Sector Specific Methodology Consultation response

Annex 2: Value for Money

September 2020

Contents

1 Approach to setting outputs and incentives

Q1 Do you agree with our proposal for setting upper and lower limits on the value of bespoke ODIs?

Questions 1 and 2 need to be considered in the context of what is 'bespoke' and what is 'standard'. It could be that there are limited 'bespoke' proposals if the 'standard' ODIs and PCDs are suitably wide-ranging as well as reflecting DNO and wider stakeholder discussions in working groups.

This would lead to bespoke proposals being targeted and reflecting specific aspects of stakeholder engagement unique to that DNO, such as Smart Street, an innovative approach developed by ENWL, but now at a technological readiness level and proven innovation that it is ready to be rolled out by any other DNO seeking to bring benefits to their consumers, thus putting enhanced stakeholder engagement and local/regional views at the heart of business plans.

The balance of incentives for RIIO-ED2 will need to be gauged carefully. We do, however, believe that a regime with strong incentives for companies to improve outcomes, drive innovation and deliver efficiencies is in the best interest of consumers and stakeholders.

As a core regulatory principle, having strong incentives is in customers' interests where they deliver additional services that customers value, so long as this is at a value that customers are willing to pay for. Rewarding companies through these incentives is wholly appropriate and reveals benefit for future price controls, which is even more relevant in a five-year price control cycle. Furthermore, incentives can provide a mechanism to fund improvements where risk is transferred away from customers who only pay for successful outcomes, rather than unsuccessful attempts to deliver outcomes.

Therefore we broadly agree with the proposal, but would suggest that where a bespoke proposal is deemed to be applicable for all DNOs the upper limit doesn't apply. It would seem sensible in the situation where an ODI which is deemed to have the ability to drive improvements for all customers and consumers is proposed that the upper limit is removed, ensuring that the full benefit for all stakeholders can be realised. The application to all DNOs should include additional comparative data that should alleviate the concern set out by Ofgem where "*the upper value should recognise… that these bespoke outputs are likely to be newer and novel output areas with no significant track record*"[1]. Additionally, a lower limit only approach would be consistent with that being proposed for PCDs.

Q2 Do you agree with our proposal for a minimum value for bespoke PCDs?

As with Q1, Q2 needs to be considered in the context of what is 'bespoke' and what is 'standard'. It could be that there are limited 'bespoke' proposals if the 'standard' ODIs and PCDs are suitably wide-ranging as well as reflecting DNO and wider stakeholder discussions in working groups.

This would lead to bespoke proposals being targeted and reflecting specific aspects of stakeholder engagement unique to that DNO, such as Smart Street, an innovative approach developed by ENWL, but now at a technological readiness level and proven innovation that it is ready to be rolled out by any other DNO seeking to bring benefits to their consumers, thus putting enhanced stakeholder engagement and local/regional views at the heart of business plans.

[1] RIIO-ED2 Sector Methodology Consultation: Annex 1 - Delivering value for money services for consumers, paragraph 2.11, Ofgem

We agree that practically a minimum value is required but would question £15m which appears to be an arbitrary value. As well as a financial minimum value to consider for PCD eligibility, there is also the consideration of what type of work lends itself to a PCD assessment, i.e. is the need, scope and method of delivery set, and is it outcome or output focused. All of these factors need to be taken into account when setting PCD eligibility criteria.

Ofgem also needs to consider how proposals that fall below any financial threshold set are treated as part of its assessment of cost. Companies should not be inadvertently penalised for committing to deliverables that are valued/prioritised by customer and stakeholder engagement but fall below this arbitrary threshold and are not homogeneous between all DNOs. This is of upmost importance where enhanced stakeholder engagement and views are central to DNOs business plans and where these regional/local views and priorities have been well established and justified.

Finally, we note that this question is specifically about bespoke PCDs however there is no reference in the consultation, or any questions relating to, common sector-wide PCDs which we believe is a gap in the consultation. We ask for clarification as to the type of activity and value threshold that Ofgem considers to be appropriate for PCDs within the ED sector and that this clarity/Ofgem's thinking is shared with networks during the working groups and made clear within the forthcoming decision.

2 Meet the needs of consumers and network users: Customer satisfaction

Q3 Do you agree with the proposed scope and associated customer category weightings for the satisfaction survey?

We think the customer satisfaction survey has been an effective incentive in delivering improvements across all DNOs. We support the separate reporting of PSR customers who experience a supply interruption as we would expect their experience to be enhanced due to the efforts made in dealing with customers who are vulnerable and we understand the linkages to the new licence obligation.

The rationale for separate reporting of LCTs is less clear. Currently the incentive applies to all equally and makes no distinction between the type of customer. By separately reporting these activities it is not clear what, if any, performance is expected by Ofgem; should it be broadly the same or different, and if different, how? This is of importance as LCT uptake in the foreseeable future is more likely to be taken up by more affluent customers. This could lead to differentiated services that are at odds with the principles covering and identifying blockers to vulnerable customers participating in a smart flexible energy system.

Particularly in relation to interruptions the categorisation of an LCT customer would not be easy. For connections and general enquiries, the nature of the customer can readily be ascertained as they indicate what service they require. For interruptions we would need to ask the customer off supply additional questions. This could imply a differentiated service to them if they do have, for example, an electric vehicle and could mean that they may provide inaccurate information if they anticipate their supply will be restored more quickly.

We consider that the category weights are broadly appropriate.

We note that this part of the document refers to the financial exposure in terms of percentage of base revenue. We assume that the actual calculations will be based on RoRE basis points for consistency, and to support all stakeholders in understanding the framework, urge that all incentives are expressed in RoRE terms. This is especially important given the proposal to implement a RAM in RIIO-2.

Q4 Do you agree with our proposed approach to target setting and calculating rewards and penalties in RIIO-ED2?

We understood that in RIIO-ED1 Ofgem used upper quartile (UQ) performance on the UK Customer Satisfaction Index as a "*sufficiently challenging, but achievable target*" to "*ensure that only those that provide a level of service that would be considered good in comparison with any other industry will be rewarded*" rather than a limitation of historical data[2].

We think this approach of using an external benchmark still has merit, particularly as there are several factors which would mean that historic DNO performance is not a good indication that these performance levels can be sustained. These include:

- Customers are becoming more reliant on their supply of electricity due, as Ofgem notes, to the increased uptake of LCT, but also due to the increased homeworking initiated in response to COVID-19.
- Many companies are now looking at their use of office space and the indications are that more will utilise increased levels of homeworking. Some have even moved to that as their default way of working.
- The economic outlook has a looming recession, and this can result in declining levels of customer satisfaction.

We think that the results for this current year should be removed from the calculation of UQ performance. The current levels of customer satisfaction are very high, but we believe that this is a result of the general appreciation of "key workers" during the pandemic. We do not think this short-term improvement in satisfaction is representative and has the potential to set the UQ performance based on Ofgem's proposed approach. We therefore suggest that this year's data is removed for the purposes of setting the targets. Note as the performance is above the maximum reward, DNOs are getting no additional benefit from these higher scores.

We think the introduction of a deadband is a sensible idea to ensure that good performance is not financially penalised. Due to the potential increased expectations from customers we do not think that setting the penalty threshold based on average performance is justified. This could result in targets that result in penalties when performance is better than best in class performance measured by UKCSI (currently 85.3)[3]. The top ten in that index have a score of 82.9 and we think this could be used as a challenging threshold for financial penalties to start.

We strongly support the retention of static targets. These allow DNOs to develop business plans for improvements as the potential improvement in scores can be evaluated against the costs to achieve this and consumer priorities. This has facilitated greater sharing of best practice and been a key feature in allowing us to improve our satisfaction scores across all three categories.

