

Ofgem RIIO-ED2 Methodology consultation Annex 1 Section

Citizens Advice submission
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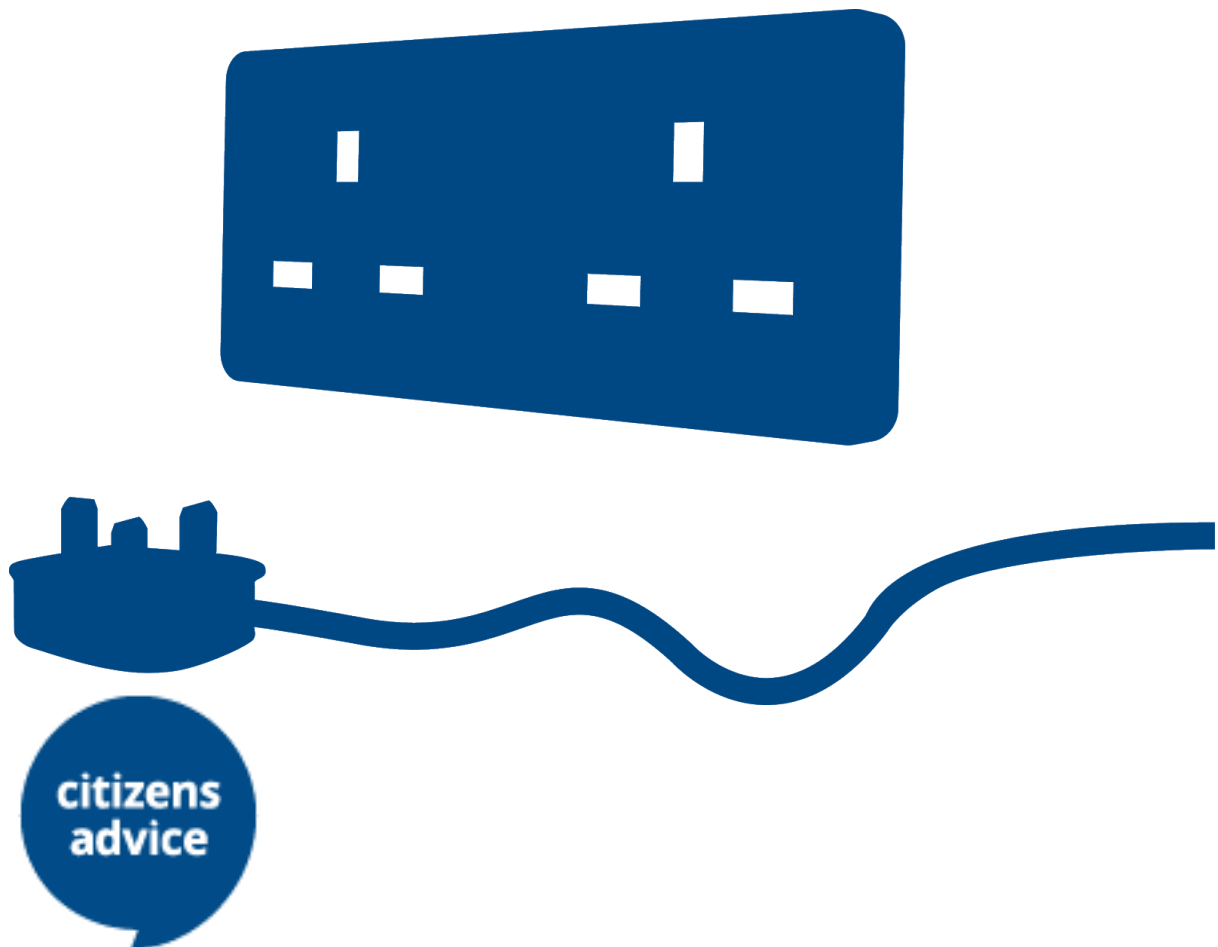


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This is the second of 4 submissions in response to the RII0-ED2 Sector Specific Methodology consultation. Please read our first response which contains our Executive Summary as this provides context to the responses in this section.

Annex 1 Questions - Delivering value for money services for consumers

Approach to setting outputs and incentives

We support the core principle (Annex 1, Page 8) that companies should not benefit from delay in delivery or failure to deliver PCDs, including delivery which does not meet a defined standard. We support the ex post assessments to determine any non-delivery and for clawbacks to be made in these circumstances. **We recommend that ex post assessments use an independent panel with appropriate expert knowledge to assess the DNOs' activities. Ofgem should further consider how to make the process for ex**

post assessments as transparent as possible including the arrangements and selection of panel members and in the decision making in the assessment. Identifying potential consequences of any delay or failure to deliver PCDs, including what consumer detriment there has been is a useful measure and would aid assessment processes. Ofgem should clarify whether it intends to include this requirement formally in Business Plan guidance and whether this applies only to bespoke PCDs.

We agree with Ofgem that bespoke outputs should be underpinned by robust analysis to demonstrate value for money for consumers. **Ofgem should set out where possible where it expects common methodologies to be used for such assessments**, for example any common Social Return on Investment (SROI) tool that is developed by DNOs.

We agree with Ofgem that the price control and the Sector Specific Methodology decision should both encourage collaborative proposals in Business Plans and delivery during the price control. **We particularly encourage collaboration between DNOs.** The Stakeholder Engagement and Consumer Vulnerability (SECV) incentive specifically rewarded collaborative work. In its absence in ED2 it is therefore important that Ofgem makes clear, as they have done, that collaboration is valued and that they “may be more likely to accept proposals that we expect to drive performance for all, or wider groups of, consumers”. Ofgem should ensure that in further publications and guidance that this is reflected consistently in order to drive these proposals in Business Plans. As distributed generation increases in licence areas and more importance is placed on local area energy plans, **it is important that DNOs work with each other and with their GDN colleagues, including where issues and solutions may cross boundaries.**

OUTQ1 Do you agree with our proposal for setting upper and lower limits on the value of bespoke ODIs?

Yes, we agree. We think upper and lower limits are needed. We think both these limits will provide enough incentive to reward companies whilst also acting as a deterrent for non-delivery. The upper value should be used where DNOs are really delivering value to consumers and are suggesting new and innovative ways to really drive performance and benefit their customers. Given the various issues around bespoke outputs in the gas distribution and transmission sectors for RIIO-2, we have concerns around the risks of wasted time and effort here by companies and stakeholders. We do not think there is a significant role for bespoke unique outputs due to the lack of consideration for replicability and

national efficiency. **We would like to see networks have the opportunity to propose alternative ODIs which could be developed more collaboratively and available to other networks for uptake.** We do see a role for more limited and local specific ODIs. We think it is important that Ofgem is clear and transparent about limits and provides them up front before business plans are submitted.

OUTQ2 Do you agree with our proposal for a minimum value for bespoke PCDs?

We agree with the proposal for a minimum value for bespoke PCDs, we agree that this will help promote a consistent approach amongst DNOs.

We welcome Ofgem's ambition to drive greater consistency in the activities of DNOs and particularly welcome the inclusion of new baseline standards of performance. These new standards establish the type of activities, and some associated targets where it is important that DNOs are performing this minimum level. Establishing clear baseline standards should provide DNOs with a clear understanding of where they need to ensure these standards are being met, but also where they can focus resources and attention in their Business Plans and in stakeholder and customer engagement to propose ambitious initiatives. We agree with Ofgem's desire to see a 'levelling up' of activities and the scope of these activities. Establishing minimum standards with the potential for these to be enhanced based on Business Plan proposals enables Ofgem to 'level up' where appropriate and it does appear to be appropriate and proportionate for penalties to be applied where plans fall short of minimum standards, and to provide rewards under the Consumer Value Proposition (CVP) under Stage 2 of the BPI where companies offer a 'levelling up' opportunity for the sector. CVP rewards may provide good consumer value where they are proportionate.

Ofgem should maintain an open mind and flexibility in its approach when it comes to proposals that could become enhanced baseline standards for all companies. Even where these are different to the types of minimum standards already proposed by Ofgem, it would be in consumers' best interests that Ofgem retains enough flexibility, for example by proposing new common outputs.

We agree with Ofgem that targets should be measurable and that there are clear benefits when companies performance can be compared through the use of one single measure of performance. Ofgem should consider whether it is necessary and appropriate to set out in its minimum standards or business plan guidance

explicit expectations where DNOs are required to establish common metrics or measures of performance.

Meet the needs of consumers and network users: Customer satisfaction

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

We support the continued use of the customer satisfaction survey mechanism within ED2 which will focus the DNOs' attention on providing the services that customers want. In the absence of a competitive structure for the electricity distribution network where customers could move to a different service supplier, the customer satisfaction survey acts to highlight problems or areas of good practice. It is important that the performance improvements seen during ED1 are maintained and increased, where relevant.

We agree with the proposed scope and customer category weightings for the satisfaction survey. It is important to ensure Ofgem achieves the right incentive levels to ensure that high levels of customer satisfaction are maintained and that targets continue to encourage a high level of performance. We agree that where companies are failing to meet targets they should be penalised appropriately.

We welcome Ofgem's proposals to require DNOs to separately report on the satisfaction scores awarded by Priority Service Register (PSR) customers who experience supply interruptions. These consumers are likely to have an increased dependency on electricity and may therefore be more likely to suffer detriment from a loss of supply. We think this will help better drive performance and identify specific areas of improvement for consumers in vulnerable situations. We are pleased to see the introduction of additional requirements on DNOs to report PSR customer survey scores and believe this will allow for greater transparency of customer satisfaction and assist in performance monitoring for the DNO's licence obligation. We agree that there should not be an additional separate financial incentive on DNO performance in this area.

Furthermore, we welcome Ofgem's proposal to require DNOs to separately report on the satisfaction scores awarded by customers who are installing or operating low carbon technologies (LCTs) connected to the distribution network. We agree with Ofgem that is important given the transition to Net Zero that the experience of these customers is especially transparent. Supply interruptions to these customers could be more detrimental and it is key that the level of service

they receive is clearly reported opposed to being captured by the general enquiries survey. We agree that an additional incentive is not currently needed for these customers as they are low in numbers, if necessary this is something that may be needed in ED3.

We welcome Ofgem's consideration of including small to medium connection customers which are not currently captured. As we explain in response to OUTQ8 we favour effective competition where it is possible to ensure that companies are driven to deliver excellent customer service to connections customers, which will become increasingly important during ED2. **We therefore believe Ofgem should reconduct its Competition Test Process to ensure that where there is not effective competition, that the price control drives this behaviour.** As the results of the last test was performed in 2014, it is important that this is carried out again so that Ofgem makes decisions about ED2 on up-to-date evidence.

We would encourage Ofgem with DNOs to ensure that customer satisfaction survey and assessment methods remain best practice for both energy and non-energy sectors. While it could be convenient to remain with the status quo, Ofgem should ensure that this is challenged and that where alternative methods are available, these should be explored in order to drive best practice. In the gas distribution sector, new methods were trialled within GD1. We support this approach as it provides flexibility and can help with setting targets. In particular, we would encourage Ofgem to ensure that digital survey methods are explored and that survey methods are future proof. It is important for both the first and last year of the price control that survey methods are appropriate for consumers. As part of any review of the survey methodology, Ofgem should also be satisfied with whether the 'killer question' methodology remains appropriate and what alternative methodologies exist.

OUTQ4 Do you agree with our proposed approach to target setting and calculating rewards and penalties in RIIO-ED2?

We support Ofgem's preferred approach to use rewards and penalties based on DNO performance against a target score in which rewards apply to scores in the upper quartile and penalties apply to scores below the average, seem logical. However, we have concerns with Ofgem's proposal to set initial targets using industry average performance data from RIIO-ED1. **We would recommend targets reflect average scores in the last 2 or 3 years of data in ED1 and do not reflect scores up to 8 years old where these hold increasingly less relevance.**

Although we are keen to see networks make better use of data and allow for flexibility with the use of dynamic targets, we think for the customer satisfaction survey that static targets are most appropriate. We believe that static targets provide clarity which will enable companies to better plan and be more efficient with their customer service activities. Static targets will also prevent the effect of 1 company experiencing a performance dip and subsequently dropping the targets for all DNOs.

We would like to see the use of rewards and incentives align with those used in GD2 for consistency and comparison purposes across the energy sector. We agree that Ofgem should continue to factor in the number of unsuccessful calls when calculating DNO performance under the interruptions satisfaction survey in ED2. We agree with Ofgem that we do not think a balanced scorecard would be appropriate as a common financial incentive. We do not believe this would deliver value for consumers or ensure performance improvement.

We agree with the deadband proposals. We agree that maintaining the incentive rate of +/-1% is appropriate given the recalibration of the incentive so that performance is only rewarded for scores in the upper quartile.

OUTQ5 Do you agree with our proposed approach to setting complaints metric targets in RIIO-ED2?

We support the continued use of the complaints metric target in ED2 as we believe that this metric has driven improvements for consumers during ED1 and its continuance should ensure that improvements are banked while providing further incentive for further gains for consumers.

We agree that the complaints metric should remain a penalty-only incentive because DNOs should not be able to gain additional revenue for their performance in their services for complaint handling. It seems appropriate to use the incentive strength used in ED1 to drive performance improvements to continue to use it to achieve this in ED2. As the target score used in ED1 was able to drive up improvements in performance, we agree that the target should now be updated to better reflect the current standard. We note that the proposal for a set common target uses historical data based on ED1 performance and agree that it will provide a strong incentive for improvement.

We agree that it is appropriate to set targets for the complaint metric at draft or final determinations to ensure the latest available data is used. Static targets appear appropriate, however we disagree that targets should be set on average scores across the entire ED1 period. Setting an appropriate static target should use the most recent data and what customers now expect. We would suggest targets reflect average scores in the last 2 or 3 years of data in ED1 and do not reflect scores up to 8 years old where these hold increasingly less relevance. As we stated in our draft determinations response on the complaints metric for gas distribution, Ofgem should also ensure that maximum penalties are not set at a level too distant from the target score. This ensures that the rate of penalties for deteriorating levels of service provide appropriate incentive.

OUTQ6 Do you agree with our proposal to remove the Stakeholder Engagement and Consumer Vulnerability Incentive in RIIO-ED2?

We agree that the Stakeholder Engagement and Consumer Vulnerability (SECV) incentive rewarded companies for the positive activities they carried out to address consumer vulnerability. However, as we stated in our Open Letter response¹, for ED2 we support either an enhanced SECV to deliver a more strategic approach to vulnerability, or a new set of incentives, including a standalone vulnerability incentive under RIIO-2, that both inspires energy networks to excel but also to collaborate and share best practice.

We agree that it is appropriate to remove SECV for consumer vulnerability activities where Ofgem has now proposed a package that includes new licence conditions, new minimum standards for consumer vulnerability, and a new incentive mechanism. Please see our response to questions OUTQ19-22 for our views on the new consumer vulnerability incentive and how it should operate.

On stakeholder engagement, we believe that there is still a role for a specific stakeholder engagement incentive in ED2, similar to that which we proposed in our draft determinations response. There is still a degree of variability between DNOs in their approaches and execution to stakeholder engagement, and we do not believe that high quality stakeholder engagement is a firm business as usual activity as yet. **We recommend that Ofgem uses an ODI-F stakeholder engagement incentive in ED2 to incentivise companies to reach a consistent best practice level, reward exceptional engagement practices,**

¹ Citizens Advice, [response Ofgem Open Letter Consultation on approach to setting the next electricity price control \(RIIO-ED2\)](#), October 2019.

and further embed stakeholder engagement within the company activities.

We believe that the design the ODI-F should have the following features:

- Based on robust and high quality engagement as the minimum baseline standard
- Modestly-sized and symmetrical (so that companies could receive either rewards or penalties for engagement that is above or below the minimum standard)
- Judged on an ex post basis

Ofgem are consulting on a strategic approach for investment to reach Net Zero. This is also an opportunity to incorporate an evaluation of the extent that investment decisions reflect stakeholder preferences and consumer vulnerability needs. This approach will be highly complementary to the work already needed to provide accountability to the change required to deliver Net Zero investments and will reinforce consistency in the way in which national and local considerations that a network should have when making investments.

The aim of Annex 1 is to provide value for money services. We encourage this through utilising Net Zero strategic investment to maximize the performance of energy network interventions through a framework for incorporating stakeholder and consumer vulnerability risks of detriment and meeting future needs.

An appropriate positive distributional impact through the delivery of Net Zero can only be achieved by networks recognising, modelling and responding via a process outlined in the price control to the risks of consumer detriment, unfair outcomes and local and regional preferences.

When and where Net Zero investments are made should reflect decentralised preferences in the management of load and reducing carbon emissions, any decision that doesn't maximise load management and lower carbon emissions should then be based on a stakeholder preference or consumer need. It seems highly appropriate that these considerations are actively considered and used alongside volume forecasting to shape investment decisions.

Strategic investment appears to be a good opportunity to further standardise DNOs' approaches and execution to stakeholder engagement. In evaluation criteria of investment performance and the predictability of future accuracy in

forecasting and investment decision making it could lead to greater proportion of upfront investment and incentive return.

Ofgem's approach to strategic investment should therefore guide its approach to incentives. We encourage a new consumer vulnerability incentive and stakeholder engagement incentives to ensure the commitment to ensure network efforts in this area. However, if stakeholder engagement and vulnerability support are factored into a wider evaluation and monitoring of strategic investment, these incentives would not be required.

Meet the needs of consumers and network users: Connections

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

We support the continued use of the customer satisfaction survey for connections customers given that this acts to highlight issues for those customers that may be unable to use an alternative provider for their connection. We support the proposal to expand the connections element of the customer satisfaction survey as this is a valuable mechanism to capture customer views and experience in the absence of competition.

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

We note the focus upon expanding the range of market segments for consideration within this satisfaction survey to capture more customers. We agree that this expansion is useful and it would be valuable to have separate reporting of the different segments, such as distributed generation connection customers, for transparency and to identify particular issues. Changes to the Access SCR may increase demand for connections at the distribution level, and it will be useful to protect customer satisfaction within the different customer segments that may be most affected by those changes, such as those looking to connect Distributed Energy Resources (DER) at the distribution level.

As stated in response to OUTQ3 we favour effective competition where it is possible to ensure that companies are driven to deliver excellent customer service to connections customers, which will become increasingly important during ED2. **We therefore believe Ofgem should reconduct its Competition Test Process to ensure that there is not effective competition, that the**

price control drives this behaviour and that mechanisms capture the correct market segments. As the results of the last test was performed in 2014, it is vital that Ofgem takes decisions about ED2 based on up-to-date evidence.

OUTQ9 Do you agree with our proposal to retain the TTC incentive as a financial ODI in RIIO-ED2?

Yes, we agree with Ofgem’s proposal. The TTC incentive resulted in performance improvements across DNOs in ED1 and therefore we would like to see this continue in ED2. However, DNOs should only be rewarded if they are able to improve on the average time scales which are currently being delivered. It is important that performance continues to improve. Furthermore, we agree with Ofgem that penalties should apply to companies whose performance deteriorates in ED2. We agree that flexibility is needed for the TTC targets and a re-opener would help provide this.

The retention of the TTC incentive and the proposed re-opener to set new targets may become particularly important in light of the proposed inclusion of new categories of customer to be captured within the TTC incentive and the changes that may result from the Access SCR. Decisions are still to be made on the SCR, but we think that if this is not implemented by 2023 the penalty should apply based on the licence conditions.

The TTC should provide a sharp incentive for connections in which connections for domestic customers should be prioritised first, followed by those that connect renewable generation. Ofgem may want to consider the use of penalties in the first year of the price control to ensure DNOs develop their Business Plans and processes to deal with a range of levels of connection demand.

We note that Ofgem is considering expanding the scope of the TTC incentive to include additional market segments. We support the expansion of the incentive to those minor connections market segments or subsets which do not attract effective competition.

OUTQ10 Do you agree with our proposal to include a reopener which allows us to revisit targets, and potentially introduce penalties, in the period?

We support the use of a re-opener to revisit targets in the TTC incentive given the potential changes that may result from increased LCT connection customers,

and the potential increases in customers due to the Access SCR. However, we would recommend that consultation is undertaken on the parameters of the re-opener as we would not like to see any diminution in the improved performance that has already been seen within ED1. Rewards and penalties will need to ensure that good performance can be maintained and we believe that the current incentive rate of 0.4% of base revenue offers a reasonable rate for this incentive, at present, which is based on prior experience from ED1.

OUTQ11 Do you agree with the methodology we propose to use to set the new TTC targets?

We note the intention of the target setting for the TTC incentive to provide a good balance between making the incentive tougher to improve performance, while also maintaining a good incentive for all DNOs, including those that may not be operating at the same level as the best performers. We support a heightened weighting to performance delivered towards the end of the price control. This encourages a strategic network approach to improving performance to realise rewards. However, a 'hockey stick' approach should not risk a lack of focus of incentive in a period of low reward. This is unfair for consumers. As a result, we encourage rewards that start smaller and get gradually bigger through the third quartile to the fourth quartile.

We agree with using average performance data from the last four years of ED1. **However, we would encourage Ofgem to consider the relative benefits of using mean or median calculations to ensure that targets are stretching, incentivise poorer performers to level up and still drive leading performers to maintain or exceed performance.**

We encourage Ofgem to add exceptions to the TTC incentive where consumers request delays to connection. This should be an explicit request for connection beyond the incentivised timescale. Without these exceptions a network is incentivised to focus on speed of delivery that in all cases will not be appropriate to best meet consumers' needs. A network should not be compelled to perform poorly in a performance incentive by simple, proportionate cost neutral steps to meet a consumer's needs.

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

We support Ofgem's use of Connection Principles to incentivise high quality connection processes for major connections customers. As outlined in OVQ30, clearly defining how networks access consumer data and should share data with consumers about their history or comparable energy consumption behaviour is likely to improve the service that networks provide.

Principles 1 and 2 are about providing information in a way that will support informed consumer decisions and a supportive, simple and transparent process. With the Access SCR alongside a requirement for digitalisation strategies, we would expect data provision requirements common across networks to help meet these principles.

We see that Ofgem is looking to invite companies to identify metrics and ambitious targets that could be used to assess performance. We encourage this process to be done early and to be collaborative, potentially through workshops with networks. There were a series of claims from networks following RIIO-2 draft determinations that they were unclear on evidence thresholds.

We believe the principle-based approach for assessment is appropriate because it allows a network to innovate in their approach to delivery. Fully prescribed metrics and criteria will not allow innovation or networks to shape their approach to meet the particular needs of consumers. However, to encourage consistency of network process and performance to support business engagement with 1 or multiple networks, there should be a baseline standard approach defined as clearly as possible. As a result, where possible it should be for a network to choose why their approach diverges from a common approach - rather than each network develop their own approaches for assessment.

We want clear and challenging targets to be set, but also to give all companies a good opportunity to promptly meet the baseline expectation with an opportunity to access the CVP element of the BPI.

We support the use of Connection principles and standards as described at Appendix 4. **We believe that there should be an additional principle that DNOs are required to uphold industry-agreed standards for connections, such as the proposed changes to Queue Management².** This requirement

² Energy Networks Association, [Queue Management Process Guide consultation](#), April 2020

should apply to all types of connections and not just those for major connections customers.

We also support Ofgem's intention in Connection Principle 3 to ensure that the delivery of connections that meet customers needs are done so in a timely way. We believe this rightly reflects the principles behind the Time to Connect (TTC) incentive. However, **we also believe that this principle should be reflected in Connection Principle 1 to ensure that the provision of "accurate, comprehensive and user-friendly information" is also 'timely' in a way that meets customers' needs.** We feel this would reflect the principles behind the Time to Quote element of TTC and would ensure consistency.

OUTQ13 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 welcome that companies' Connection Strategies are to be reviewed as part of the assessment of Stage 1 of the BPI as we believe that these strategies will play an important part in ensuring the development of an efficient and smarter energy system to deliver Net Zero. **We recommend that ideas that are identified during the business planning process or during the Business Plan submission which are of universal application become requirements for all DNOs and funded within baseline allowances.**

It is therefore important that the CVP assessment is carried out at the draft Business Plan stage to provide both Ofgem and DNOs adequate time through final Business Plans and draft determinations to establish those enhanced common baseline standards.

We agree with Ofgem that as far as practically possible, common metrics should be used by DNOs in their connections strategies. We would also welcome proposals from DNOs that clearly respond to issues experienced by connections customers in ED1, in addition to forecasted needs and service levels for connections customers in ED2.

OUTQ14 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?

We note that the ICE incentive mechanism is to be replaced with this new ex post assessment framework. We support the use of a continued incentive

mechanism for large connections customers as it is important that there is a means to address DNO poor performance and incentivise excellence. However, we believe that there needs to be greater clarity about the proposed criteria and format for this ex post assessment. In particular, there will be a need for large connections customers to be able to provide feedback on DNO performance. We note that Ofgem has based this incentive on views and experiences of connections customers in ED1, demonstrating the value that this qualitative information can provide. **We would recommend that there is an independent survey of these customers in advance of the ex post assessment to obtain their views.** We would expect companies to commission an independent research agency to carry out the survey through a competitive procurement process. The details of the results from the survey should also be transparent.

We agree with Ofgem that it is appropriate for the connections incentive to be symmetrical. Ofgem should set out clearly in guidance and in the SSMD any expectations it has that companies should propose interim milestones or targets which align with the timescales of the ex-post assessments. Doing so would provide Ofgem a clear assessment criteria and avoid any ambiguity in what is expected of DNOs.

We note that Ofgem intends to consider rewards where a company can “demonstrate it has exceeded baseline standards and delivered additional value for customers”. **We therefore think it is important that Ofgem requires companies in their connections strategies to set out what an outcome that delivers additional value for customers would look like and how this would be measured.** This would add useful clarity to the incentive.

Ofgem’s proposal to apply a penalty incentive rate of 0.1% of base revenue for each of the market segments in scope of the incentive appears to be a logical approach, ensuring that the incentive for each company is related to the number of customer segments where there is not effective competition. We welcome Ofgem’s approach to the reward incentive rate. Rewards should be proportionate to the outcomes and based on stretching targets or performance. Ofgem is right to calibrate this incentive at the point where there is more information on what these are and what metrics are possible either on a company-specific basis or where they can be common across all DNOs. We support that these metrics are common wherever possible.

OUTQ15 Do you consider that an assessment of performance in the middle and at the end of the price control is a proportionate approach?

We understand that the projects associated with large connections customers can take a longer time to complete, and that there are relatively few of these projects compared to other connections customers. As such, we agree that the use of a mid and end point assessment is a proportionate approach to enable suitable scrutiny without it being an overly administrative burden to Ofgem or the companies.

For this incentive, ex post assessments, once within the price control and once at the end of the price control, appear to be appropriate because of the time it may take for impact to be demonstrated. As mentioned above, **Ofgem should ensure that companies are required to provide the necessary interim milestones and targets in their strategies to align with the assessment points early on in this process.** This will provide DNOs as much opportunity to accurately forecast the delivery of their strategies and the outcomes they expect from them.

OUTQ16 Do you agree with our proposal to retain the Connections GSoPs for all connection customers in RIIO-ED2?

We support the proposal to retain the Connections GSoPs for all connection customers as poor performance should be compensated, and the GSoPs payments should act as an indirect incentive to encourage good standards within DNOs.

OUTQ17 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 support the uprating of GSoPs' values in line with inflation, indexing payment to inflation during ED2, as well as rounding to the nearest £5 for simplicity.

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

We appreciate the issues that Ofgem has raised with regards to the ICE incentive within ED1. It appears that while the level of service for these large connections customers has become embedded as BAU for many DNOs, that there is still a degree of variability between DNOs. We therefore support the requirements in ED2 for a Connections Strategy as well as the use of an ex post assessment for the DNO performance for major customers. Please see also our comments within OUTQ12-14 where we support the ex post assessment but believe that further details are required on how this new assessment framework will

operate. We also recommend an independent survey of large connections customers to ensure that their views are captured before each ex post assessment.

Meet the needs of consumers and network users: Consumer Vulnerability

OUTQ19 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?

The DNOs have a significant part to play in people's lives as electricity is an essential service with growing importance as people become more reliant on electricity for their working and home lives. Those consumers that may be in fuel poverty, the older or disabled person, and those medically-reliant on electricity, are particularly vulnerable to interruptions. It is therefore essential that the DNOs have appropriate proactive processes and practices to support all of their customers, but particularly those in the more vulnerable categories. The consequences for an interruption for some people can be severe or even life-threatening. Other consumers may have other needs, such as language-accessibility, but it is still important for the DNOs to provide the customer services that meet the needs of all their consumers.

Ofgem rightly notes that customers in vulnerable situations could suffer detriment by, *"paying for some of the costs associated with the benefits they either are unlikely to be able to, or cannot, access"* through the energy system transition. We agree with Ofgem that during the course of ED2 and beyond this is a significant detriment that could be faced by customers. We agree that DNOs wherever possible should aim to mitigate this impact during the energy system transition and be ambitious in the ways they do this, including through new innovative solutions funded through the Network Innovation Allowance (NIA). However, we also recognise that DNOs have no control over pricing, tariff structures, and government policy costs which will ultimately determine whether or not customers are paying for benefits they are unlikely to be able to, or cannot, access. In addition to efforts by DNOs to consider and mitigate the distributional impact of investments, **Ofgem should ensure that as far as possible within their power costs associated with decarbonisation are distributed fairly, for example through a mechanism of subsidisation**

The concept of fairness in the proposed licence condition needs to be attached to clear commonly applicable principles that set out for networks and for stakeholders what activity this supports. Only with maximum clarity and

consistency can networks support consumers within the parameters of the activity that they are or will be funded to undertake. This is vital for defining network activity versus supplier or charity and support service functions.

We think it would constrain networks' ability to address vulnerability by defining the specific actions a network can take. **However, there needs to be a clear and complete principle-based approach with parameters of the activities a network is being incentivised to take and those activities that are not appropriate to be funded via the price control.** This helps demarcate responsibilities but also provide opportunity to innovate in the form of delivery.

As a result, we welcome the introduction of the proposed framework, supporting a financial ODI, requiring companies to have a vulnerability strategy that sets out the activities they will undertake to deliver positive outcomes for consumers in vulnerable situations. To set out the appropriate principles and parameters for activity we welcome that *"Ofgem will continue to work with the DNOs and wider stakeholders to develop further common metrics within the RIIO-ED2 working group."* **However, we think there should be a much stronger commitment to support the comparability of performance rather than simply "where possible".**

As noted within our discussion of CVPs at Annex 2, COQ58, DNOs may reveal bespoke outputs that are supported by consumers. We are in support of Ofgem's intention to adopt proposals that may have universal applicability as common baseline standards to reduce administrative costs for differing bespoke outputs and to ensure that the best ideas are incorporated across the industry.

We support Ofgem's approach to addressing consumer vulnerability through an overarching principles-based licence obligation and to introduce a framework in the form of a financial ODI to require companies to have a vulnerability strategy with minimum baseline standards which aims to drive ambitious proposals, deliver convergence across all DNOs and reward companies for outperformance of tangible consumer outcomes and penalises companies for non- or under-delivery of activities within their strategies.

We agree with Ofgem that in ED1 there is a lack of consistent measurable benefits of activities in order to demonstrate that services are value for money. There are pockets of good practice among DNOs, where there are good levels of monitoring and measurement by DNOs and their delivery partners. **We would expect this to be a baseline standard for all DNOs in ED2 as it is only**

through effective monitoring and evaluation that initiatives' value for money to consumers can be assessed.

We note that Ofgem "*consider a DNO's role should be to support vulnerable consumers where the DNO's competence and opportunity for consumer interaction puts them in the best-placed position to deliver that support*". We support this principle but as we stated in our response to Draft Determinations ³ for gas distribution companies, we also think Ofgem should seek very early clarification in light of the impacts of COVID-19 on what it is appropriate for the price control to fund. While we want the price control to enable DNOs to be flexible in thinking of new and innovative ways they can address vulnerability and fuel poverty, clarity on areas that are outside the scope of the price control would enable better focus on those areas they can carry out. Ofgem should ensure they prevent companies from being too cautious or unambitious because of regulatory or financial risk.

We welcome Ofgem's explicit reference that vulnerability strategies should clearly articulate outcomes. We strongly support activities and targets which are outcomes-focussed. This should be reinforced by appropriate measurement processes and metrics to assess outcomes. **Ofgem in its SSMD and Business Plan guidance should require companies to set out targets, which focus on outcomes and how this will be measured. Where possible, Ofgem through the draft determinations process should seek to converge both the types of initiatives and the methods of measuring delivery.**

Ofgem should learn lessons from the application of the CVP through the Business Plan and draft determinations process as we have highlighted in Annex 2 COQ52-54. In order to drive DNOs to propose ambitious initiatives in their Business Plans and consumer vulnerability strategies, the CVP will require clear expectations, guidance and calibration. Companies should ensure that they have strong consumer and stakeholder evidence to support their proposals in their business plans. **We would like Ofgem to provide further guidance on how DNOs can provide ambitious plans which also allow delivery to be suited to local or regional needs.**

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? If so, why?

³ Citizens Advice, [response to RIIO-2 Draft Determinations - Sector and Company Specific Sections](#), September 2020

We broadly support the Vulnerability Principles and associated standards as they stand and recognise that these have developed in consultation with stakeholders through the relevant working group. We do however, have some suggestions where we think these could be improved and tightened to drive the right approaches by DNOs.

We have the following comments for specific principles:

Principle 1- ‘Effectively support consumers in vulnerable situations, particularly those most vulnerable to a loss of supply, through a sophisticated approach to the management, promotion and maintenance of a PSR register’.

- We welcome the proactive and targeted advertising of PSR including where there are gaps in PSR reach by needs codes. DNOs should be using data analysis where possible to help hard to reach customers access the PSR.
- We welcome the provision of information for PSR customers in formats suited to a range of additional communication needs, but as a baseline standard **we would also like to see dedicated lines for PSR customers open 24/7**. It is crucial that customers in vulnerable situations are able to access the help and support they need when they need it.
- We agree that DNOs should deliver a wide range of support during, or in relation to, a supply interruption that reflects different customer needs and is, at a minimum, in line with existing provision. **Ofgem should be clear whether they are referring to a single DNO’s existing provision, or the existing provision of all DNOs**. It is unclear if Ofgem’s intention is to level all DNOs up to the same minimum level, or ensure individual DNOs, as a minimum, continue with their existing provisions.

Principle 2 - ‘Maximise opportunities to identify, and deliver support to, consumers in vulnerable situations through smart use of data’.

- **We recommend that there is a baseline standard within this principle for appropriate stakeholder engagement to ensure that the views of consumers with vulnerabilities are captured and can input to the Vulnerability Strategy and lead to improved design of services for this demographic**. While there are expectations within the principles to engage with partnerships, we believe that there is a need for direct and ongoing stakeholder engagement with target consumers.
- The baseline standard which is to utilise social indicator or vulnerability mapping but not be limited to PSR registration should consider that DNOs

will identify characteristics, indicators and circumstances which make consumers at risk of being in a vulnerable situation. **The text should better reflect the transient nature of consumer vulnerability.**

Principle 3 - 'Understand new forms of vulnerability, in particular by identifying blockers to participating in a smart flexible energy system'.

- **Ofgem should make the wording clearer and be explicit that it is expected as a baseline standard that DNOs will have an extensive range of network partnerships with a range of organisation types from multiple sectors including other utility sectors.** It is key that partnerships are made across the utilities sectors to work in collaboration with other utilities to learn from trials and best practices to ensure customers in vulnerable situations do not fall through the cracks.

Principle 4 - 'Embed the approach to protecting the interests of consumers in vulnerable situations throughout a company's operations to maximise the opportunities to deliver support'.

- We would like to see clearer wording on the baseline standard on training for staff. **We think this should be "appropriate range of vulnerability training" recognising that different members of staff will have different touch points with customers and different opportunities to identify vulnerability and provide an offer of support.** Therefore the training that staff receive should be different and specialised to reflect this.

We welcome the introduction of these new baseline standards. The price control should ensure that DNOs are correctly incentivised to ensure these are met as a minimum and that their customers are therefore provided a minimum level of service. **We therefore believe Ofgem should set out its expectation that the minimum standards are delivered from the first year of the price control and in every subsequent year of the price control.** Similarly, failure to meet the standards in any individual year should be weighted negatively in assessments that determine penalties. We believe it would not be appropriate for DNOs to only meet the minimum standard by the end of the price control or at any other mid-period milestone as it leaves open the risk that minimum standards are not met consistently.

Although reference is made once in the baseline standards to fuel poverty, **we consider that there should be more explicit references to fuel poverty especially as it forms a crucial role and opportunity under all 4 principles.**

This would also ensure they are in alignment with the Consumer Vulnerability Strategy (CVS) 2025 priorities. It would also reflect the significant economic impact that COVID-19 has had on household incomes and debt levels. One in 9 people, the equivalent of 6 million people nationwide, has fallen behind on a household bill because of coronavirus⁴.

The transition to a low carbon future with a more locally distributed and responsive electricity network should lead to lower bills for all consumers, however, there is a risk that some consumers, that may be less affluent or have other vulnerabilities, may not benefit as much as other consumers. The development of DSO functions will need a continuing focus on ensuring that the network changes are inclusive for all consumers. The DNOs are considering this issue via the ENA Open Networks project, and will need to ensure that the changes to the electricity distribution network are designed in an inclusive and low-cost manner.

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?

We agree that it is right to penalise companies for not meeting baseline standards through the proposed ex post evaluations. However, as Ofgem intends to fund these activities through baseline funding and has not suggested the use of bespoke outputs such as Price Control Deliverables (PCD) it is not clear what process Ofgem intends to use to clawback funds from companies where necessary. As we set out in our 5 principles for how the price control would meet the needs of consumers, companies must return unspent money to consumers. **Ofgem in its SSMD should set out clearly how it will return unspent money under this incentive and the similar incentives for DSO and major connections.**

We agree that Ofgem, through the price control should encourage the use of common metrics. These should be quantitative where possible and where they are appropriate. Some companies expressed concerns about the qualitative nature of the SECV assessments. Common metrics will provide the best basis for objective assessment and we hope this will act as an effective driver for DNOs as a sector to establish common metrics and methodologies.

⁴ Citizens Advice, [Six million fall behind on bills because of coronavirus](#), August 2020.

We believe that the ex post assessments in addition to considering the financial value of under-delivery of activities, should also consider the detriment that has been caused to the customers who would have otherwise benefitted from the outcomes of the initiative. **We also recommend that ex post assessments use an independent panel with appropriate expert knowledge to assess the DNOs' activities. Ofgem should further consider how to make the process for ex post assessments as transparent as possible including the arrangements and selection of panel members and in the decision making in the assessment.**

It seems appropriate not to set incentive rates until Ofgem has reviewed proposals in their Business Plans. Retaining a similar financial exposure as the SECV also seems appropriate.

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

We note that the DNOs are required to report annually on the delivery of their Vulnerability Strategy including performance against any metrics. However, we do not support the proposal to have only mid and end point assessments. **We recommend that the ex post assessment of the performance against the Vulnerability Strategy is undertaken annually.** If the assessment was only undertaken at the first instance at the mid point, it would be at least 2 and a half years before any shortcomings were identified and possibly not under year 3 until rectification of issues. An annual assessment process will also allow best practice to be identified at an earlier point and be able to be adopted by other DNOs.

Ofgem should find ways to incentivise longer-term deliverables in their annual assessment, to encourage DNOs to deliver outputs over the period of the price control. An annual assessment should not prevent DNOs from only delivering things in the short term and they should still be rewarded for progress of their delivery of outcomes annually. Proposals which include plans that take more than 1 year to be delivered should still be included for annual review. We believe an annual assessment is an appropriate way to deliver good outcomes for consumers whilst recognising how rapid external factors in this space can change for example recovery from COVID-19 and the smart energy transition. An annual assessment allows Ofgem to be responsive to these changes and highlight the need for DNOs to adapt to this changing landscape to provide the necessary support for their customers in vulnerable circumstances.

Maintain a reliable network

OUTQ23 Do you agree with our proposed approach to retain the RIIO-ED1 methodology for setting unplanned interruptions targets?

Security of supply is arguably the most vital element of the DNOs' service to consumers. Interruptions can have serious implications for those consumers that are in vulnerable circumstances, such as those medically-reliant on electricity, or in fuel poverty. The impacts on those on lower incomes can be higher than those that are able to have transport and financial means to go elsewhere for a meal, or book into a hotel, or who can easily replace the contents of a freezer. There are likely to be increasing pressures on the need for a secure supply such as:

- More people working from home or operating businesses in homes or smaller premises that may not have backup security of supply measures. The impact of the COVID-19 pandemic may result in many more people working from home than in the past, who are reliant on secure home electricity supplies for their employment.
- Reliance upon more equipment or technology using electricity, such as Electric Vehicles, or smart hubs to control devices in the home

As such, there is a continuing need to ensure that DNOs have a focus upon security of supply and we therefore support the retention of the incentive mechanisms that maintain or improve supply. Appropriate calibration of these mechanisms is important, however, to ensure that the incentives encourage the correct behaviours and fund or reward companies appropriately.

We note that the DNOs have earned approximately £550 million under the IIS in the first 4 years of ED1, which was higher than Ofgem expected. There have been improvements in security of supply during this period to earn these rewards and we would welcome continuation of the scheme where there is banking of prior improvements seen in ED1 and only reward for stretching outperformance.

We note that Ofgem is proposing to retain the existing methodology for setting unplanned interruptions targets for ED2, fix targets for the whole of ED2, and set the DNO's target at the lower of its current performance (at the time that the target is set) or the methodology. Ofgem is not intending to have convergence to a single target position for ED2 for the DNOs across GB.

We understand that there is a good deal of complexity involved in the existing target setting methodology and that changing the methodology could introduce higher levels of complexity without likely commensurate levels of higher performance for consumers. As such, we are supportive of the use of the existing proven methodology.

Setting of targets is important to ensure that companies are only rewarded for performance exceeding the targets or penalised for poor performance. Ofgem's proposal is to fix the targets for ED2 rather than revise targets within the price control. The rationale is that the targets are set using data 2 years after the latest available year's data and therefore for a 5 year price control, there is less scope for amending targets in period. Resetting of targets would, therefore, be administratively burdensome and costly for companies and Ofgem. Any substantial changes to the methodology would also mean a loss of consistency from prior data. We acknowledge this rationale about retaining the current methodology and its being set once for ED2. However, this does create a risk of potentially less well-calibrated targets and potential for undue outperformance by companies.

We note that the RAM is cited as a protection against material deviations set at the outset of the price control, however, this is not an ideal mechanism given the sizeable parameters of outperformance that could be permitted before correction (300 basis points above or below the allowed return on equity with a 50% adjustment of returns above or below the threshold). If targets are to be set only once for DNOs for unplanned interruptions for the whole of ED2, it is even more important that those initial targets are set well, and therefore, we support setting them at the lower of existing performance or the targets produced by the methodology to ensure that they are genuinely stretching and ED1 performance is embedded.

OUTQ24 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 understand that the current methodology has high complexity in its design and operation, but that the alternatives proposed had similar complexity. In addition, the loss of continuity from prior performance metrics would be a major drawback from any change. We also recognise that there are potentially increased risks from a new performance measure in setting appropriate targets

for outperformance due to unfamiliar calibration methods. As such, we understand why the existing methodology has been proposed for use in ED2.

As data from DNOs' operations becomes more granular and available from the active network management systems being used by DNOs, it is possible that better monitoring and measurement systems could emerge during ED2 and that a different methodology will be available for consideration in ED3.

OUTQ25 What are your views on revisiting unplanned interruptions targets within the price control period?

See our response to OUTQ23.

OUTQ26 Do you agree with our proposed position not to introduce further convergence of DNOs' targets over time?

We note that Ofgem is intending not to have a convergence of targets of DNOs across GB in ED2. This would perpetuate the differing levels of service between the licence areas. The arguments given are that achieving the same level of reliability would cost some DNOs more than others (due to the local cost factors in their areas) and that customers in currently lagging areas would face disproportionately higher costs to achieve a given level of reliability than they are willing to pay. We would ask Ofgem to reconsider this strategy. As a matter of principle, it would appear reasonable to expect convergence in reliability across GB, especially as people's reliance on electricity if you are working from home, or due to a vulnerability, may not be any different if you are living in a remote part of Scotland or in an urban location. The increased need for a reliable service from increased home working, or due to reliance on electrically-powered technology may mean that a highly reliable and consistent service is more important for everyone than in the past. In addition, the costs of providing non-infrastructure solutions may be reducing. Technologies such as battery storage or local generation are offering potentially lower cost solutions for those areas that have traditionally had higher cost infrastructure solutions that would have been previously disproportionately expensive to pursue. As such, convergence of targets may be less costly for such DNOs in the future than previously calculated⁵. **We would recommend that Ofgem undertakes stakeholder engagement, or uses the engagement provided by DNOs in their business planning processes, to gather more evidence to support their position that similar standards of reliability are not desired or establish if common standards are now the preferred option. We would**

⁵ There are projects investigating alternatives to traditional infrastructure to offer security of supply, e.g. the SSEN, E.ON and Costain '[Resilience as a Service](#)' project.

ask Ofgem to obtain up to date costs for alternative reliability solutions in previously higher cost infrastructure areas to understand whether the arguments of higher disproportionate costs are still as valid.

OUTQ27 What are your views on retaining an incentive for planned interruptions performance, and the associated targets?

We note that Ofgem proposes to retain the incentive for planned interruptions performance including using the current methodology of having a weighting of 50% of unplanned interruptions. The lower weighting for planned interruptions is to accommodate the view that customers can take ameliorative action when they are aware of a forthcoming interruption, whereas they cannot take similar action for an unplanned interruption. We further note that the current mechanism has driven improvements in planned interruptions performance in both numbers of interruptions and their duration (24% and 25% reductions respectively since the beginning of ED1). There are distinct advantages in retaining the current system, namely familiarity to all parties, and simplicity of operation. However, the current methodology does not reflect potential differences in local or regional stakeholder preferences nor changing views on the costs for consumers to mitigate issues caused by planned interruptions. We acknowledge that the simplicity, clarity and comparability across DNOs of the ED1 methodology has distinct advantages compared to the negatives in not having a more localised focus. We would agree that the benefits of the current system outweighs any potential benefits of changing the methodology.

OUTQ28 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?

See our response to OUTQ27.

OUTQ29 What are your views on how VoLL should be updated for RIIO-ED2?

Value of Lost Load (VoLL) is an important measure that is used in multiple places within the price control process including within CBA and NARM decisions to decide on infrastructure options as well as in the design of some incentive mechanisms. It should be noted that VoLL is not the same measure as willingness to pay (WTP). The VoLL measure aims to provide an economic representation of the value that consumers place on the security of supply. WTP aims to measure the value that consumers place on service improvements. While they may appear similar measures, in reality, a consumer may place a high value, for instance, on security of supply, but not be willing (due to various factors, including possibly affordability), to pay for such service improvements to

achieve the security of supply desired. A higher VoLL figure may give rise to higher likelihoods of infrastructure spend and increase incentive payments, although this higher spend is a reflection of the increased value by consumers on having a more secure electricity supply.

We note that the VoLL figure is now out of date having been established for RII0-1 and we support a revision for a more up to date value for ED2. We support the increase in VoLL to be updated in line with inflation as a minimum new value (£21,000) as the various studies on VoLL do appear to conclude that the VoLL has risen, even though we recognise that the studies may not be exactly comparable with each other or with prior VoLL studies.

We support the use of a single VoLL for GB for reasons of simplicity and due to the lack of clarity that regionally-specific VoLL figures would have a material difference to DNOs' investments for reliability. If evidence is provided that there is a material difference between DNOs' likely investment responses if there were regional VoLL figures, it may be valuable to have disaggregated VoLL figures.

OUTQ30 What are your views on the different methodologies for updating VoLL?

The COVID-19 pandemic may have implications for VoLL. With increasing people working from home or running businesses in different ways, including via digital means or from home environments, it may be that VoLL figures for certain consumer groups will have risen. It may be valuable to incorporate this aspect within further VoLL studies to assess whether the coronavirus pandemic has materially altered the VoLL measure.

OUTQ31 Do you have a view on retaining alignment with VoLL figures used in other RII0 price controls and/or parts of the energy sector?

We note Ofgem's view that changes to VoLL are intended only to effect changes within the RII0 network price controls and not intended to be used to determine a new VoLL for the Electricity Balancing Significant Code Review (EBSCR) or other purposes. We further note that for RII0-T2 it was proposed at draft determinations that VoLL will be updated on an agreed basis and the final position will be reached through the final determinations. We would welcome consistency between the various price controls and across the industry as a whole (e.g. including the EBSCR) unless setting different VoLLs can be shown to make a material positive difference for consumer benefit.

OUTQ32 Do you agree with our proposed approach to retain the RIIO-ED1 revenue cap for the IIS at 250 RoRE basis points?

We support the continued use of a 250 RORE basis points per year revenue cap for the IIS to ensure that the incentive does not over-reward DNOs.

OUTQ33 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?

See our response to OUTQ34.

OUTQ34 What are your views on a minimum standard for short interruptions for RIIOED2?

We support the proposal to eventually introduce a short interruptions incentive but understand that the evidence of consumer preferences and data from DNOs for short interruptions are not yet well developed. We note Ofgem's intention to gather more data during ED2 and to introduce an incentive for ED3. **We would recommend, however, that the option to introduce a minimum standard for short interruptions for ED2 is taken up** in the absence of DNO data to develop an incentive mechanism for ED2. We support the minimum standard for short interruptions as consumers may become more reliant on equipment that may require continuous supply and consumers may be more affected by short interruptions than in the past. We would welcome further research into the impacts to consumers of short interruptions on equipment within this evidence-gathering process. For instance, we understand that some EV chargers may sometimes fail to re-engage with EVs if there is a short interruption as noted within Ofgem's consultation (Annex 1, 4.17).

The COVID-19 pandemic may also have created further consumer desire for fewer shorter interruptions as they may work from home, or run their businesses from a home environment with less interruptions protection. Stakeholder engagement in the coming months and years should reveal any changing views on this issue which may aid in developing the short interruptions incentive targets and reward/penalty amounts.

OUTQ35 What information should we be capturing in RIIO-ED1 and RIIO-ED2 to better understand short interruptions and how DNOs are performing?

See our response to OUTQ34.

Exceptional events

OUTQ36 Do you agree with our proposal to retain the RIIO-ED1 SWEE mechanism?

The Severe Weather Exceptional Events (SWEE) mechanism recognises that some events can be beyond a DNO's control and that without such a SWEE mechanism, a DNO could be negatively impacted within the current IIS framework. We recognise that it may be uneconomic for DNOs to invest to cover all SWEEs and not in consumers' interests to protect the system to withstand all such events. The GSoPs standards provide a measure to encourage DNOs to restore supplies as quickly as possible in the absence of the IIS although the GSoPs are amended during SWEEs to allow the DNOs a longer period to restore supplies (24 hours rather than the usual 12 hours). We note that since 2010 there have been an average of 20 SWEE claims per year across the industry.

We support the retention of the SWEE mechanism to provide for such severe weather events.

OUTQ37 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 note that there have only been 5 OEE claims per year on average since 2010 with a final value of the OEE claims in the first 4 years of ED1 of around £8.3 million. We support the removal of the OEE mechanism given its low usage to date, that the claims appear to relate to causes for which the OEE was not originally intended to be used, e.g. claims where maintenance was being undertaken or for weather events that fail to meet the SWEE mechanism threshold, and that there is an administrative burden to make and consider each claim.

OUTQ38 What are your views on the threshold that should apply to either exceptional event mechanism?

We note the various options outlined by Ofgem within the consultation, including the retention of a 'hard' binary threshold for the SWEE mechanism, or to move to a tiered threshold system. We support the continuation of a hard single threshold for the SWEE mechanism. The alternatives, such as adopting a tiered threshold with, for instance, 50% relief for a lower tier of exceptionality, appears to add a further level of complexity to the system and may further

complicate GSoP payments. The binary threshold will make claims and assessments for eligibility less administratively burdensome.

We do not support the continuation of the OEE mechanism. See our response to OUTQ37.

OUTQ39 What performance do you think should be excluded under each mechanism?

No response provided.

OUTQ40 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 support the proposal to retain the existing GSoPs. As our research report 'Standard Issue'⁶ noted, the performance of the electricity networks against the GSoPs has been excellent and therefore we do not believe that there is a need for substantial change.

We welcome the redrafting of the GSoP standards to clarify the wording.

We believe that the notice period that DNOs give customers ahead of a planned interruption may need reconsideration. At present, the notice period is 2 days. **We would recommend that consultation with customers is undertaken to review whether customers would prefer a longer notice period.** Many people are currently working from home or running their business from home, and the post-COVID-19 environment may result in such home-working becoming more usual. As such, customers may require a longer period of time to plan for an interruption. Similarly, the amounts provided to customers for unplanned outages may no longer reflect the costs when a customer has to make emergency arrangements.

We would recommend customer research is undertaken to ascertain whether customer costs have increased for unplanned outages and therefore whether the GSoPs may need increasing. The most relevant of the GSoPs in this regard would appear to be: EGS-2 Supply restoration - normal weather conditions, ESG-2B Supply restoration - normal weather conditions

⁶ Citizens Advice, [Standard Issue](#), May 2019

where 5,000 or more premises interrupted, EGS-2C Supply restoration - rota disconnections, EGS-11 Supply restoration - severe weather conditions.

We have made a series of recommendations with respect to Worst Served Customers (WSC). See OUTQ43. **Following any changes to the methodology to recategorise and address WSCs, we would recommend a review of GSoPs associated with unplanned interruptions to adequately compensate those customers that continue to receive consistently poor service.**

OUTQ41 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 note that the GSoP values were updated during the ED1 period and therefore do not require major uplifts as was seen with the gas distribution sector GSoPs which had not been updated for 10 years. We support the proposal to uplift payment values in line with inflation, and to round to the nearest £5.

OUTQ42 Do you agree with our proposal to retain some form of mechanism for WSC in RIIO-ED2?

We note that Ofgem is proposing to retain the WSC mechanism, which we support. In the 21st century, it is unacceptable that people should have a particularly poor electricity service where it is possible to have this rectified. The implications from the COVID-19 pandemic also means that many more people are working from home, either through employment or running their own businesses from their home. While the impacts from COVID-19 are not clear, it is probable that many more people will be working or running a business from home, so that security of electricity supply is even more important to them.

OUTQ43 What are your views on the options presented for WSC? Are there other options that we should consider?

Worst Served Customers (WSCs) are those customers that receive a markedly poor service from their DNO. The ED1 WSC mechanism has not shown itself to be a successful one, with only 8% of the available UIOLI funding allowance used to date by the DNOs as evidenced in Annex 1, page 102. The WSC mechanism's UIOLI allowance has no associated targets to reduce the numbers of customers that are defined as WSCs. This has meant that there is no driving mechanism to alleviate the WSC position for these customers where a DNO chooses not to use the UIOLI.

In addition, the ED1 definition for a WSC looks only at the number of interruptions at the high voltage (HV) level (specifically 12 or more HV interruptions over 3 years, with a minimum of 3 interruptions per year). This may mean that there are customers that are experiencing a markedly poor service at the low voltage (LV) level that are not identified within the existing scheme.

The proposed approach given by Ofgem for ED2 is to retain the allowance, but to also retain the UIOLI funding mechanism for where there is delivery of specific performance improvements. We do not agree with this proposal as the UIOLI mechanism has not proved successful to encourage many DNOs to target substantial reductions in WSCs.

