

OFGEM's RIIO-ED2 SECTOR SPECIFIC METHODOLOGY CONSULTATION

RESPONSE FROM AGILITY ECO SERVICES LIMITED

1 October 2020

Thank you for the opportunity to respond to this consultation.

Introduction

Agility Eco Services Ltd (AgilityEco) is a leading organisation in the area of low carbon and energy efficiency services, providing practical support and advice to vulnerable and fuel poor customers. As a sector leader in our field, we have significant first-hand experience of the benefits that utility companies can provide to these consumers, through their licence obligations, price controls and partnership working. (Please see page 6 for an introduction to AgilityEco).

Our response is thus focused on our concern for vulnerable customers and the provision for them in RIIO-ED2. Our points are related to Ofgem's questions specific to vulnerability:

Questions OVQ10, OVQ12, OVQ13, OVQ14, OVQ15 and from Annex 1 - OUTQ19, OUT20, OUT21, OUT22.

We warmly welcome Ofgem's drive for a greater focus on network companies protecting and supporting households in vulnerable situations in RIIO-ED2. This is at a time when there are also huge challenges to improve efficiency, increase innovation, deliver the investment for Net Zero and the energy transition.

The focus on vulnerability as a key challenge is necessary.

As Ofgem have highlighted themselves, the changes in the energy system should bring benefits overall, but there will be inequalities in the transition and those in vulnerable circumstances are at risk of being excluded from accessing the benefits and therefore suffering new forms of detriment.

There is already strong evidence that those in vulnerable circumstances, such as the elderly, digitally disengaged and disabled customers have fallen behind significantly in the smart meter rollout and are already being disadvantaged by the emergence of discounted "smart only" energy tariffs.

NEA have also raised their concerns that without a greater focus on engaging the hardest to reach customers, they will be the last to receive a smart meter. "These households have potentially the most to gain from the installation of a smart meter and without urgently taking steps to address these concerns, the 15% of households who may not receive a smart meter at the end of 2024, could overwhelmingly be made up of vulnerable customers." (National Energy Action Response to Delivering a Smart System: Consultation on a Smart Meter Policy Framework post 2020).

Strong action must be taken throughout the ED2 price control period to ensure inclusivity and the installation of smart meters is the first step towards enabling disadvantaged customers to fully access to the roll out of a smart, low carbon, digitally enabled energy system.

Providing assistance to a growing number of vulnerable households (who in many cases will still be experiencing the long term impacts of Covid-19) through the strive towards Net Zero and through the energy transition will be an ongoing challenge throughout the next price control and DNOs need to have sufficient provision for this.

AgilityEco is a member of Ofgem's RIIO-ED2 Customer Service, Vulnerability and Connections Working Group; we are pleased to see that many of the group's outputs and recommendations have been included in this consultation.

Consultation Questions

OVQ10. Do you agree with our proposals to increase levels of BAU innovation?

AgilityEco agrees that low-risk innovation projects such as those on increasing operational efficiency should be part of business as usual (BAU) incentives and costs should be covered through TOTEX. We do have concerns that some projects to address vulnerability may not get fully rolled out or embedded because Ofgem believe they are BAU and DNOs believe they require more substantial funding. Subsequently, DNOs may not put the required resources to these activities or may not take them forward at all.

We saw in the Gas Distribution Network Draft Determinations that many Outcome Delivery Incentives (ODI) and Customer Value Proposition Incentives (CVP) were not accepted, as Ofgem considered them BAU.

DNOs should provide absolute clarity in their business plans on their innovation proposals and the net benefits for customers and sufficient discussion held between DNOs and Ofgem to determine if they are BAU and should be funded through TOTEX or through innovation funding.

OVQ12. Do you agree we should adopt a consistent NIA framework for DNO and other network companies and the ESO?

We agree that there should be a consistent NIA framework to incentivise collaboration across DNO and other sectors on projects where this is likely to maximise customer benefits and to facilitate third party involvement.

We would go a step further and say ultimately there should be a consistent innovation framework across Ofgem and Ofwat for the energy and the water industry, particularly for vulnerable-related innovation, where in most cases customers who need support with their energy also need support with their water bills and all utility priority services.

This would also encourage regional projects to tackle local issues and drive wide reaching consumer programmes.

OVQ13. What are your thoughts on our proposals to strengthen the RIIO-ED2 NIA framework?

We welcome Ofgem's proposal to focus innovation stimulus funding on addressing consumer vulnerability. We are pleased that the proposal for RIIO-2 NIA is to restrict NIA funding for energy system transition or vulnerability-related innovation.

We urge Ofgem to consider there being a pre-requisite for all proposals for NIA funding to have vulnerability at its core. This will support the aim of including all groups of people in the energy transition journey, who may otherwise be disadvantaged and left behind.

We support Ofgem's proposals to strengthen the framework by providing a single 'use it or lose it' allowance, based on the company's business plan submission, to cover the duration of the price control. We believe a percentage of the 'use it or lose it' allowance (a minimum of 25%) should be a shared allowance across DNOs to incentivise collaboration, innovation and best practice across the sector.

We welcome the proposal to have a single transparent process enabling third parties to engage and partner with DNOs to co-design and deliver projects. We believe this will be key to the success of the NIA scheme and to optimise the funding available. We applaud Western Power Distribution (WPD), who seem to be already taking these steps to engage third parties in their ED2 innovation programme through their 'Energy Transition – Leaving no one behind' Initiative.