[2] https://www.ofgem.gov.uk/sites/default/files/docs/2013/09/riioed1_custservice_connection_incentives_open_letter_040913.pdf
[3] https://lp.instituteofcustomerservice.com/ukcsi-july-2020

Q5 Do you agree with our proposed approach to setting complaints metric targets in RIIO-ED2?

We support the majority of the proposed approach as we think this has focused DNOs to improve the service provided. We think that the target set for gas is a useful comparator and therefore think a score of four would be appropriate.

Additionally, one of our stakeholder responses as part of our engagement on this consultation agreed that "Option 1 [is] preferable."

Q6 Do you agree with our proposal to remove the Stakeholder Engagement and Consumer Vulnerability Incentive in RIIO-ED2?

Yes, we agree that this should be removed. We believe that this mechanism has been a contributory factor in the lack of convergence in performance identified in paragraph 6.7 of the consultation. Stakeholder Engagement and Consumer Vulnerability (SECV) has been seen as competitive and this has deterred collaboration and sharing of best practice. The feedback mechanism has not clearly identified areas of best practice to encourage uptake by other DNOs.

3 Meet the needs of consumers and network users: Connections

Q7 Do you agree with our proposal to expand the connections element of the customer satisfaction survey?

The principle of defining the different categories of connection, and their alignment to market shares, has been used throughout connections activities. The category defines many aspects; the standards that apply, the type of margin that applies, the timescales for Guaranteed Standards and the reporting categories for RRP. Any changes to the categories will therefore need to be cascaded through a number of governing documents including the Licence, RIGs and statutory instruments. So, whilst it is possible, our view is that changes should not be made lightly without consideration of the consequential impacts to keep this clear alignment.

The proposal is not clear whether the proposed expansion of market segments into the customer satisfaction survey would apply to all DNOs or only to market segments that had not passed the Competition Tests.

We think that competition acts effectively to ensure good customer service and consider that market segments that have passed the Competition Tests should not be included in the customer satisfaction survey. This also removes the risk of distorting competition if rewards were available to DNOs, not funded by connections customers, that are not available to third parties.

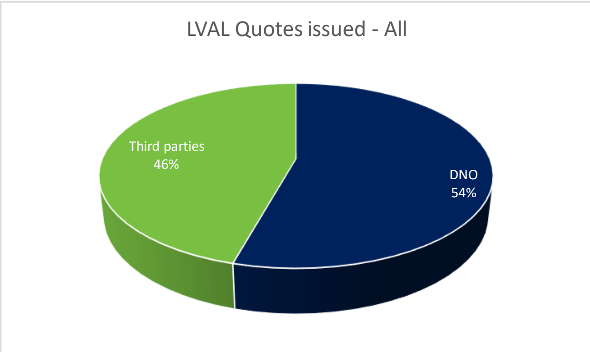
If only market segments that did not pass the Competition Tests go into the customer satisfaction survey, then this will need to be considered in both target setting and reporting. The table below shows the number of licences that passed the 2013 Competition Test. There may be a need to differentiate targets depending on the range of customers that are in scope. Whilst this is not insurmountable, it does add complexity.

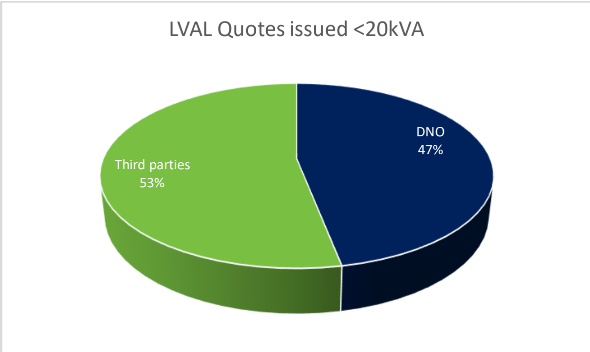
Figure 1: 2013 Competition Tests outcome by licensee

	Passed	Not passed	% passed
LV	2	12	14%
HV	4	10	29%
DGLV	0	14	0%

In our experience both the LVAL and LVHV market segments have active competition. The level of competition is active even at the smaller end of these market segments. For example, the two charts below show data for the connection offers we issued in the 2019/20 regulatory year. This shows the active competition in the whole market segment where 46% of the connection offers we issued were to third parties. Looking at a subset of these, where the requested capacity was less than 20kVA (average would be over 100kVA) shows even greater levels of competitive activity. We share this analysis to show that a simple hypothesis that there will be less competition at the lower end of a market segment may not be reality. We therefore urge caution in making any changes to the well-established market segments.

Figure 2 and 3: LVAL connection offers issued during 2019/20





In our experience the DGLV market segment is small both in terms of volume and value. In 2019/20 we issued fewer than 300 connection offers and, as shown below, the clear majority of these were 'nil value quotes' where no work was needed to allow the connection of the distributed generation equipment, typically to existing premises.

Figure 4: DGLV connection offers issued during 2019/20

Due to the small volumes and value of the work we see less competition in this area. However, we consider that these customers are best served by having specific incentives that address their needs. If they were incorporated into the customer satisfaction survey, we believe that that this might be less beneficial than having their specific needs addressed as they would be a small proportion of the survey sampled based on the relative volumes.

Q8 Do you consider that we have identified the relevant considerations to determine which customers should be captured in its scope?

We think that the alternative mechanisms set out in the document should also be considered as an alternative to competition or inclusion in the customer satisfaction survey.

Q9 Do you agree with our proposal to retain the TTC incentive as a financial ODI in RIIO-ED2?

We have put significant focus and effort into making improvements to both our time to quote and time to connect, restructuring our organisation, investing in IT and making improvements to our processes and systems. This has allowed us to deliver consistently good, sustained performance in both measures. This performance will not be maintained without continued focus and therefore we can see merit in the TTC incentive being retained. However, we have a number of concerns regarding the proposed changes that are covered in our responses to Q10 and Q11.

We also note that this part of the document refers to the financial exposure in terms of percentage of base revenue. We assume that the actual calculations will be based on RoRE basis points for consistency, and to support all stakeholders in understanding the framework, urge that all incentives are expressed in RoRE terms. This is especially important given the proposal to implement a RAM in RIIO-2.

Q10 Do you agree with our proposal to include a reopener which allows us to revisit targets, and potentially introduce penalties, in the period?

We disagree with the proposals to include a re-opener and to potentially introduce penalties.

The proposal to introduce a re-opener that can be instigated on an arbitrary basis without any defined criteria simply creates regulatory uncertainty and undermines the incentive properties. Clear and static targets have had demonstrable benefits during RIIO-ED1 and give a firm basis for DNOs to invest in improvements as the benefits can be assessed. An arbitrary re-opener is likely to dissuade the better performing companies to try to make further improvements as the benefits case could get undermined. Companies that are performing less well might also not try to improve if they perceived that the targets could be reset even further out of reach.

Ofgem's stated intention in paragraph 5.24 of the consultation, to "*tighten targets if they are easily outperformed*" runs counter to the experience of TTC to date. Whilst overall TTC has improved performance across all the DNOs there is still a range in the performance observed. There are several companies like ourselves that deliver consistently good performance, but this performance is not without significant effort and has delivered improved timescales that customers benefit from. The fact that the performance is not consistent suggests that these targets are not easy to outperform. In our view the opportunity for further improvements is limited. Both parts of the incentive rely on customer behaviour and particularly for TTC we are often limited in our ability to further improve timescales because customers do not want the connection any faster. The incentive is measured from when the customer accepts to when they are connected, and this timescale is more often determined by the customer's programme than by any limitation on our ability to make the connection.

We also disagree with the proposal to introduce penalties. As discussed above, there are limitations to the improvements that DNOs can make in these two aspects as they are largely driven by the preferences, priorities and choices of customers. Ofgem notes this in its rationale for not allowing exemptions. We can accept this rationale of no exemptions if TTC remains as a reward only mechanism. However, if penalties were to be introduced then we believe that the mechanism would need to change to ensure that DNOs have an appropriate level of influence on the performance and that underlying performance isn't adversely affect by factors outside management/DNO control. This could be achieved for example by measuring the time from when the site was ready for the connection to when the connection was made. We recognise that the targets would also need to be recalibrated on this basis but this would be more appropriate should a symmetrical incentive regime be desired.