We therefore recommend:

- **Retention of a WSC scheme**
- **The re-definition of the WSC to include customers at the LV level** to capture those having a markedly poor electricity supply service that may be currently unidentified as the definition is only for customers at the HV level.
- **Funding for the WSC scheme to be within ex ante allowances.** It may be necessary for the funding allowance for the LV level WSCs to be allocated at a later point due to definition and identification issues to measure the extent of the numbers of WSCs at LV level and the likely costs to rectify their service.
- **Targets for the elimination of cases of WSCs at the HV level by the end of ED2**
- **Targets within ED2 for the reduction or elimination of cases of WSCs at the LV level** once the LV definition has been established and baseline numbers have been identified from the DNOs' data
- **Inclusion of the WSC targets and progress to resolution within the Vulnerability Strategy** and associated reporting and incentive framework
- **Review of compensation within the GSOP regime to adequately compensate consumers that may be in the WSC category following any amendment to the WSC methodology for categorisation**

Maintain a safe and resilient network

OUTQ44 Do you have any views on our proposed NARM framework?

In response to the approach to the NARM framework in RIIO-2 ET & GD draft determinations we proposed 5 objectives for NARMs:

- 1. Support ex ante confidence in justified spending**
- 2. Provide clear criteria and assessment of both unplanned and unjustified spending**
- 3. Strong protections against windfall gains**
- 4. Avoid creating perverse company priorities**
- 5. Avoid unnecessary regulatory burden**

We agreed it would be beneficial for the DNOs to report performance using a common framework to enable Ofgem to monitor companies' performances on a consistent basis and to encourage long-term delivery and value for money for consumers. For ED2 we look forward to reviewing the standardised Matrix Weighting Factors that can provide a view of future risk, suitable for a regulatory measure.

For RIIO-2 ET & GD we were concerned about the errors and inconsistencies Ofgem saw in company submissions, as NARMs should provide a tool for assessing and justifying investment decisions. We were also concerned by the complexity of the incentivisation in the RIIO-2 ET and GD and the associated risk with the likely difficulty in calibration.

The areas that Ofgem is looking to develop from CNAIM for ED2 include:

- Adoption of long-term risk
- Commonality of reporting
- Production of guidance document
- Revision of methodology
- Expansion of methodology

These areas of development should encourage a comprehensive and long term view on the development of asset risk. We support Ofgem's proposal to take into account the long-term benefit of the work that the companies are funded to do during RIIO-ED2 through the estimated present value of future benefits. This should be a valuable activity for measuring potential consumer benefit from

network services. We are keen to see networks have the full scope of consumer value reflected in the weighting given to different interventions and overdelivery. In some cases this will be non-standard, for example where an asset risk is heightened by the exposure to consumers in vulnerable circumstances. This might be in a consumer's existing circumstances or in a risk of potential future exposure, e.g. over delivering network access to enable EV charging services where transport risk creates a high vulnerability risk.

In ED2 we support the principle, that where a DNO fails to deliver its output target then it will hand back the associated cost allowances, while if the DNO fails to justify its under-delivery, it will face a penalty. These principles encourage prompt assessments and reduce the risk of windfall gains. However, for a DNO assessing where asset choice and strategic planning to better address risk and realise consumer benefit, the exposure to the cost of delivering more than their output under the totex incentive mechanism (TIM) doesn't seem to encourage best practice. We would prefer an incentive and penalty assessment of over delivery to be linked to the rationale, and preferably evidence, of consumer benefit realisation. We think this might be possible through the additional justification through CBAs and EJPs to provide the narrative for and to explain the DNO's investment decision-making process.

OUTQ45 Do you agree with our proposal not to introduce outputs or incentives related to workforce resilience?

We agree that a resilient workforce is the responsibility of the DNOs and that DNOs should provide sustainable workforce resilience strategies as part of their Business Plan submissions. We support Ofgem's position in not setting specific outputs, incentive mechanisms, or formal performance targets for workforce resilience as this could constrain companies from addressing issues within their locality. Workforce resilience is a complex issue with many factors leading to resilience and therefore setting particular outcomes could produce perverse outcomes or be counter-productive to other elements.

We do, however, support the increased reporting by DNOs on workforce resilience as well as for equality and diversity issues. We note that Ofgem believes that there is scope for the DNOs to work with industry bodies and their CEGs to establish a consistent reporting framework. We support increased and consistent metrics for reporting workforce satisfaction, retention, recruitment, diversity/inclusion, and mental health in the workplace as outlined within the consultation.

OUTQ46 Do you agree with our proposal that DNOs should submit a Cyber Resilience IT Plan and a Cyber Resilience OT plan?

We support the alignment of the cyber security approach for ED2 with the transmission and gas distribution RII0-2 price control and for the requirement for Cyber Resilience IT and Cyber Resilience OT plans. We support the proposal for Ofgem to work with the DNOs to ensure that their plans comply with the Network and Information Systems (NIS) Regulations and assure an agreed level of cyber resilience in ED2.

We support that baseline allowances will be used for Cyber Resilience IT, and for Cyber Resilience OT that a use-it-or-lose-it allowance is used to accommodate differences in need between DNOs. We welcome the use of PCDs to give output targets for these important areas.

We note the intention for a cyber resilience re-opener at the mid point. We support this re-opener which is to be used for new risks, threats or regulatory or statutory changes that may emerge during the price control. We welcome the further consultation regarding the materiality threshold for the re-opener which will take place as part of the draft determinations for ED2.

OUTQ47 Are there further requirements of expectations that we should be considering for the DNOs?

No response provided.

OUTQ48 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 welcome the proposal to establish a climate change resilience task force or working group, coordinated by the Electricity Networks Association (ENA). We note that this working group is intended to build on steps already taken by DNOs as well as outline plans for future actions, including collaboration with other parties. The requirement for this working group appears sound given the increasing need to consider climate change within resilience for networks. We believe that it would be valuable for a range of stakeholders to input to the working group, including the National Infrastructure Commission. The output of the working group may also be relevant for consideration by the Net Zero Advisory Group in their advisory role to Ofgem for the Net Zero Re-opener.

OUTQ49 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?

No response provided.

OUTQ50 Do you agree with our proposal to retain the RIIO-ED1 approach to flood resilience?

As well as climate change, there may be increasing reliance on electricity in the future due to changes to working practices (home working, for instance), or from the higher use of electricity-dependent technology, such as EVs and heat pumps. As such, protecting consumers from outages caused by flood resilience may be more important in ED2 and beyond than in the past.

The impacts of floods can be far reaching and unexpected as highlighted in the University of Lancaster and Royal Academy of Engineering report on the floods in Lancaster in 2015⁷. The flooding caused a 24 hour outage in December 2015 across the city, with consequences that many were not prepared for, such as: no internet, no DAB radio, no TV broadcasts, no mobile phones, no contactless payment, no lifts, no petrol pumps, as well as the loss of power to heat and light people's homes in a winter period. The power cut demonstrated the high reliance on electricity in the 21st century world and how communications became a key loss when people were trying to understand what was happening.

Flood risk continues to be an issue and may be exacerbated by climate change. We welcome the proposal to retain the ED1 approach for flood resilience into ED2. In particular, we agree with the licence condition to maintain compliance with relevant standards and the annual reporting on flood resilience via the Regulatory Instructions and Guidance. We support the use of an allowance by DNOs to address flood resilience matters including the measures that they put in place to meet recommended specifications of the ENA's Engineering Technical Report 138 - Resilience to Grid and Primary Substations.

We welcome the proposal for a wider 'resilience' metric for the ED3 price control which could be developed during ED2 to track DNOs' progress in managing existing and emerging risks on their networks. The work of the proposed climate resilience working group (see OUTQ48) could have valuable input to the development of this metric.

⁷ University of Lancaster, Royal Academy of Engineering, [Living without electricity](#), May 2016

OUTQ51 What are your views on how we/industry reports on progress against flood resilience plans?

We support the development of a resilience metric (see our response to OUTQ50) which could aid in the reporting on progress for flood resilience. Reporting should be as efficient as possible to reduce administrative burden wherever possible.

OUTQ52 Do you agree with our proposal to retain the RIIO-ED1 approach to ensuring networks are resilient to trees?

We agree with the continuation of a common approach to ensuring that networks are resilient to risks from trees and other vegetation. Using standards of good practice and minimum requirements should be continued for ED2.

OUTQ53 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 support the move to a wider resilience measure. See also our response to OUTQ50. Tree cutting would be a reasonable inclusion for the resilience measure especially given its connection to climate change.

OUTQ54 Do you agree with our proposed approach of retaining the existing arrangements for Black Start, physical security, and telecommunications resilience?

We agree with the proposed approach for retaining the existing arrangements for Black Start, physical security and telecommunications resilience. We support the continued use of baseline allowances to fund these important resilience measures and the re-openers for Black Start and physical site security to reflect changes in government or regulatory policies, or changes to risks. The reliance upon robust and secure Telecoms systems is increasing at the distribution level due to the need to collect and disseminate data and manage systems. Therefore, the heightened focus upon this aspect of resilience by the industry, regulators and government is welcomed and we support the continued review of the Telecoms arrangements for ED2 and look forward to the update on this matter in the draft determinations.

OUTQ55 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 agree with the proposal for a re-opener for physical site security. The 2 windows at around the mid point and at the end point appear reasonable.