We also support the proposal of an improved industry-led reporting mechanism and that DNOs should be required to conduct an impact assessment, to assess the expected effects of the innovation solution upon vulnerable consumers.

OVQ14. Do you have any additional suggestions for quality assurance measures that we could introduce to ensure the robustness of RIIO-ED2 NIA framework?

Ofgem could consider including a consumer stakeholder panel assessment of completed projects and where appropriate an evaluation survey from consumers who have benefitted from the project.

OVQ15. Do you agree with our proposed approach for setting individual levels of NIA funding?

The approach proposed seems very flexible, with companies being able to set out the allowance that they seek and re-openers being a possibility to reassess the level of NIA funding needed during the course of RIIO-ED2, once they are further into some of the stages of their projects.

Annexe1 – Delivering value for money services for consumers Consultation Questions

OUTQ19. Do you agree with our proposed approach to ensure consumers in vulnerable situations receive an appropriate range and level of support in RIIO-ED2? If not, what alternative approach should we consider?

We are pleased that Ofgem proposes the introduction of an overarching principles-based licence obligation on DNOs, aligning them to other energy sectors, to treat customers fairly, including those in vulnerable situations throughout their operations.

We also support the proposal of introducing a financial Outcome Delivery Incentive framework, requiring companies to have a vulnerability strategy focused on the three primary areas:

- Vulnerability to a loss of supply
- Being in, or at risk of fuel poverty
- Risk of being left behind by the energy system towards Net Zero

It is vital that DNOs play their role in delivering high quality impactful vulnerability strategies, to support those most in need at a time of growing vulnerability complexities and the challenges of net zero and the energy transition ahead.

It is pleasing to see how DNOs are presently working with their stakeholders and third parties to develop their ED2 vulnerability strategies.

We trust that companies will be adequately funded through their baseline allowances and financially incentivised to deliver their strategies to optimum level.

OUTQ20. 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 and why?

We support all four principles and the baseline standards.

Principle 3 is key – ‘Understanding new forms of vulnerability’, as new forms of vulnerability and transient vulnerability are evolving and the smart flexible energy system could exacerbate risk on affordability and fuel poverty.

We agree with Ofgem’s emphasis on effective partnership working to help DNOs understand changes in vulnerability, to deliver responding vulnerability strategies and to enable access to and coordination of other public sector funding, particularly schemes to address fuel poverty and energy efficiency. Many of these partners will be trusted community outreach intermediaries and charities for which adequate funding needs to be accounted for.

We believe Principle 4 should include evidence that consideration to vulnerability is being embedded across the company as a culture.

OUTQ21. 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?

This seems a sensible approach.

OUTQ22. Do you consider that an assessment of performance in the middle and at the end of the price control is proportionate approach?

We agree that an assessment of performance in the middle of the price control as well as at the end, could help urge companies that may be underperforming to improve. It should also prevent companies focusing on short term, low impact initiatives which annual assessments can sometimes

drive. Importantly, projects that are being delivered successfully and demonstrating best practice halfway through the price control, could be adopted by others for the remainder of the period.

We do agree that annual reporting and a common reporting framework will be beneficial. We support the development of a common approach to measure social return on investment to enable a full evaluation of the social, economic and environmental benefits and long term impacts of DNOs initiatives.

In Summary

We are supportive of Ofgem's proposals in RIIO-ED2 Sector Methodology Consultation on vulnerability.

We urge Ofgem to ensure adequate funding is provided through the funding mechanism to incentivise and enable DNOs to deliver impactful strategies.

We are pleased that Ofgem are proposing essential NIA funding to address consumer vulnerability, to enable innovative initiatives that would otherwise not be undertaken within the price control. The right framework must be put in place to ensure the available funding is optimised by DNOs and vulnerability is being addressed at the widest reaching level.

We also welcome the emphasis on partnership working. This will be paramount to helping DNOs understand changing local issues and co-creating and delivering schemes to support those most vulnerable, those in fuel poverty and those most at risk of being left behind on the energy system transition.

Thank you once again for the opportunity to comment on this important consultation.

I look forward to continuing to be a member of the RIIO-ED2 Customer Service, Vulnerability and Connections Working Group, and any future workshops, to have an input into future policies for the next price review period and the NIA process.

Gearoid Lane, CEO AgilityEco Ltd

An introduction to AgilityEco

AgilityEco is a market leader in the management and delivery of innovative services to support low income and vulnerable households that need a helping hand. We provide practical help with energy and water efficiency, utility bills, household finances and vulnerability.

We work with energy suppliers, network companies, water companies, local authorities and housing providers to plan, fund and manage services to **support households with affordability and vulnerability issues**. We deliver these services through our carefully chosen national network of trusted and experienced partners.

In 2018-19 we supported over 40,000 households and achieved £177 million worth of lifetime energy bill savings across the UK, through our support programmes including [LEAP](#), [ECHO](#), and [HEART](#).

We have developed a unique approach that brings together, funding and delivery of energy efficiency and heating measures, high quality vulnerable customer support, delivered at scale through partnership working with local authorities and local agencies. You can see more in our [Impact Report for 2018-19](#)

The chart below gives an example of the kind of life-changing outcomes that can be achieved by bringing the various strands of help and support together for vulnerable households:



