteer hours (hours) Community Grants (£) Employee charitable fundraising (£)
<b>COM2</b>	Working with partners	To encourage TOs to work with partners in local community projects.	Number of projects co-designed with local partners. Number of projects co-delivered with local partners.
<b>COM3</b>	Safety of the public	To educate children about the need to be safe around our assets.	Number of safety talks carried out in communities
<b>Grouped output</b>	'Building Strong Communities' Incentive	To encourage TOs to think about the impact they have on local communities	London Benchmarking Tool (LBT) Reporting LBT is the global standard for measuring, benchmarking, and reporting on corporate responsibility investment.

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## (4) Possible social value incentives

No.	Incentive name	Purpose	Measurement
<b>SV1</b>	UN Sustainable Development Goals	To encourage TOs to support the UN Sustainable Development Goals	Demonstrate publicly how the business is supporting the global goals
<b>SV2</b>	Equality and diversity	To encourage TOs to run businesses with an inclusive and diverse culture and with equal opportunities.	% of women in the workforce % of ethnic minorities in the workforce Best Employers for Race Index
<b>SV3</b>	Social mobility	To encourage TOs to access and develop talent from all backgrounds.	No. of interns with learning disabilities No. of sponsorship of events targeted at young people from deprived areas Social Mobility Employer Index
<b>SV4</b>	Supporting education and employability	To encourage TOs to interact with young people on Science, Technology, Engineering & Mathematics.	No. of quality interactions with young people No of hours logged by employees
<b>Grouped output</b>	'Creating Social Value' Incentive	To ensure that regulated network companies deliver a positive impact on society.	Social Return on Investment (SROI). This can be evaluated by the social return on investment for every £1 spend on these initiatives.

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## (5) Possible sustainable procurement incentives

No.	Incentive	Purpose	Measurement
SP1	Supplier Diversity	Encourage TOs to increase contract awards with small and medium size enterprises (SMEs) (250 employees or less)	SME % of annual spend directly or indirectly SME Request for Purchase (RFP) Inclusion reporting
SP2	Jobs created in the supply chain	To give stakeholders transparency on the number of jobs created, especially in communities where we are doing work.	Number of local jobs created by project Use of CompeteFor (Industry Framework)
SP3	Prompt payment	To give stakeholder transparency on TOs' payment practices.	Signatories of the Prompt Payment Code Average payment terms
SP4	Paying suppliers the living wage	Encourage TOs to provide suppliers with the adequate living standards for the products and services they provide.	Certification from the Living Wage Association
SP5	Modern slavery	Encourage TOs to improve practices to combat slavery beyond compliance.	Notable Practice on Annual Slavery and Human Trafficking Statement
SP6	Drive emissions reductions in supply chain	Encourage TOs to increase engagement with the supply chain on carbon reduction.	% suppliers reporting to Carbon Disclosure Project % suppliers reporting carbon reductions % of tenders that include carbon / sustainability weighting
<b>Grouped output</b>	Sustainable Sourcing	Encourage TOs to drive higher standards in socially and environmentally responsible procurement practices	Balanced scorecard of business practices ISO 20400 Standard Certification as a best practice industry framework for Sustainable Procurement

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## (6) Possible trust and legitimacy incentives

No.	Incentive name	Purpose	Measurement
T1	Local community satisfaction	To encourage TOs to improve community satisfaction in relation to works we carry out.	Satisfaction survey of local communities around our work sites.
T2	Public trust	To build more trust and legitimacy with end-consumers.	Survey of end-consumers on level of trust in a TO.
T3	Level of staff engagement	To encourage TOs to promote more engaged staff to deliver a higher quality service to our customers and end-consumers.	Staff engagement survey.
<b>Grouped Incentive</b>	Trust and legitimacy	To encourage TOs to think about building trust with all our stakeholders and wider society	Balanced scorecard

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# RIIO-2 Whole System Thinking

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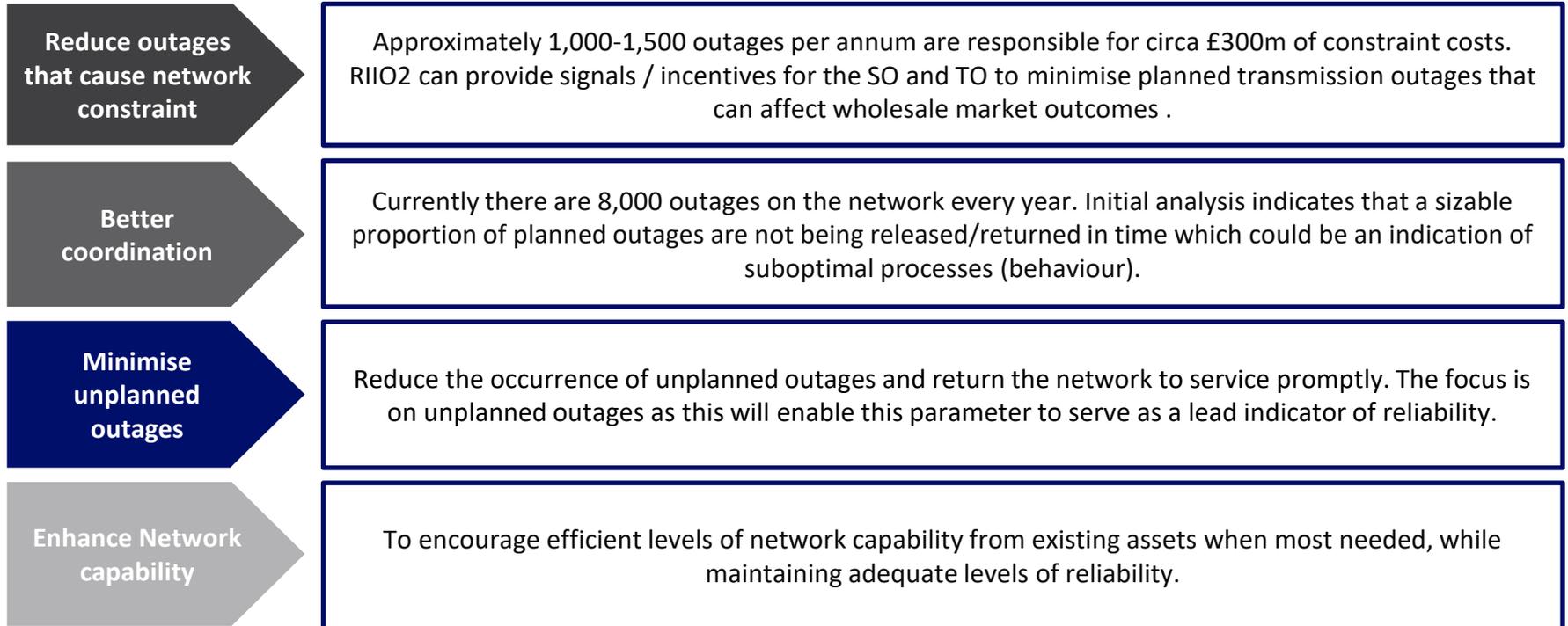
# Many whole system issues can be solved outside the price control; some need RIIO framework changes to unlock consumer benefits

	SO / TO	TO / DNO	TO / Customer	TO / Flexibility	Transport / Gas / Heat
<b>Interface</b>					
<b>Consumer Opportunity</b>	<ul style="list-style-type: none"> <li>Faster access to low marginal cost / sustainable generation</li> <li>Lower constraint costs from outages</li> </ul>	<ul style="list-style-type: none"> <li>Optimum overall cost solutions for network issues (capacity, operability, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>Optimum overall cost solutions for power quality issues (i.e. harmonics)</li> </ul>	<ul style="list-style-type: none"> <li>Optimum cost solutions for network capacity</li> </ul>	<ul style="list-style-type: none"> <li>Meeting consumer demand and decarbonising in a timely fashion</li> </ul>
<b>Solution</b>	<ul style="list-style-type: none"> <li>Timely offers/ connection incentive</li> <li>Outage decision making incentive</li> </ul>	<ul style="list-style-type: none"> <li>WS decision making incentive</li> <li>Efficient delivery incentive</li> <li>Moving money</li> </ul>	<ul style="list-style-type: none"> <li>Allowance / uncertainty mechanism</li> <li>[Code changes]</li> </ul>	<ul style="list-style-type: none"> <li>Flexibility first incentive</li> <li>[SO/TO interface changes]</li> </ul>	<ul style="list-style-type: none"> <li>Strategic infrastructure investment</li> </ul>

**Increasing challenge of implementation**

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# Some areas where further efficiency can be realised



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## Potential areas where SO/TO interface can be incentivised

Incentive	Consumer benefit	Possible metrics
1 Minimise unplanned outages	Reduced network capability on an unplanned basis increases risk of incurring higher costs of system operation	Count the average number of times circuits were unavailable during the relevant time period as a result of unplanned outages. An increase in the frequency of unplanned outages can act as a lead indicator of a future reliability issue.
2 Return planned outages to service on time	Optimise activities between network investment and service performance	Count and reduce the number of outage days that overrun from planned returns of planned outages (exclude unplanned outages and potentially non-MIS outages).
3 Offer enhanced short-term ratings to the SO /reduce the number of de-ratings	Allows the ESO to 'sweat the assets' for a short period reducing the need to take costly pre-fault balancing actions	Measure total MVA days of enhanced ratings offered and potentially make a payment in the event it is used. Could be targeted at ESO determined higher value circuits).
4 Constraint impact incentive	Minimise planned transmission outages that can affect constraint costs	The number of balancing mechanism intervals (48 in one day) where an outage on the TO's network results in a network outage constraint with a marginal value greater than e.g. £20/MWh (excluding connection and single customer assets).
5 Develop and offer lower ERS times than lowest TO cost	Empowering society to move faster towards a low carbon future	Could be MVA days of capacity exposure reduced e.g. 500MVA circuit going from 5 day to 3 day ERS would be $500 \times 2 = 1,000$ . The standard would have to be developed and baselined to measure from.

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# Existing principles for designing regulatory tools under RIIO\*

\*as defined in RIIO Handbook

<b>RIIO Objectives</b>	Play a full role in the delivery of a low carbon energy sector		Deliver value for money over the long term for existing and future consumers	
<b>Regulatory tools to encourage efficient output delivery</b>	Output incentives	Efficiency incentives	Uncertainty mechanisms	Shared incentives (across the multiple parties)
<b>RIIO principles for assessing suitability of regulatory tools</b>	<u>Clarity</u> on the outputs to be delivered-influence specific, identifiable TO behavior)	<u>Observable and measurable</u> – data exist to observe and quantify output	<u>Depend on the licensee action</u>	<u>No overlaps</u> with other schemes or obligations
<b>Different types of regulatory tool</b>	<u>Financial and/or reputational incentives</u>	<u>Symmetrical automatic incentive with cap /collar</u>	<u>Marginal incentives</u>	<u>Automatic revenue adjustment</u>

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## Constraint impact incentive - strawman

<p><b>Constraint impact incentive</b></p>	<ul style="list-style-type: none"> <li>• Only approximately 10-15% of 8,724 outages (2017/18 financial year) are causing network constraints</li> <li>• Customer value is achieved when increased network capability at the time of system stress is achieved.</li> </ul>
<p><b>Clarity on the outputs to be delivered</b></p>	<ul style="list-style-type: none"> <li>• Output required from TO is to reduce impact from planned transmission outages on total constraint cost. While constraints on transmission cannot be avoided the ability to vary TO requirement for system access at the time of high constraint cost would be beneficial for consumers.</li> </ul>
<p><b>Observable and measurable</b></p>	<ul style="list-style-type: none"> <li>• It could measure the number of gate periods (48 periods in a day) where an outage on the TO's network results in a network outage constraint with a marginal value greater than £20-30/MWh (this is only indicative figure). Currently SO data is focused on constraint boundary (i.e. system pinch-points) rather than individual outages. Similar issue was experienced in Australia where initially AER introduced positive incentive only, moving into symmetrical incentive in following periods once sufficient data has been collected. To avoid target setting issue the performance target can be recalculated annually (on a moving annual average basis).</li> </ul>
<p><b>Depend on the licensee action</b></p>	<ul style="list-style-type: none"> <li>• International experience indicates that the vast majority of outages affecting system constraint are the result of planned outages which indicates a high level of control from TOs. It is important to note that international experience can not be directly applied to the UK but it can be used as first approximation.</li> </ul>
<p><b>No overlaps</b></p>	<ul style="list-style-type: none"> <li>• There are no overlaps with any other area of RIIO framework that target specifically outages. Current incentives are focused on planned and unplanned outages that affect continuity of supply (ENS)</li> </ul>
<p><u>Alignment with RIIO principles</u>   <span style="color: green;">■</span> Fully aligns   <span style="color: orange;">■</span> Partially aligns   <span style="color: red;">■</span> Not aligned</p>	

# Key messages

1. The range of outputs discussed so far are **not broad enough** to capture what our customer and stakeholders require from us.
2. Some **new regulatory tools are required** to unlock and maximise consumer benefits. We have identified a number of possible outputs/incentives for further discussion.
3. Incentives across the SO:TO and TO:DNO interfaces are **necessary and feasible**.

Ofgem policy working group 5 on 8 November 2018

# Whole Systems Update

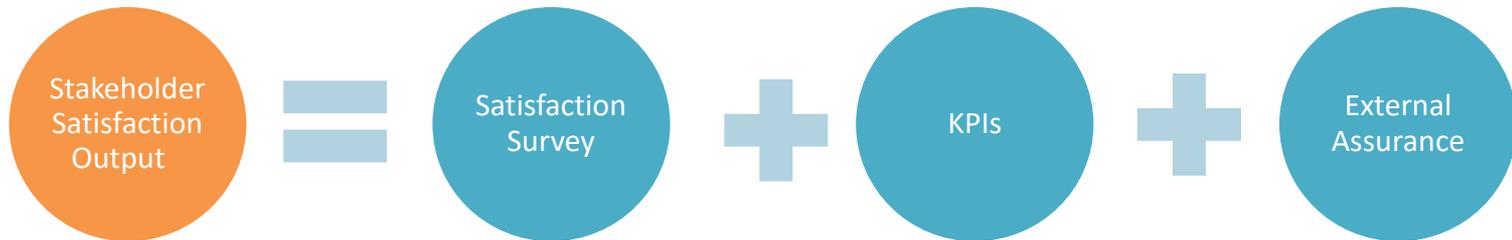


**Zak Rich, Senior  
Manager**

# Stakeholder Satisfaction Output (SSO)



**Eilidh Alexander,  
Manager**



### Surveys

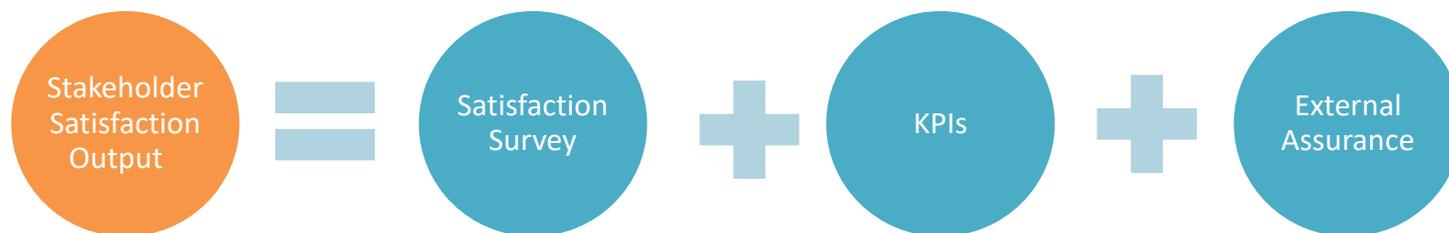
- Increased satisfaction scores year on year
- We found that TOs value the flexibility of the setting the questions for the Survey
- There is difficulty in comparing the survey scores amongst TOs

### KPIs

- KPIs aren't reflective of stakeholder views as they can't be adapted year on year
- Some TOs highlighted that some of the KPIs were BAU prior to RII01
- Drives a broad range of behaviours which creates overlap between some KPIs and other outputs that exist in RII01
- Some views that the KPIs are a good metric for TOs to monitor their performance against Stakeholders views

### External Assurance

- Ensures that TOs are developing high quality stakeholder strategies
- Process already exists in the Stakeholder Engagement Incentive



Consultation Topics	Proposals
Retaining the incentive	Whether to retain the SSO as a standalone incentive or to retain the SSO as part of the Stakeholder Engagement Incentive.
Incentive Strength	Our view is that the incentive has been too strong in previous years relative to other outputs in RII01. We propose to reduce and modify the financial reward.
Surveys: Retain or Remove	Whether to retain the survey as a incentivised area or as a licence obligation
Surveys: Baseline	Modify the baseline so that is challenging and achievable
Surveys: 'Killer Question'	Adding multiple killer questions to the survey.
Surveys: Content	Develop a more standardised survey content for TOs.
Surveys: Stakeholders Surveyed	Propose to develop guidelines on which stakeholders should be represented in the survey sample, with guidance from the user groups.
KPIs: Retain or Remove	Retain the KPIs as an obligation that can be reported to the User Groups.
External Assurance: Retain or Remove	Capture the external assurance under the SEI.

**We propose to consult on whether to retain the Stakeholder Satisfaction Output in RII0-T2.** We have identified three options:

1. Remove the SSO as a stand-alone incentive and capture stakeholder output through other means (SEI/ enhanced engagement)

And if we do retain, we propose to consult on whether to:

2. Capture the SSO as part of the SEI
3. Retain the SSO as a standalone incentive

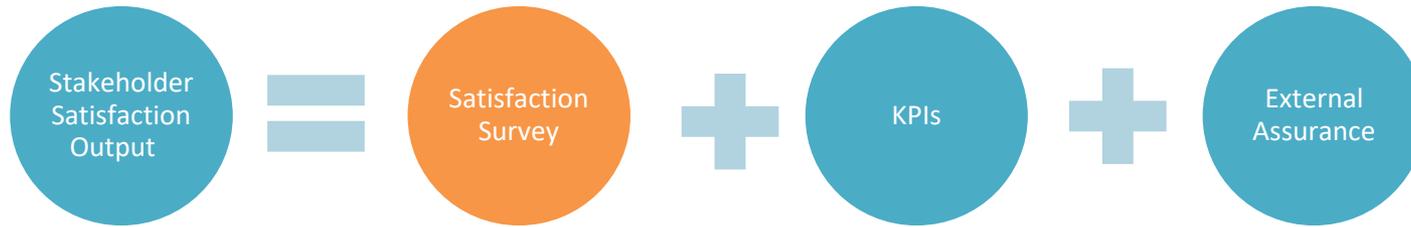
In RII0-T1 the SSO has a financial collar of +/-1% of the Base Revenue. This financial collar creates a strong monetary incentive to achieve high levels of stakeholder satisfaction.

We are currently reviewing the SSO as part of the wider incentive package for the following reasons:

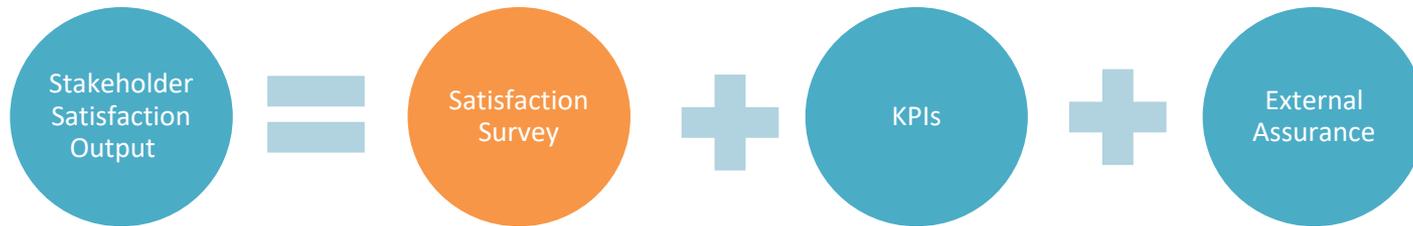
- There is a risk that the SSO will lead to overlap with other incentives that currently drive stakeholder satisfaction i.e. ENS, Connections, SEI.
- The current stakeholder incentive enabled the highest incentive related earnings in comparison to other outputs for TOs in RII0-T1.

Incentive Frameworks that we are considering:

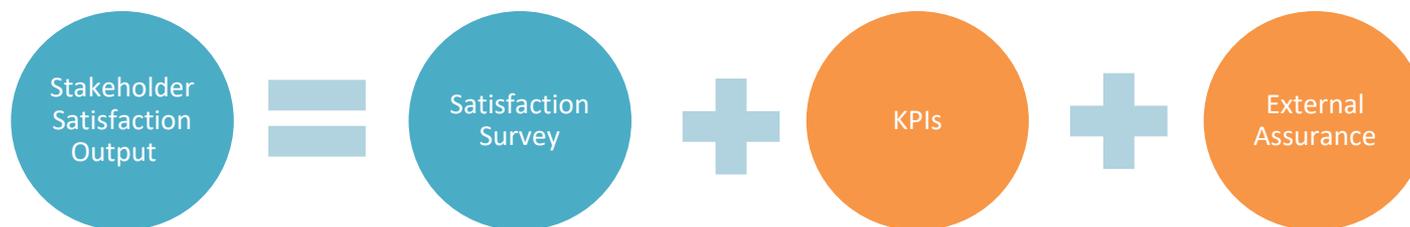
1. Should this output continue as a Symmetric incentive or should this output exist as an Asymmetric (penalty only) output in RII0-T2? We will consult on removing the incentive as a % of the base revenue.
2. In addition, we are considering whether a further competitive element could be introduced to the SSO through the use of a relative incentive. One way this could be achieved is through the use of a combined pot for rewards.



Consultation Topics	RIIO1	Proposals for RIIO2
Retain or Remove the Surveys	N/A	<p>Option A</p> <ul style="list-style-type: none"> <li>Retain the surveys with a financial reward and penalty</li> </ul> <hr/> <p>Option B</p> <ul style="list-style-type: none"> <li>Retain the surveys as a licence obligation</li> </ul> <hr/> <p>Option C</p> <ul style="list-style-type: none"> <li>Remove the surveys</li> </ul>
Baseline	Average taken from the scores of previous performance, with an improvement factor included (7.4).	<p>Option A</p> <ul style="list-style-type: none"> <li>New 'average' on previous performance (~8) applied to all TOs, with an in improvement factor included (same approach as in RIIO1).</li> </ul> <hr/> <p>Option B</p> <ul style="list-style-type: none"> <li>Dead Band Targets.</li> </ul>
Stakeholders Surveyed	TOs to determine which stakeholders should be surveyed as they see appropriate.	<p>Option A</p> <ul style="list-style-type: none"> <li>Continue to allow TOs to choose stakeholders to survey.</li> </ul> <hr/> <p>Option B</p> <ul style="list-style-type: none"> <li>User groups to provide guidance on who should be surveyed.</li> </ul>



Consultation Topics	RIIO1	Proposals for RIIO2
Survey Content	Survey questions can be set by the TOs as they see appropriate.	Option A- Allow TOs to set their own questions.
		Option B- TOs to develop a criteria for survey content that can be applied to all.
		Option C- Split out the Connections Stakeholders to be surveyed separately from the Wider Stakeholders. Ofgem to ensure an appropriate weighting for each survey. Creates visibility of the quality of Connections, whilst maintaining focus on the wider stakeholders groups.
'Killer Questions'	One killer question to ask for overall satisfaction on a scale from 1 to 10.	Option A – Maintain one killer question.
		Option B- TOs to develop a list of killer questions that can be embedded throughout the survey.



KPIs	
Option 1	Retain the KPIs as they are but with opportunity for modifications within the price control.
Option 2	Retain the KPIs as metrics that are reported to and monitored by the User Groups. No financial reward or penalty.
Option 3	Remove the KPIs altogether.

External Assurance	
Option 1	Maintain the External Assurance with a 10% weighting.
Option 2	Maintain the External Assurance as a licence obligation.
Option 3	Remove the External Assurance and ensure that it is captured in the Stakeholder Engagement Incentive for RII0-2.

# Environment



**James Tyrrell**

### Options considered

1. Low carbon incentive Sustainability First proposal
2. Environmental sustainability framework (**We propose to consult on removing the EDR**)

### Proposed option (Environmental Sustainability)

- In line with RIIO2 environmental objectives
- Supported by other Ofgem sector leads and informed by improvements in other sectors (ie ED)

### Since WG4

- Feedback and responses in WG4 suggested that the second option for an environmental sustainability framework seemed to be the option that best aligned with the groups objectives for RIIO2 and the most worth developing further for consultation
- Have consulted internally and held bilaterals with each of the TOs to further scope out the proposed framework, what it could cover, how it may operate for RIIO2, and potential metrics

### Discussion and next steps

- Engage cross sector and working group on proposal for consultation, seek TO and cross sector agreement on what to report and appropriate methodologies to report it
- Further scope out the underlying metrics for our proposed option
- Consider what changes may be required for SF<sub>6</sub> ODI and how to set targets

	Environmental sustainability
<b>Description</b>	<p>Three part framework to cover sustainability and LCT:</p> <ol style="list-style-type: none"> <li>1. Baseline funding and PCDs for well-justified initiatives eg low loss transformers, LC suppliers</li> <li>2. ODI on environmental outcomes that satisfy output principles eg SF<sub>6</sub></li> <li>3. ODI for additional contribution to LCT</li> </ol> <p>Framework could be suited for cross sector application</p>
<b>Scope</b>	<ul style="list-style-type: none"> <li>• Low carbon transition</li> <li>• Company commitment to company specific carbon reduction targets</li> <li>• Broader sustainability (procurement practices, resource use and waste management, biodiversity, etc...)</li> </ul>
<b>Rationale</b>	<p>Transmission owners should be:</p> <ul style="list-style-type: none"> <li>• accountable for well-defined deliverables that are low risk and in consumers' interests eg low-loss transformers to help reduce network emissions. Consumers should only pay efficient costs</li> <li>• incentivised to improve operational practices to efficiently deliver well-defined output. Incentive value to be based on economic value of output to consumer eg SF<sub>6</sub></li> <li>• incentivise to play full role in LC transition with value based on benefits/impact</li> </ul>

## Mapping the environmental sustainability framework to our principles

Framework component	Objectives covered	How it meets our principles
<p>Environmental action plan submitted as part of business plan (PCDs)</p> <p>Public and Ofgem annual reporting on performance against action plan and environment targets eg business carbon footprint</p>	<ul style="list-style-type: none"> <li>• Efficiently contribute to LC transition and environment management</li> <li>• Within control</li> <li>• Integrated plan</li> <li>• Transparency</li> <li>• Consistent across sector</li> </ul>	<ul style="list-style-type: none"> <li>• Networks funded upfront to deliver a more sustainable network</li> <li>• Consumers only pay efficient costs of improvement</li> <li>• Emphasises aspects that are in company control and gives pre-commitment from TO on what it will deliver for consumers and the associated costs</li> <li>• More company ambition for assessment, and increased accountability for delivery and certainty and assurance that actions will be delivered</li> <li>• Forward looking - clearly defines actions upfront that each company will deliver</li> <li>• Integrates environmental awareness further into business practices and planning eg interactions with refurbishment/ replacement) and gives TOs more discretion to plan/programme project works</li> <li>• Aspects could be implemented across the different sectors</li> </ul>
<p>ODI on environmental outcomes that satisfy output principles (SF<sub>6</sub>)</p>	<ul style="list-style-type: none"> <li>• LCT and enviro management</li> <li>• Within control</li> </ul>	<ul style="list-style-type: none"> <li>• Emphasises aspects that are in company control</li> <li>• More accountability for delivery/sets delivery targets for assessment</li> <li>• Forward looking - clearly defines actions upfront that each company will deliver</li> </ul>
<p>ODI on additional contribution to low carbon transition</p>	<ul style="list-style-type: none"> <li>• LCT and enviro management</li> <li>• Within control</li> <li>• Consistent across sector</li> </ul>	<ul style="list-style-type: none"> <li>• Aspects could be implemented cross sector</li> <li>• Integrates environmental awareness further into business practices and gives TO more discretion to plan/programme project works</li> <li>• Gives TO/stakeholders impetus to think outside the box</li> </ul>

**PCD's underpinned by an environmental action plan**

Baseline funding and PCDs for well-justified initiatives submitted in an **environmental action plan** as part of a TOs' RII02 business plan

**How would it work?**

- TOs submit an environmental action plan as part of their RII02 business plan
- The action plan will detail a **bottom up analysis** stating:
  - Initiatives they will undertake to help reduce the network's direct GHG emissions and improve sustainability (ie reporting on embedded carbon, transitioning to an electric vehicle fleet)
  - Environmental, GHG reduction and sustainability targets the company is trying to achieve with their initiatives
  - **Key milestones and metrics to monitor** implementation and impact of environment action plan
- Ofgem will assess efficient and economic funding as part of business plan review
- TOs will be then be required to **publish a public annual report** on progress in delivering their action plan, as well as metrics on network's environmental impacts
- Final performance against PCDs will be **assessed as part of close-out with recourse to clawback**

This is intended to:

- Improve transparency, clarity and accountability with TOs being funded efficiently upfront to deliver on well-defined deliverables that are low risk and in consumer interests
- Ensure consumers only pay efficient costs for activities that should be BAU
- Further integrate environmental awareness into business practices/planning
- Allow more integrated business planning (eg interactions with refurbishment/ replacement)

**PCD's underpinned by an environmental action plan**

Component	Potential areas/metrics	Considerations/Issues
<p><b>Environmental action plan</b></p> <ul style="list-style-type: none"> <li>- TOs to develop and Environmental Action plan for submission as part of business plan. (Including a sustainability strategy and losses strategy)</li> <li>- Report should detail targets and ambitions for the metric areas, including a bottom up analysis detailing the initiatives and actions TO will undertake to try and reach targets.</li> </ul>	<ul style="list-style-type: none"> <li>• Business carbon footprint                             <ul style="list-style-type: none"> <li>• Scope 1 and 2 (target for reduction)</li> <li>• Losses reported separately (see below)</li> <li>• Scope 3 (measure and report)</li> </ul> </li> <li>• Losses                             <ul style="list-style-type: none"> <li>• Losses strategy (as determined)</li> <li>• MWh loss, grid intensity, losses tCO<sub>2</sub>e</li> </ul> </li> <li>• Embedded Carbon                             <ul style="list-style-type: none"> <li>• Measuring and reporting (PAS2080)</li> <li>• New projects/only large projects/ capture current assets and overall embedded carbon</li> </ul> </li> <li>• Resource use and waste management</li> <li>• Biodiversity and/or natural capital</li> <li>• Supply chain (social impact is 1 of 3 sustainability prongs)</li> </ul>	<ul style="list-style-type: none"> <li>• Ensuring measuring and reporting consistency (agreed with TOs upfront)</li> <li>• What are appropriate metrics for each area, measurement frameworks, etc..?</li> <li>• Should we have a baseline year? If so what year? (suggested last year of RII01 since that will give time to agree and implement a consistent reporting framework across TOs for GHG emissions for the last two years of RII01)</li> </ul>
<p><b>Annual Reporting</b></p>	<ul style="list-style-type: none"> <li>• Public annual reporting on performance against action plan and environment and sustainability targets (including losses strategy reporting)</li> <li>• Regulatory reporting against PCDs</li> </ul>	<ul style="list-style-type: none"> <li>• Determine a single place where all TOs publish their report (eg ENA website)</li> <li>• TOs to develop a consistent template for all TOs to use for publicly publishing annual environmental report on how they are performing against their environmental action plan</li> </ul>

**What kind of activities should be funded through BPs and ODI?**

SF<sub>6</sub> is the biggest single component of carbon footprint directly within company control

### What are we trying to achieve?

- We don't want to see an expansion in use of SF<sub>6</sub>, where not to the detriment of consumers.
- Where we have SF<sub>6</sub>, we want to prioritise leakage prevention and leakage reduction
- Long term we want to target and reduction in the amount of SF<sub>6</sub> on the energy system

### Questions!

- In RII02 should we be driving a reduction in SF<sub>6</sub> emissions, a reduction in SF<sub>6</sub> containing assets on the system, or both?
- How ambitious do we want to be? And how can we drive a system where SF<sub>6</sub> assets are the last option considered?
- What are the opportunities and the costs?

### Issues for setting ODI mechanism for SF<sub>6</sub> in RII02

- Whether to maintain reward/penalty or have a penalty only (thoughts that penalty only may only drive compliance, rather than proactivity in reducing SF<sub>6</sub> emissions)
- Setting a target for SF<sub>6</sub>
  - Leakage rate or volume of GHG emissions (technology neutral, could account for alternatives ie G<sup>3</sup>)
  - Static/recalibrating (decreasing or increasing) baseline (depending on new assets like RII01)
- The impact of G<sup>3</sup> in the next pricing control (development for HV switch gear, potential rate of uptake) big change or not

Component	Considerations and proposal for RIIO2 consultation
<b>Purpose</b>	<ul style="list-style-type: none"> <li>Where technically feasible and reasonable our ambition is that we start to see reducing emissions from assets over RIIO2</li> </ul>
<b>Baseline targets</b>	<ul style="list-style-type: none"> <li>How to set appropriate targets, taking account of potential low hanging fruit and development of alternatives</li> <li>Propose that companies supply Ofgem with an <b>audit of SF<sub>6</sub> assets</b> as part of consultation process to assist with setting SF<sub>6</sub> incentive</li> <li>Considerations for setting a target for SF<sub>6</sub>/GIS and AIS assets               <ul style="list-style-type: none"> <li>Leakage rate or <b>volume of GHG emissions from GIS and AIS assets</b> (technology neutral, could account for alternatives)</li> <li>Static/recalibrating (decreasing or increasing) baseline (depending on new assets like RIIO1)</li> </ul> </li> </ul>
<b>Incentive Type (reputational/ financial (automatic/ discretionary))</b>	<ul style="list-style-type: none"> <li>Propose retaining a financial incentive since SF<sub>6</sub> is measurable, material and is within company control</li> <li>Will a reward/penalty incentive drive the desired behaviour in RIIO2 or should we consider a penalty only incentive? (thoughts that penalty only may only drive compliance, rather than proactivity in reducing SF<sub>6</sub> emissions)</li> </ul>
<b>Relative/absolute</b>	<ul style="list-style-type: none"> <li>Propose retaining an absolute incentive based off a baseline target and the non-traded carbon price</li> </ul>

We are looking into a potential flexible reward incentive for network operators to make additional contribution towards the low carbon transition, aimed at strengthening the strategic focus on low carbon transition

### How would it work?

- TO/Stakeholder led
- Two opportunities to present ODI proposals (business plan and End of year 2)
- 1<sup>st</sup> opportunity: TO to make a case as part of BP for additional contributions they are going to deliver (2<sup>nd</sup> opportunity to operate the same), detailing:
  - Output (proposal) commitment / forward planning
  - Metrics that performance will be assessed against
  - TO and consumer benefits of proposal (to inform amount of reward) and timeframe for delivery
  - Ofgem will then assess delivery as per milestones
- Reward upon successful delivery
- This **is** intended to cover new outputs for activities that are not captured by the framework
- It is **not** intended for R&D innovation or large capital projects

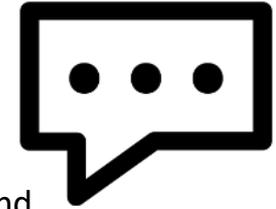
### Issues

- **Onus will be on companies and stakeholders to evidence the need for such a mechanism and the benefits it could bring to consumers**
- Potential **links with on-going work on business plan incentives**
- Defining scope and determining whether this should be explicitly competitive/not competitive
- Potential cross sector interplays – how it is funded
- Determining whether the reward is scaled based on levels of delivery

# Losses

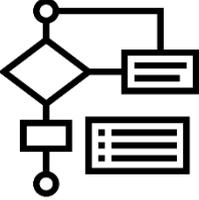


**Dale Winch**

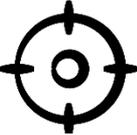


## Summary of stakeholder views

- There is broad agreement that the current Losses incentive has helped to improve and embed consideration for Losses when making investment decisions.
- However, it was noted that the annual Losses strategy reports and the original strategy documents are not always widely read or understood by external stakeholders. The reputational impact could be improved.
- It was noted that there are a number of factors involved in Losses overall. In regards to controllable Losses, there is likely only a limited scope for TOs to influence this, such as investments in new assets, with the rest controlled by the SO.
- Generally, the opinion is that the incentive should remain reputational due to the difficulty in separating out controllable Losses from non-controllable Losses.
- There was a suggestion that more could potentially be done to measure and reduce auxiliary Losses at substations, however this would need to prove itself to be cost-effective.

Policy area	RIIO1 Position	Proposed consultation position for December
<p><b>Incentive Structure</b></p> 	<p>The incentive is contained in Special Condition 2K of the Transmission Licence.</p> <p>The annual Losses report provides an update on progress made on the Losses Strategy of the TOs.</p>	<ul style="list-style-type: none"> <li>Propose that Losses should remain an incentive in RII02.</li> <li>Due to the impact of Losses, there remains a need to ensure that TOs continue to focus on considering how to minimise these when making future investment decisions.</li> <li>It is important that progress continues to be reported on.</li> </ul>
<p><b>Losses Report</b></p> 	<p>A losses report is required to be published each year. This requires an update on the TOs total losses, their progress against their losses strategy; and any changes to this strategy.</p>	<ul style="list-style-type: none"> <li>Propose to maintain an annual Losses strategy reporting requirement.                             <ul style="list-style-type: none"> <li>The content of this (and the wider strategy document) currently provide useful information on the TO's actions.</li> </ul> </li> <li>We propose to consult on options for improving the reputational aspect of this report, including:                             <ul style="list-style-type: none"> <li>Incorporating the Losses strategy and annual reporting requirement into the proposed environmental action plan and associated public annual report.</li> <li>Incorporating a requirement for the TO User Groups to provide feedback on the Losses strategy.</li> </ul> </li> </ul>

**What are your thoughts on the above position and the proposed annual Losses report changes?**

Policy area	RIIO1 Position	Proposed consultation position for December
<p><b>Incentive Type</b></p> 	<p>Reputational-only incentive for the Losses reports.</p>	<ul style="list-style-type: none"> <li>• Retain a reputational incentive on the annual Losses reporting requirements.</li> <li>• Strengthen the reputational side of the incentive by incorporating the losses requirements into the proposed environmental action plan and associated annual reporting, by increasing transparency.</li> </ul>
<p><b>Incentive Scope</b></p> 	<p>Incentive relates to the reputational annual Losses report only.</p> <p>The incentive is contained in Special Licence Condition 2K of the Transmission Licence.</p>	<ul style="list-style-type: none"> <li>• Propose to consult on options for enhancing the reputational aspect of the losses report, such as linking these to the TO User Groups &amp; Environmental Annual Report.</li> <li>• We may consult on whether introducing an ED-style Losses Discretionary Reward would be another option.</li> <li>• We may consult on the barriers to introducing an incentive on measuring directly controllable Losses.</li> <li>• We will look to better understand the options (and barriers) to introducing a site efficiency and a substation Losses reduction target by consulting on this.</li> </ul>

**What are your thoughts on the proposed incentive type and scope for RII02?**

**Our core purpose is to ensure that all consumers can get good value and service from the energy market. In support of this we favour market solutions where practical, incentive regulation for monopolies and an approach that seeks to enable innovation and beneficial change whilst protecting consumers.**

**We will ensure that Ofgem will operate as an efficient organisation, driven by skilled and empowered staff, that will act quickly, predictably and effectively in the consumer interest, based on independent and transparent insight into consumers' experiences and the operation of energy systems and markets.**