Applying penalties to a company whose performance deteriorates without consideration of the level of performance also seems unreasonable and could have unintended consequences. This approach would create a disincentive to improve the service to customers as it introduces a risk that if that performance is not maintained it could lead to a financial penalty. It also introduces more risk to companies that have performed well as any deterioration would be penalised. Companies that have not had good performance are less at risk as it is easier to make marginal improvements from a lower performance base. It would seem a perverse outcome for a company that has performed well to be penalised financially for any deterioration in its performance whereas a company that had not previously performed well is rewarded for improvements but with a lower performance level.

Q11 Do you agree with the methodology we propose to use to set the new TTC targets?

The proposal is not clear whether the proposed expansion of market segments into the TTC would apply to all DNOs or only to market segments that had not passed the Competition Tests.

We think that competition acts effectively to ensure good customer service and consider that market segments that passed the Competition Tests should not be included in TTC. This also removes the risk of distorting competition if rewards were available to DNOs, not funded by connections customers, that are not available to third parties.

If only market segments that did not pass the Competition Tests go into the customer satisfaction survey, then this will need to be considered in both target setting and reporting. We believe separate targets would be needed for both the Time To Quote and Time To Connect aspects should any additional customers be added into the incentive.

As we described in our response to Q7, having different treatment for subsets of market segments undermines the clarity of treatment based on the project classification. We therefore do not think that including part of a market segment is a good idea as it would require changes to systems and reporting that are not necessarily beneficial overall. The introduction of additional market segments into TTC is likely to increase the range of types and durations of connections and potentially mean that a DNO's performance is more influenced by the type of work mix that it undertakes. This means a single target based on the average of DNOs may be less appropriate as the performance of the DNO may be more impacted by the different mixes of work undertaken due to differences in networks etc.

The proposals on TTC also introduce the risk of distorting competition if rewards were available to DNOs, not funded by connections customers, that are not available to third parties.

We agree that the average DNO performance should be used to calculate the minimum reward. We think that the target should be calculated in advance of the start of RIIO-ED2. This could be achieved using the performance data up to and including year seven for the calculation.

We are unsure how the proposed 'hockey stick' scale for the incentive would work. It adds additional complexity to the calculation of the incentive and therefore the evaluation of benefits for developing improvements.

Q12 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?

The principles, and associated standards, cover many aspects of connections activity that already happen. It is not clear what deficiencies have been identified by stakeholders that need further attention. It is also not clear how the assessment against these standards would be carried out; they are descriptions of activities rather than explicit standards. It is not immediately obvious how these would be translated into "*metrics and ambitions targets*" as described in paragraph 5.51 of the consultation. Our concern therefore is that the assessment would be a very subjective assessment and lack the necessary transparency to DNOs and stakeholders. We think the standards need further development work as many would not be applicable to all market segments, for example any of the unmetered market segments.

Q13 Do you have views on our proposal to use the Business Plan Incentive to encourage companies to reveal higher baseline standards of performance and to apply this, where appropriate, to all DNOs?

We think the proposal creates a perverse incentive and disadvantages companies that have actively supported competition in connections in the past.

The framework appears to mirror some of the principles that applied to ICE, but we believe it would introduce some additional new issues. Paragraphs 5.43 and 5.57 of the consultation suggest that the new approach would only apply to market segments that did not pass the Competition Tests. Consistent with the principles of ICE, this means that DNOs have a reduced risk of penalties where they had demonstrated that there was active competition.

The funding of connection strategies through allowances (paragraph 5.53 of the consultation) could potentially introduce some cross-subsidy issues and a potential distortion of competition as this funding is not available to third parties competing in these market segments. This approach also appears to be counter to the broad approach of seeking to keep customers bills down as it would increase the funding from DUoS customers rather than from the connecting customers that benefit.

Similarly, the introduction of rewards creates potential opportunity for funding that is not available to third parties competing in these market segments therefore again potentially distorting competition.

The approach would appear to be disadvantageous in many aspects to DNOs that were more successful in the Competition Test. Companies that were less successful:

- Would have greater reward opportunity (albeit with symmetrical penalty risk)
- Would have funding that could result in higher allowances and more opportunity for outperformance though the TIM

- Would have funding for initiatives (through allowances) that do not increase the costs to connections customers, thereby keeping their costs down and making it harder for third parties to compete against the DNO

Stakeholders are likely to expect all DNOs to make similar improvements to those that have been funded through allowances via the connections strategies in business plans. Other companies will come under pressure to provide these but without access to the same funding. Having to provide these improvements and pass the costs onto their customers will make them less competitive and therefore adversely impact the DNO's ability to win work.

The utilisation of the Competition Tests in the framework should in our view be refreshed to take account of a more contemporary view of competition. We believe that a review of competition through analysis of the proportion of connection offers issued and accepted could give an appropriate indication of the levels of competition that now exist. The establishment of the Competition in Connections Code of Practice has embedded best practice and therefore there is less need to consider the process aspects in the assessment.

Overall greater clarity is needed on how the proposed mechanism would work. The approach describes that information in Final Business Plans could be used to alter baseline standards for all companies. Such a late change to requirements without consideration of, and revisions to, funding does not seem an appropriate approach. Additionally, "*consistent and high-quality connections strategies*"[4] are encouraged which appears to conflict with the reward mechanism through the CVP process that requires unique propositions that raises the standards of other DNOs.

Q14 Do you agree with our proposal to use an ex post assessment to penalise/reward companies who fail to deliver their strategies in line with our guidance/exceed performance targets?

The interplay between how Business Plans are assessed and rewarded and how the ex post assessment would work needs further clarity. From the description, DNOs could be rewarded through the BPI for ambitious plans but only if they are used to improve the baseline standards for all companies. If a company proposes something in its plan that is higher than the standard but does not meet the criteria for a BPI reward through the CVP element, then what performance is the DNO held to account for?

Whilst the approaches described may work in theory we are concerned how they would work in practice in relation to connections activities. As the articulation of the standards is not precise, our concern is that the assessment would be very subjective.

We also believe that the incentive rate needs to be determined prior to Business Plans being submitted. DNOs should not be expected to develop connections strategies in their Business Plan where the level of incentive could change. This uncertainty could be detrimental to Ofgem's desire for ambitious Business Plans if the potential rewards could be removed at Draft or Final Determination.

We consider that the introduction of rewards introduces a potential for distortion of competition.

[4] RIIO-ED2 Sector Methodology Consultation: Annex 1 - Delivering value for money services for consumers, paragraph 5.44, Ofgem

Q15 Do you consider that an assessment of performance in the middle and at the end of the price control is a proportionate approach?

The appropriate timing for the in-period assessment is unclear. As Ofgem recognises in paragraph 5.55 of the consultation, the impact of service improvements may take some time to become demonstrable. As many of the initiatives will not start until the beginning of RIIO-ED2, then any assessment prior to the end of the third year may be premature. This would also coincide with work on ED3 and therefore create an additional burden rather than reduce it. By the time the assessment process has run, it also allows very little time for the DNO to respond before the final assessment.

An assessment part way through the period without a decision on penalties or rewards does however have merit and provides an opportunity for DNOs to receive clear feedback on Ofgem's view of their individual performance. The form of feedback from this review should be agreed in advance so that it provides clarity, reasons for views and clear expectations for the remainder of the period. It is practical for the final decision to be made at the end of the price control period. An ex-post review is not without challenge however, and also constitutes additional risk for companies. It would require the assessment process to be clearly set out upfront and be undertaken in a transparent way to give confidence to all stakeholders of the outcome of the process. If stakeholder feedback forms part of the assessment, then it is likely to be influenced by their most recent experience rather than an objective view over the five-year period.

Q16 Do you agree with our proposal to retain the Connections GSoPs for all connection customers in RIIO-ED2?

We agree that the connections GSoPs should be retained. These cover the key aspects of connections and the timescales provide suitable back-stop guarantees for customers.

Q17 Do you agree with our proposed approach to uplifting the Connections GSoP payment values in line with inflation, indexing payment levels to inflation, and rounding to the nearest £5?

We agree that the payments should be increased in line with CPI(H) as this is to be used elsewhere in the price control as the measure of inflation. It is not clear in the proposal as to the frequency of the review and updating. We are not against this happening on an enduring basis, but the details of the mechanism would need further consideration for codifying in the statutory instrument and/or licence.

Q18 Do you agree with our proposal to remove the Incentive on Connections Engagement for RIIO-ED2?

We believe that ICE has been an effective mechanism to significantly enhance the quantity and quality of stakeholder engagement. It has also driven significant improvement in services to connections customers. As outlined in previous responses, we are not fully clear on the proposed replacement mechanism and have identified some concerns, therefore we are unsure whether the proposed new mechanism is a better alternative for stakeholders.

4 Meet the needs of consumers and network users: Vulnerability

Q19 Do you agree with our proposed approach to ensuring consumers in vulnerable situations receive an appropriate range and level of support in RIIO-ED2? If not, what alternative approach should we consider?

We believe that the proposed approach will deliver better, and more consistent outcomes, for vulnerable customers. Funding through allowances gives greater cost certainty and allows longer-term initiatives to be developed, whilst also retaining appropriate incentivisation to deliver the services more efficiently.

One limitation of the proposed approach is that the funding is limited to initiatives developed through the Business Plan process to address the baseline standards. We still believe that there is merit in having additional, capped, 'use it or lose it (UIOLI)' funding available for new activities that emerge after the Business Planning process and where there is demonstrable social value. We believe that the common social return on investment (SROI) model being developed by the DNOs could be utilised, and criteria developed to safeguard the use of this funding.

Our stakeholders in the North West have made it very clear through our business plan engagement that additional support for those in vulnerable circumstances and those in poverty is required. Therefore as referenced in our covering letter and set out in more detail in our response to Q25 of the Finance annex[5], we have proposed that the Return Adjustment Mechanism (RAMs) be modified to support customers in vulnerable circumstances.

Additionally one stakeholder stated as response to our engagement on this consultation that it would "expect [the need for DNOs] to adapt vulnerable customer support strategies for the socially distant environment that we face for the foreseeable future and to develop its understanding of the nature of new vulnerabilities brought about by COVID. It is likely that some customers now in vulnerable circumstances, would not have been considered vulnerable prior to the pandemic."

We also believe that the incentive rate needs to be determined prior to Business Plans being submitted. It is not reasonable for DNOs to be expected to develop vulnerability strategies in their Business Plan where the level of incentive could change. This uncertainty could be detrimental to Ofgem's desire for ambitious Business Plans if the potential rewards could be removed at the Draft or Final Determination stages.

Q20 Do you have views on our proposed Vulnerability Principles and associated standards (in Appendix 5) for RIIO-ED2? Do you disagree with any of the standards we have proposed? If so, why?

We think these act as a good starting point to ensuring good and consistent levels of performance.

We note that the level of effective PSR database maintenance is defined as every 24 months. Based on feedback from our stakeholders, for some lower risk categories such as older customers with no other issues, we currently update this every 36 months. The proposed mechanism appears to give appropriate flexibility for us to either increase the frequency of these categories or justify the current frequency.

[5] Annex 4 of this consultation response

The measurement of this activity also needs to be based on the frequency of the DNO seeking to validate the data, rather than the data being validated. This will avoid the creation of a perverse incentive that drives a DNO to make repeated attempts to contact that become excessive from the perspective of the PSR customer and could add to their vulnerability.

Q21 Do you agree with our proposal to use an ex post assessment to penalise/reward companies who fail to deliver their strategies in line with our guidance/exceed performance targets?

As we state in our response to Q14, the interplay between how Business Plans are assessed and rewarded and how the ex post assessment would work needs further clarity. From the description, DNOs could be rewarded through the BPI for ambitious plans but only if they are used to improve the baseline standards for all companies. If a company proposes something in their plan that is higher than the standard but does not meet the criteria for a BPI reward through the CVP element, then what performance is the DNO held to account for?

In principle we agree with the approach proposed however, we are concerned that the assessment approach is not defined and could be subjective as well as lacking transparency. We think this is an area where greater clarity from Ofgem would be beneficial and would give DNOs more confidence to develop ambitious Business Plans that would benefit their vulnerable customers.

We also believe that the incentive rate needs to be determined prior to Business Plans being submitted. DNOs should not be expected to develop strategies in their Business Plan where the level of incentive could change. This uncertainty could be detrimental to Ofgem's desire for ambitious Business Plans if the potential rewards could be removed at Draft or Final Determination.

Q22 Do you consider that an assessment of performance in the middle and at the end of the price control is a proportionate approach?

We agree that the move away from an annual assessment has benefits. We are less clear on the appropriate timing of an assessment within the price control period as some initiatives may only commence from the start of RIIO-ED2 in line with the funding and may take several years to have demonstrable benefits.

An assessment part way through the period without a decision on penalties or rewards has merit and provides an opportunity for clear feedback on Ofgem's view of DNO performance. The form of feedback from this review should be agreed in advance so that it provides clarity, reasons for views and clear expectations for the remainder of the period. It is practical for the final decision to be made at the end of the price control period. An ex-post review is not without challenge however, and also constitutes additional risk for companies. It would require the assessment process to be clearly set out upfront and be undertaken in a transparent way to give confidence to all stakeholders of the outcome of the process. If stakeholder feedback forms part of the assessment, then it is likely to be influenced by their most recent experience rather than an objective view over the five-year period.

5 Maintain a reliable network

Q23 Do you agree with our proposed approach to retain the RIIO-ED1 methodology for setting unplanned interruptions targets?

We broadly agree. We agree that benchmarking on the basis of disaggregated network type is appropriate for HV and that relative benchmarking on other voltages would be overly complex. We understand the argument for introducing the 'lower of' rule in terms of DNO actual performance and results of the benchmarking approach. However we suggest that, where DNO performance exceeds the RIIO-ED1 IIS cap in the relevant year(s) used for the comparison, this cap value is used instead of actuals. It is the cap value that customers have actually paid for and any performance beyond this has been at the DNO's expense. This modification would ensure that there remains an incentive to deliver performance improvements right through to the end of RIIO-ED1, thus maximising benefit to customers of the existing scheme.

The 'lower of' assessment should also be conducted in the round, i.e. considering the overall position against IIS revenues. A company could theoretically be ahead on CIs but behind on CMLs with a combined impact of being in IIS penalty. In these circumstances it would be inappropriate to set CI targets at the lower level as the condition of customers having already paid for that level of performance has not been met.

We also seek clarity from Ofgem in terms of the time periods that will be used for the calculation of actuals and benchmarks and suggest that these should be consistent with each other to avoid cherry picking a single 'good' or 'bad' year.

Q24 Do you have views on the alternative approaches to setting unplanned interruptions targets set out? Are there any other approaches that we have not considered?

We think the main viable alternatives have been appropriately considered. We remain concerned that the application of upper quartile restoration (ASID) levels at HV to DNOs performing well on CIs in order to set CML targets risks a cherry-picking approach.

In order to ensure transparency, we suggest that Ofgem publishes the model used for target-setting so that it can be validated, and that previous and new errors in calculation can be prevented/corrected.

Q25 What are your views on revisiting unplanned interruptions targets within the price control period?

We agree with Ofgem that it is not appropriate to revisit unplanned interruptions targets within the price control period given a five-year control period and the uncertainty it causes. Resetting targets would also limit the period over which a DNO would be able to recover the benefits of investment to improve the quality of supply and hence serve to restrict the delivery of such benefits to customers.

Q26 Do you agree with our proposed position not to introduce further convergence of DNOs' targets over time?

We agree, although Ofgem needs to ensure that DNOs are not penalised for delivering better levels of performance than their peers. There is already an element of convergence in the HV element of the target setting by assigning a higher annual improvement rate to those DNOs underperforming the benchmark.

Q27 What are your views on retaining an incentive for planned interruptions performance, and the associated targets?

We think this is appropriate and aligns with our customer preferences elicited through the enhanced stakeholder engagement conducted as part of our business plan development.

We highlight that there are potentially significant influences on the level of planned interruptions in RIIO-ED2, e.g. due to the delivery of programmes to ensure compliance with the Persistent Organic Pollutants (POP) regulations. These could introduce significant volatility in performance through the period. By itself, the target-setting process for planned interruptions will equalise these over time; however, by including planned interruptions within the overall revenue cap, there is a risk that companies will not be appropriately remunerated if the unwinding of the higher levels in later years' targets coincides with unplanned outperformance causing the cap to be breached.

We therefore suggest that planned interruption performance is removed from the overall revenue cap.

Q28 What are your views on the potential amendments that could be made to the mechanism, including (but not limited to) the options presented in Tables 23 and 24?

We have reviewed the weighting of planned interruptions (set out in table 23 of the consultation) against our recent customer research and consider it appropriate to retain the current 50% weighting level. In essence, increasing customer intolerance of power cuts more generally appears to be broadly countered by the improvements in notice period and restoration information which has reduced their disruptive impact. Any other value would essentially be arbitrary unless evidenced by recent, national level customer research.

In terms of target-setting (table 24 of the consultation), we believe that the rolling process currently in operation in RIIO-ED1 is fit-for-purpose and allows the DNOs flexibility. We do observe however, that this enshrines significantly different starting positions for DNOs and suggest that Ofgem take this into account when conducting any unit cost analysis where the inclusion of generation costs (or not) may be a material distortion in the assessment of any benchmarked position.

Q29 What are your views on how VoLL should be updated for RIIO-ED2?

We agree that the VoLL value should be updated and uplifted to reflect a real term customer increase in value since it was last validated and to account for inflationary impacts. In many regards, a single VoLL value will always be a crude approximation at a point in time hence a level of estimation will be required. Updating the domestic/SME ratio to reflect current data would appear to be sensible. The

VoLL value interacts with the target-setting process and the decision on overall revenue exposure to produce the marginal rate for improvements. With lower targets, a higher VoLL and unchanged exposure (as proposed), the ranges from maximum reward to maximum penalty are likely to be tight, exposing the DNOs to increased volatility risk.

Q30 What are your views on the different methodologies for updating VoLL?

We agree that the retention of a single VoLL figure for IIS is appropriate considering that this mechanism is designed to incentivise current overall average performance. We also believe that models looking at long-term future investment options (e.g. CBA and CNAIM) should be designed to reflect an appropriately justified differentiated value of VoLL. This could be used to identify and justify targeted programmes where the enhanced VoLL of the beneficiary customers is relevant and/or to reflect the likely change in VoLL over the lifetime of an investment decision in the context of the journey to Net Zero.

Q31 Do you have a view on retaining alignment with VoLL figures used in other RIIO price controls and/or parts of the energy sector?

We agree that this might seem desirable, though would highlight that the VoLL is not static and continually evolves, hence an event of the magnitude of a price control re-set should be used as an opportunity to update this critical calibration value.

Q32 Do you agree with our proposed approach to retain the RIIO-ED1 revenue cap for the IIS at 250 RoRE basis points?

As a minimum, we agree that this is appropriate to retain 250 basis points and the incentive qualities of the IIS scheme. A greater incentive opportunity than 250 basis points would drive a greater investment in measures to improve service faster. However, how the Return Adjustment Mechanism (RAM) is set needs to be considered in the context of IIS and the overall incentives package developed for RIIO-ED2.

Further, we believe that artificially capping the upside of an incentive designed to achieve improvements that customers value and set at a rate reflecting that value is not in customers' overall interests and Ofgem should consider its removal to avoid artificially constraining performance improvements that would otherwise be possible.

Linked to our response to Q27, Ofgem should consider removing planned interruptions exposure from the capping mechanism due to the likely volatility of this measure in RIIO-ED2 and the interaction with unplanned performance.

Q33 Do you agree with our proposal not to introduce an incentive on short interruptions in RIIO-ED2? If not, how should such an incentive be structured and developed?

We agree that an incentive for short interruptions should not be introduced in RIIO-ED2.

We also agree that the focus in RIIO-ED2 should be on establishing a consistent and accurate reporting process ahead of the introduction of any potential associated incentive regime.

Q34 What are your views on a minimum standard for short interruptions for RIIO- ED2?

We believe that this proposal requires further discussion and can only be implemented once the reporting improvements noted have been implemented and thoroughly tested to ensure that an appropriate baseline can be established reflecting a suitable minimum standard.

As it is unclear whether Ofgem is proposing a new Guaranteed Standard in this regard. We also believe that the interaction of this minimum standard with any proposed future incentive regime needs to be considered further as it could be of material cost to companies and would need to be included in Business Plans.

It is therefore our position that these should not be introduced in RIIO-ED2 and should be introduced at the same time as an incentive on Short Interruptions as set out in our response to Q33.

Q35 What information should we be capturing in RIIO-ED1 and RIIO-ED2 to better understand short interruptions and how DNOs are performing?

We support the proposals that have been developed through the Ofgem Safety, Resilience & Reliability Working Group (SRRWG) to adapt a version of the current interruptions reporting template for short duration interruption reporting. This should give the relevant data to allow performance to be compared and an appropriate baseline set, once the data accuracy and consistency of reporting is at the required standard, ready for RIIO-ED3 when the case for an incentive should be reconsidered.

Q36 Do you agree with our proposal to retain the RIIO-ED1 SWEE mechanism?

We agree and think that the mechanism remains fit-for-purpose, as well as ensuring an appropriate balance of risk between companies and customers in terms of exposure to extreme weather events. Consideration should be given to ensure that it is not excessively bureaucratic to administer.

Q37 Do you agree with our proposal to remove the OEE mechanism? If not, what evidence is there to support its retention, and what changes should be made to the existing approach to improve it?

We disagree with this proposal and suggest that the OEE mechanism is retained but that its associated qualification criteria are clarified to refocus on the genuine one-off circumstances outside of a DNO’s control such as a major third-party cable strike.

Varying interpretations of its implementation within RIIO-ED1 should not be used as a reason to remove it entirely. The OEE mechanism is increasingly important as, with the tighter IIS targets likely to be proposed for RIIO-ED2, the ability of a single event outside of a DNO’s control to significantly change its IIS position is exacerbated and the exposure to risk increased.

Q38 What are your views on the threshold that should apply to either exceptional event mechanism?

For SWEE, we believe that updating the current thresholds of 8 times daily mean HV faults for Category one and 13 times daily mean for Category two events is appropriate.

For OEE, the criteria should be set with respect to the financial risk that the licensee is exposed to hence will require the size of the licensee to be taken into consideration.

Q39 What performance do you think should be excluded under each mechanism?

We believe that the criteria for the events to be excluded under the SWEE mechanism are well understood and the volume of these typical annual claims allows Ofgem to assess that these are being consistently applied.

With regard to the OEE mechanism, we agree that this should be refocused onto clearly defined types of one-off events and not used to adjust for the impact of prolonged factors.

Q40 Do you agree with our proposal to retain the existing GSoPs? If not, what changes do you think are necessary and what are the reasons for them?

We agree that the GSoP should be retained.

Q41 Do you agree with our proposal to uplift payment values in line with inflation, indexing payment levels to inflation, and rounding to the nearest £5 for clarity for stakeholders?

We agree that the payments should be increased in line with CPI(H) as is the measure of inflation used elsewhere in the price control. It is not clear in the proposal as to the frequency of the review and updating. We are not against this happening on an enduring basis, but the details of the mechanism would need further consideration for codifying in the statutory instrument and/or licence.

Q42 Do you agree with our proposal to retain some form of mechanism for WSC in RIIO-ED2?

We agree that the current mechanism does not work effectively. The process is cumbersome and delays service improvements being made until after customers have qualified against very narrow criteria. We hold this view despite being by far the most extensive users of the current scheme on a proportional basis. The low overall DNO take up rate shows how ineffective it has proved, with some DNOs appearing to ignore the scheme completely, potentially disadvantaging their customers from the benefits that could have been available.

We agree that a mechanism needs to be in place for RIIO-ED2 to ensure the needs of worst-served customers are addressed. The IIS incentive does not do this as it is based on economically-driven average performance. Further, we are finding significant customer support for improving service to worst-served customers, even where this may be relatively expensive to achieve compared to improving average performance for all.

Q43 What are your views on the options presented for WSC? Are there other options that we should consider?

Ofgem should replace the current scheme with an ex-ante funded targeted programme to address poorly served customers, potentially modelled on the approach adopted for SSEH in RIIO-ED1. We expect to be proposing this in our Business Plan submission, in response to feedback from our customer and stakeholder engagement in the North West. This would allow significant work to be completed on those circuits that supply worst-served customers and result in sustainable and enduring improvements.

We are anticipating that such a scheme will be supported by customer willingness-to-pay given the engagement we have already undertaken and that it has the potential to be crafted into a Price Control Deliverable (PCD) which will ensure delivery against its stated aims.

Our stakeholder engagement as part of this consultation response indicated a preference for “option 3” as it “recognises locality based differences which is more realistic and enables DNOs to focus on topical important issues. Certainty is a stronger platform for business planning.” Another stated that “everyone, regardless of location or social status, etc, should receive the same level of service…so discrepancies should be understood and addressed.”

6 Maintain a safe and resilient network

Q44 Do you have any views on our proposed NARM framework?

We are supportive of the NARM framework and its development from the current equivalent in RIIO-ED1, NASD. We consider that the ED experience in developing and implementing a monetised risk-based approach for RIIO-ED1 places it significantly in advance of the other sectors regulated by Ofgem and hence the NARMs arrangements put in place to remedy the shortcomings in those sectors’ approaches should not be assumed to be precedent-setting for RIIO-ED2.

We agree that the introduction of a long-life risk metric is a sensible development which helps ensure the delivery of efficient and effective asset interventions to manage the overall long-term risk of the network. This long-term life risk management is key to ensuring the overall sustainability of the network allowing it to respond to the challenges of the future including the transition to Net Zero.

We have worked with the other DNOs to develop a robust and workable approach to long-life risk which uses the current Common Network Asset Indices Methodology (CNAIM) v1.1 as its basis. We are pleased to see that Ofgem has endorsed the principles behind the proposed approach and commit to working further with Ofgem and the other DNOs to refine the details of this prior to its implementation.

We also agree that commonality can only be achieved with a consistent scope of NARMs and support the proposal that all DNOs report the same asset types within the framework. Where this will result in DNOs applying the asset risk approach to new asset types, there may well be associated data collection arrangements that need to be implemented, the detail of which could be within scope for a future Information Gathering Plan (IGP) requirement. We highlight that the collection of new or additional data to support the implementation of the NARMs approach may well lead to additional costs which will need to be considered in the benchmarking of inspection costs for RIIO-ED2.

We agree with the proposal to use asset register categories and to scrap the previous aggregated 'Health Index category' as this gives greater granularity of risk assessment, as well as avoiding some of the unintended consequences of aggregation seen in NASDs.

It is clear from recent work that there remain some areas with scope for interpretation within the current CNAIM approach and we are working with the other DNOs to provide the additional clarity and guidance on this, particularly in respect of the scoring of 'Observed Condition' factors. This is feeding into the revisions to the CNAIM v1.1 approach to produce CNAIM v2 which we have shared with Ofgem and are confident will give an enhanced basis for measuring and monitoring network risk into RIIO-ED2.

In terms of expansion to other assets, we believe that the current definition of assets within CNAIM is appropriate both in terms of the types of equipment where the costs of proactive management (inspections, maintenance etc.) are justified and in the quantum of the risk being managed. For those assets where this is not the case, and which are typically managed on a fix-on-fail approach, the appropriateness of future volume forecasts can be assessed with reference to several parameters including trend volumes, comparisons with other DNOs etc. We agree that fault rates can be an indicator, but they are high level, trailing and influenced by other factors as noted in the consultation.

In terms of the options presented, we support exploring Option 2 to look at how the principles of risk assessment can be applied to these asset types without collecting the granular asset-specific data required for CNAIM. We believe there are open source data and emerging analytic techniques that will enable us to explore this area for RIIO-ED2, however this is unlikely to be directly comparable with CNAIM itself in the short-term. This is also an area where EJPs may be a useful source of evidence to explore the engineering rationale behind proposed volumes.

Regarding the incentive properties of NARM, we acknowledge the principles set out in the RIIO-2 decision that effectively turn what was an incentive mechanism in RIIO-ED1 to a Price Control Deliverable (PCD) in RIIO-ED2. As such, we note that the removal of any incentive upside from NARM reduces the overall incentive package available for RIIO-ED2 and reduces the likely pace of asset management improvement, adversely impacting customers.

For RIIO-ED2, we expect that the principles of risk trading will be preserved to incentivise risk reduction at lower cost and hence the return of benefits to customers through the TIM mechanism. To that end, we were pleased to receive reassurances through the SRRWG meetings that Ofgem is considering the current RIIO-ED1 NASD arrangements as the basis for the NARM framework in RIIO-ED2, to be supported by the development of CNAIM v2.0 which includes the measurement of long-term risk. We would be most concerned if a version of the NARM Funding Adjustment and Penalty Mechanism currently being discussed for implementation in the Gas Distribution and Transmission reviews was transported across to ED as this appears to represent a move to detailed ex-post regulation.

In terms of justifying investment proposals, we have consistently supported maintaining the link between Cost Benefit Analysis (CBAs) and the measurement of asset risk through CNAIM and a move to a lifetime risk measure further cements these links. As such, we believe that much of the justification for future volumes and the consequent risk outputs can be made relatively mechanistically but acknowledge that there will be a role for EJPs to provide the additional justification where this isn't necessarily the case and/or where future volumes are not supported by recent historic trends. Consequently, a portfolio approach to cost assessment would be appropriate whilst ensuring minimal duplication between the different sources of evidence required.

Q45 Do you agree with our proposal not to introduce outputs or incentives related to workforce resilience?

We do agree with the proposal.

We believe, as we are doing, that DNOs should continue to work with their CEGs, key stakeholders and industry bodies such as the ENA, Prospect and Energy and Utility Skills, to agree a common set of measures and a consistent approach to providing visible and transparent workforce resilience data/metrics. We also agree that the resourcing strategies and metrics should include workforce satisfaction, wellbeing, and diversity and inclusion, but that these should not overly constrain DNOs or drive perverse behaviour because of their design. DNOs require flexibility in developing their own resourcing strategies to meet the needs of the rapidly changing operating environment. The workforce roles will need to evolve to facilitate Net Zero, enable digitalisation of the sector, and to transition to a DSO operating model. The impact of COVID-19 will also need to be considered as the environment has changed significantly in recent months.

Q46 Do you agree with our proposal that DNOs should submit a Cyber Resilience IT Plan and a Cyber Resilience OT plan?

We agree that Network Companies should submit plans for IT and OT, but they should use a standard format and the same framework. We expect to use the Cyber Assessment Framework for this but the industry baseline for OT will be higher. The plans will describe the improvement to be made against these baselines.

We recognise the convergence of OT and IT technology and services that will bring some uncertainty to, and impact on, the Cyber Resilience IT Plan. We expect that in some areas the level of cyber resilience will increase compared to what would normally be the case. There needs to be greater focus at the SRRWG on cyber resilience and perhaps this subject, given its importance and the fact it is a specialist area, needs its own forum. This would elaborate on the threats, requirements, concerns and proposals in this area.

Q47 Are there further requirements of expectations that we should be considering for the DNOs?

The scope of ISO27001 registration across IT and OT should be considered as standard and it is of value, however, this is not an insignificant cost.

The approach to re-openers for cyber is also a consideration given the uncertain nature of cyber threat and the everchanging landscape. We would propose a re-opener at the start of the RIIO-ED2 period and one in the middle given these uncertainties, in line with the proposals for GD/T.

Q48 Do you agree with our proposal for the establishment of a 'climate resilience' taskforce or working group, to help DNOs develop strategies for managing the risks of climate change?

We agree that a 'climate resilience' working group should be established through, and be chaired by, the ENA.

The existing ENA Climate Change Adaptation Reporting Group (CCARG) has been established for the sole purpose of preparing the industry wide Climate Change Adaptation Report which is then used as an appendix to individual companies' submissions to Defra. As such it is convened roughly every five years for a two to three-year period. It does not seek to develop industry wide strategies.

A Climate Resilience working group would build on the good work of the CCARG in identifying and prioritising the risks due to climate change as well as developing ongoing strategies to manage resilience in the medium and longer-terms.

Q49 How should DNO strategies inform best practice that is used across the industry? How can these be used to help DNOs develop longer term investment proposals to manage the risks of climate change?

Analysis for the first two rounds of Climate Change Adaptation Reporting have identified that the biggest risks to electricity networks are:

- Increased frequency and severity of flooding
- Reduction in equipment rating due to higher temperatures
- Increased frequency of storms
- Accelerated vegetation growth due to a warmer wetter climate

DNOs need to develop strategies which will take account of these, and other issues, to ensure the long-term health of the network.

As noted elsewhere in the consultation, through the ENA, DNOs have developed Engineering Technical Reports (ETR) for flood resilience and tree cutting that are applied nationally and form the basis of investment plans. We would expect that the suite of ETRs, or equivalent Engineering Recommendations (ERECs), would expand to cover other risks due to climate change and that they would contribute to the design of future investment proposals.

Q50 Do you agree with our proposal to retain the RIIO-ED1 approach to flood resilience?

We agree that the RIIO-ED1 approach to removing risk on the network should be retained in principle but would like to point out that the 'risk-based' approach used in RIIO-ED1 (which used customer numbers as a weighting) is not appropriate due to the deterministic nature of the requirement. There is no customer weighting factor in ETR138, just a simple threshold at the EHV level of 10,000 customers to reflect the National Flood Resilience Review recommendations.

We also highlight that ETR138 and the RIIO-ED1 approach focus exclusively on EHV and 132kV substation sites. More recent experience of flooding events has led us to undertake selective defence works at vulnerable HV locations which also need to be considered in the price control evaluation process.

In terms of cost assessment, we believe that company plans should be scrutinised for efficiency and to ensure that measures to reduce consequence, as well as probability, have been appropriately evaluated. We see this as an area of work where Engineering Justification Papers (EJPs) will play a supporting role in terms of identifying efficient solutions.

Q51 What are your views on how we/industry reports on progress against flood resilience plans?

We support the continuation of the RIIO-ED1 process with annual reporting through the RIGs. This would appear to align well with the Price Control Deliverable (PCD) definition. As we state in Q2 we would welcome further guidance on the PCD mechanism, particularly the expected materiality threshold that will be applied.

Of note is a previous requirement to provide additional six-monthly reporting to BEIS. This is currently dormant but could be revived if required.

Q52 Do you agree with our proposal to retain the RIIO-ED1 approach to ensuring networks are resilient to trees?

We agree that the existing measures should continue, however, extra measures may need to be considered to cope with the challenge of other emerging issues such as Ash Die Back disease. This is a potential additional area of vegetation management work in RIIO-ED2.

DNOs are already exposed to the impact of tree-related events through the IIS mechanism and therefore already incentivised to ensure appropriate maintenance cutting levels. We suggest that the ETR132 cutting activity could be considered as a Price Control Deliverable (PCD) in RIIO-ED2 as it is less directly linked to a current incentive. As with Q51 we would like further guidance on the PCD mechanism, particularly materiality thresholds.

Q53 Do you agree with our proposal to develop a wider resilience measure over the course of RIIO-ED2? If so, what should it cover?

We are interested to see the type of proposals that are brought forward to measure resilience. In recent years we have been involved in several discussions on developing resilience measures, but we have not seen anything that captures both the wide range of threats to resilience and the diverse nature of our network.

Previous attempts have looked at the levels of preparedness from the fundamental network design standards through to forecasting and response capability. Resilience is provided by this tiered approach to defence against external threats, but it is challenging to combine assessments of the different layers into a single metric due to the very different nature of each part.

The biggest resilience ‘failure’ in our area in recent years was the major interruption to the city of Lancaster during Storm Desmond in December 2015. Although more than 50,000 customers were off supply for nearly two days, 97% of our customers were totally unaffected by the incident. It is difficult to visualise a meaningful and useful measure of resilience which would pick out such localised threats to our network from the wide range of potential impacts.

In developing a metric, it would need to be understood how the measure would be used to identify new investment and work practices, as well as to assess and quantify what benefit that would bring to customers.

In terms of work in RIIO-ED2, we suggest that it would be appropriate for the initial focus to be on identifying areas of co-dependent resilience with other infrastructure as identified in the National Infrastructure Commission report referenced in the consultation.

As well as the resilience activities that have been discussed, we are aware that there are potential technical and infrastructure solutions which will improve the resilience of our networks to storms and other threats. For example, we are investigating the potential to roll out the 'Sentinel' solution[6] which was developed through the NIA. Currently there is no place in the Business Plan Data Template (BPDT) to capture this type of project for evaluation in the price controls.

We would like a 'Resilience' table to be added to the BPDT to capture this type of cost. We propose that it would have a similar format to the 'Legal and Safety' table allowing DNOs to define their own categories of work.

Q54 Do you agree with our proposed approach of retaining the existing arrangements for Black Start, physical security, and telecommunications resilience?

We broadly agree with the proposed approach.

We support the introduction of a re-opener for Black Start, as it is currently unlikely that there will be sufficient clarity on future requirements to enable these to be included within the RIIO-ED2 submissions. This re-opener will need to be designed to accommodate a wide range of potential costs as our current assessment is that the costs of meeting any enhanced standard are likely to be related to additional indirect costs (such as Control Room functions) as well as direct network investment.

As Physical Security requirements are identified independently from the DNO, we believe it is appropriate to retain the current arrangements in this regard.

We note that Ofgem is not currently proposing a re-opener for Telecoms Resilience but an update as part of Draft Determinations in 2022. It would be helpful if Ofgem could specify in more detail what it is expecting to receive as part of the DNO submissions in 2021 as that will help to provide the required clarity in this regard.

Q55 Do you agree with our proposal to include a reopener for physical site security, with a window during the price control and a window at the end of the price control?

We support the retention of a re-opener to cover Critical National Infrastructure (CNI) to adjust revenues following government mandated changes to network site security requirements. This is exactly what re-openers and uncertainty mechanisms should be used for; to cover changes in requirements that are externally driven and outside of companies' control. To that end we propose that no materiality threshold should apply to this re-opener as per the current position for RIIO-ED1. Applying any materiality threshold to a mandated and/or legislative requirement wholly outside of companies' control places all the risk on companies and is inconsistent with the lower risk aspiration as set out by Ofgem for RIIO-2.

It is unclear why this re-opener should be limited to two periods only. Due to the nature of the activity it would be prudent that this re-opener could be applied for at any point in the price control in line with the defined annual window should the need arise.

[6] https://www.enwl.co.uk/zero-carbon/innovation/smaller-projects/network-innovation-allowance/enwl006---sentinel/

Q56 Do you agree with our proposal to continue monitoring the development of telecommunications resilience and reviewing the arrangements as necessary?

We agree with the proposed approach for telecommunications activities and resilience. The recent changes in the definitions in the RIGs supports this treatment.

7 Delivering an environmentally sustainable network

Q57 Do you think our proposed environmental framework will drive DNOs to deliver an environmentally sustainable network?

We are supportive of the proposed environmental framework based on the outline expectations provided in the consultation.

Q58 Do you consider that the proposed areas in scope of the Environmental Action Plan, and associated baseline standards, are appropriate? We particularly welcome views on any areas that should be omitted/included and if new areas should be included, what the baseline standard should be?

We broadly agree with the proposed scope provided and agree that common methodologies should be used by the DNOs to ensure consistency and meaningful assessments.

Notes regarding specific actions areas are detailed below:

Business Carbon Footprint (BCF) – We agree with the need to only include scope 1 and 2 emissions with the science-based target and to limit scope 3 emission reduction progress to the reporting element. Given the complexity and challenges of scope 3 emissions, we believe that clear boundaries should be set out clarifying what to include as this isn't currently detailed within the consultation. We are supportive of the desire to agree a common BCF methodology. We also believe that when setting the baseline, progress towards reducing BCF in RIIO-ED1 should be taken into account as some DNOs will have already made significant progress in this area.

Sulphur Hexafluoride (SF6) – We agree with Ofgem's position, although we note that there are potential legislative changes that are yet to be finalised and which may impact on the expectations and deliverables. No firm decisions should be made with regards to the treatment of SF6 in RIIO-ED2 until these changes are known.

Losses – We agree with Ofgem's position which reflects the views of the ENA Losses Working Group. The RIIO-ED1 reputational incentive (Losses Discretionary Reward (LDR)) combined with our CBA-based investment programme on losses has delivered significant losses savings during the period either through proactive intervention (i.e. programme of replacement of high loss transformers) or through opportunistic investment (i.e. over-sizing cable when installing new cable). We support the continuation of the RIIO-ED1 approach on losses (without the LDR element) but recommend the enhancement of the CBA tool currently being discussed through the Ofgem Cost Assessment Working Group to ensure best value for customers.

Embodied carbon – We agree with the need to consider embodied carbon. Further guidance is needed around what defines a new project in the context of embodied carbon so that clear boundaries are defined. Only once this is determined would we support the need to introduce targets to reduce embodied carbon on specified new projects during RIIO-ED2. We would support an objective to establish a baseline within RIIO-ED2 and look to identify activities to reduce the embodied carbon.

Supply chain – We are broadly supportive of the need for the supply chain to meet high standards of environmental management. More information is required confirming what the qualifying criteria would look like, such as certification to a relevant international standard or other recognised certification. If a requirement is made to audit the supply chain, this could add additional costs which may not be in customers' best interests.

Resource use and waste – We believe that embedding circular economy principles within procurement processes and reporting on the fate of waste materials as a percentage is appropriate.

Whilst we are supportive of the aim for the circular economy, we are opposed to setting a zero waste to landfill target due to the range of materials that are not readily recyclable or recoverable, such as asbestos. A zero waste to landfill target should only be set if it contains specific exclusions.

Biodiversity/natural capital – We are supportive of the need to increase environmental value where possible in our work. However, the increase in 'natural capital' is harder for DNOs as opposed to transmission or other sectors (such as water) as we do not own (comparatively) much physical land. Accordingly, the proposed net gain changes need to be as simple as possible so as not to be too onerous and have a chance of being observable, particularly as DNOs are dependent on land-owners being cooperative to allow monitoring. This could, therefore, be restricted to new infrastructure projects situated on DNO-owned land.

Fluid-filled cables – We are in agreement and would like to highlight the interaction between this element of the EAP and the asset management plans for each company.

Noise pollution – We are in agreement.

NOx and air quality – We do not support this objective as we feel that NOx and air quality is, in effect, accounted for in the BCF by way of fuel emissions. We feel this should be a DNO-led exercise where they operate in areas under a clean air zone or similar, and not be included within an EAP.

Q59 Do you agree that the annual reporting through the Environmental Impact Report will increase transparency of the DNOs' activities and the resulting impacts on the environment?

We have assumed that the Environmental Impact Report is what is referred to within the consultation as the Annual Environment Report (AER). We agree that the reporting would increase transparency but believe that recognition of environmental initiatives and progress from RIIO-ED1 should be taken into account. We also require clarification that this would be an enhancement or replacement of the Environmental Report obligations in RIIO-ED1 to avoid duplication.

Q60 Do you agree with our proposal to introduce a re-opener to accommodate environmental legislative change within the RIIO-ED2 period?

We agree with the proposal to introduce a re-opener in this area on the basis that it can be sufficiently defined to deal with a specific set of circumstances. Based upon our experiences in RIIO-ED1 we expect that changes which will materially affect the activities within the scope of the EAP fall into one of three categories:

- Introduction of new legislation e.g. the potential SF6 change to F-Gas regulations
- Change of enforcement practice or legislative clarification e.g. PCB clarification of expectations from network operators
- Change to /new standards which are imposed by external bodies e.g. Environment Agency/Health Safety Executive e.g. the requirement to inspect cut-outs following smart meter rollout

Q61 Do you agree with our proposed removal of the Losses Discretionary Reward?

We agree with the removal of the Losses Discretionary Reward, and instead support the focus of losses being included as part of the more holistic treatment of environmental impact within companies' overall strategies. We were one of the few DNOs to propose specific losses reduction expenditure in RIIO-ED1 supported by a CBA. Our investment to date will deliver a losses reduction over the RIIO-ED1 period and this will increase with anticipated further investment in the remainder of the period. We propose that this same approach should continue for RIIO-ED2 where specific company actions/investment can result in a positive benefit for customers to be funded ex-ante within totex allowances.

Q62 Do you agree with our proposal to retain the visual impact allowance for RIIO- ED2?

We agree, and as stated in the consultation, that visual impact allowances provide a flexible means for DNOs to undertake works identified and prioritised by relevant stakeholders which can make a significant difference to the visual environment of impacted areas. They also have the potential to deliver incidental benefits such as increased storm resilience and we have experience of such projects being used to leverage additional funding for wider landscape improvement schemes maximising the overall benefit to customers in our area.

Q63 Do you agree with our proposed approach to setting a funding pot for the visual impact allowance for RIIO-ED2?

In principle we agree, although we note that the visual amenity values used in Transmission are significantly higher, indicating an enhanced national customer willingness-to-pay based on more contemporary assessments. Investment in visual improvements by the DNO sector allows the benefits to be shared around the country – at present Transmission benefits are highly localised to a small number of expensive schemes and we note that there is no benefit from the Transmission scheme in the North West despite North West customers contributing to it through their bills. In contrast, we intend to fully utilise our entitlement in RIIO-ED1 and plan to continue to do so in RIIO-ED2.

Further one of our stakeholders stated that "It is fair to calculate the allowance for each DNO as an average of the number of customers and length of lines to be undergrounded in each region. With the geographical extension to both the Lake District and Yorkshire Dales National Parks back in 2016, the length of lines that Electricity North West is responsible for has increased, so its portion of the overall undergrounding allowance in RIIO-ED2 should also increase."