OUTQ56 Do you agree with our proposal to continue monitoring the development of telecommunications resilience and reviewing the arrangements as necessary?

See our response to OUTQ54.

Delivering an environmentally sustainable network

OUTQ57 Do you think our proposed environmental framework will drive DNOs to deliver an environmentally sustainable network?

We agree with Ofgem that ED2 should drive a more coordinated and concerted approach to minimising and ultimately eliminating greenhouse gas emissions and harmful environmental impacts in line with Net Zero. However, we also think that ED2, where it can deliver good value for consumers, should aim to drive environmental impact reduction in a way that demonstrates the sector can lead from the front. DNOs, through their relationship with the land and the communities which they serve, as well as their superior knowledge of energy usage, could become exemplars in the field of reducing environmental impacts.

We support the use of the common environmental framework in the form of requiring companies to outline their activities in Environmental Action Plans (EAP) and report on progress against these commitments in Annual Environmental Reports (AER). We also support that these activities should have associated performance indicators and targets. **We recommend that Ofgem should require companies to set out clear justifications relating to how each target will contribute, in tangible terms, to the decarbonisation of a DNO's activities and how they compare to a DNO's current performance.** In particular, DNOs could report this in terms of abated carbon emissions or how the activity shortens the DNO's Net Zero target. EAP targets and commitments as set out in Business Plans should be stretching, should be measurable and should be based on both stakeholder engagement and an understanding of what is ambitious in energy and other sectors.

We welcome Ofgem's open approach to consider PCDs for significant expenditure. PCDs hold companies accountable for delivering targets and only fund what has been delivered, representing good value by meeting our principle that unspent funds should be returned to consumers. We note that in Ofgem's

draft determinations there was consideration of an electric vehicle (EV) operational fleet replacement PCD which we supported. We consider that it is likely to be an appropriate mechanism in ED2 and recognise that with the price control commencing in 2023, DNOs will have even greater information and insight with which to accurately forecast unit costs.

We do note, however that Ofgem expects the majority of funding to be through baseline allowances. There is no indication of how costs would be clawed back from companies where necessary and in line with our principles as set out in our Overview response. **We therefore recommend that Ofgem explains clearly in its SSMD how it expects to hold companies accountable for money that is unspent.**

We welcome the reputational incentive inherent with the EAPs and the AERs, however we are mindful of the challenge ahead for DNOs to decarbonise their operations in line with Net Zero targets and believe it is possible for incentives to be in place that deliver good consumer value. We also note that an ODI-F has been accepted for NGET and NGGT in the electricity and gas transmission sector at draft determinations, and are keen to see consistency.

We recommend that Ofgem in its SSMD indicates that it is open to a financial incentive if DNOs can provide the necessary appropriate common metrics and methodologies, and stretching EAP targets, in their Business Plans. We believe that if Ofgem is satisfied by the information provided in Business Plans, then it is appropriate at the draft determinations stage to explore the merits of an ODI-F similar to that in the transmission sector. We would expect such an incentive to contain a penalty for under-delivery of EAP commitments. Where there is appropriate evidence that consumers value efforts by DNOs to go faster and further in their commitments, financial rewards for meaningful outperformance of targets would be appropriate. As we have seen in the conclusions of the Climate Assembly UK, informed consumers value efforts to reduce environmental impact⁸. We would expect rewards to apply to those commitments or targets where Ofgem can be confident that outcomes can be attributed to the actions of the DNO.

We understand Ofgem's concerns regarding perverse incentives. **We recommend that Ofgem requires companies EAP and AERs to clearly**

⁸ Climate Assembly UK, [The path to net zero](#), September 2020

outline where any potential adverse impacts could occur, and what the company is doing to mitigate this. For any commitments where an ODI-F would not be appropriate, commitments would still be subject to approval by Ofgem, and be subject to the reputational incentive inherent in the AER.

To take Ofgem's example, there is a risk that overperforming in the reduction of SF6 commitments, for example through asset replacement could increase a DNO's business carbon footprint (BCF) due to embodied carbon in new assets. However, as companies are required to commit to reducing BCF, both reputational and financial incentives could drive companies to think innovatively about how to balance their efforts to go further and faster where they can but still ensure that they still meet other targets and commitments or risk penalty. As additional protection, during the draft determinations process, Ofgem will also have the discretion and flexibility to ensure that targets proposed by DNOs are appropriately ambitious and balanced.

We welcome that EAP commitments will be assessed as part of the BPI minimum requirements check. We also welcome that Ofgem in paragraph 9.20 states that companies may identify opportunities to go beyond these standards. We further welcome that the EAPs could be eligible for reward through the CVP, providing additional incentive for ambitious targets. We are keen to see ambition demonstrated by companies.

As we stated in our response to Ofgem's Open Letter Consultation⁹, while we support the inclusion of leakage targets for SF6 in EAPs, we are concerned that the level of action that is required of DNOs in ED2 for their reliance on SF6 to be in line with Net Zero targets must go beyond leakage reporting. Our view is that the gradual but meaningful replacement of SF6, with significantly more sustainable alternatives, should form part of the incentive regime for DNOs. **Ofgem should consider how it can go further to drive DNOs to deliver SF6 replacement and leakage reduction efforts. We recommend that Ofgem considers it as part of a common ODI-F, such as the one described above, to prevent any adverse incentives.** Incentivising SF6 reduction would also ensure that there is consistency in approach given the specific SF6 incentive in electricity transmission.

⁹ Citizens Advice, [response to Ofgem Open Letter Consultation on approach to setting the next electricity price control \(RIIO-ED2\)](#), October 2019

OUTQ58 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 note that Appendix 8 states that the Ofgem expects DNOs' EAPs to be aligned to the baseline standards set out in the appendix. **Ofgem should be clear in its SSMD that it requires DNOs to align to the baseline standards as a minimum but expects DNOs to be more ambitious where it can and where it has customer support.** This approach would align to the approach taken elsewhere in the SSMC where baseline standards are intended to set minimum expectations.

Ofgem proposes that science-based targets will only be required for scope 1 and 2 emissions. However, our understanding is that the Science Based Targets (SBTi) Initiative in agreeing science-based targets, requires companies to set ambitious scope 3 targets in addition to science-based targets for scope 1 and 2 if scope 3 makes up more than 40% of total scope 1, 2 and 3 emissions¹⁰. Ofgem should establish whether this scope 3 criteria applies to DNOs and ensure that DNOs meet the requirements of the SBTi. It is important that DNOs have comprehensive plans for achieving science-based targets for scope 1-3 emissions. **On balance we recommend that Ofgem requires scope 3 emissions to be within a DNO's science-based target to ensure that comprehensive plans in line with SBTi requirements have been developed, and that companies, where necessary, can justify where meeting the standard is not appropriate as Ofgem permits in Appendix 8.**

We believe that under the BCF, **Ofgem's expectations should clearly state that science-based targets are in line with limiting global warming to 1.5°C above pre-industrial levels for the many well explained reasons set out by the Climate Change Committee (CCC)**¹¹. At present science-based targets relating to either the 1.5°C or 2°C could be adopted. Targets should also be explicitly verified by the Science Based Targets initiative.

Ofgem should seek to clarify for its SSMD whether losses should be considered as BCF scope 2 emissions or scope 3 emissions. While losses are proposed to be separately reported on, losses represent a significant proportion

¹⁰ Carbon Trust, [How is the Science Based Targets Initiative \(SBTi\) changing?](#), May 2019

¹¹ Committee on Climate Change, [Net Zero. The UK's contribution to stopping global warming](#), May 2019

of a DNO's BCF and it is important that they are also accounted for within the BCF area.

OUTQ59 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 understand that 'Environmental Impact Report' refers to the proposed Annual Environmental Reports required by Ofgem. We agree with Ofgem that the AER will increase transparency of the DNOs' activities and the resulting impacts on the environment. We also support that the AER should highlight clearly how DNOs' activities annually take them a step further towards Net Zero targets in a way that is comparable and clear for stakeholders. **Ofgem should state clearly in its SSMD and Business Plan guidance that AERs should include a clear annual update on progress towards Net Zero targets.**

We also note that in the GD and transmission sector, consideration is being given by Ofgem to formalising EAP commitments which have been accepted by Ofgem into the AER licence condition. **We recommend Ofgem also formalises accepted EAP commitments adopted in ED2.**

Where they are possible, explicitly defined reputational incentives such as scorecard ratings or defined league tables would be a welcome addition to the AER process, ensuring that they are as reputationally effective as possible and clear to stakeholders and the public. We would also welcome that reports are published in a single location accessible by the public to aid transparency. However, report formats should be similarly accessible displaying information in a clear, concise and consistent format.

OUTQ60 Do you agree with our proposal to introduce a re-opener to accommodate environmental legislative change within the RIIO-ED2 period?

We support the proposal to introduce a re-opener to accommodate environmental legislative changes within the ED2 price control period.

OUTQ61 Do you agree with our proposed removal of the Losses Discretionary Reward?

In ED1, the Losses Discretionary Reward (LDR) rewarded DNOs for additional actions to better understand and manage electricity losses. It was worth up to £32 million across all DNOs, spread over three tranches. Only £3.8 million in total has been awarded across the 6 DNOs with no awards made in tranche 2 or 3. Although DNOs have not been rewarded for their efforts and submissions, we do believe that an explicit incentive on losses is necessary to mitigate the risk that losses may not receive the attention and effort required to make the network as efficient as possible. Energy losses cost the UK over £1.5 billion a year and make up 1.5% of our carbon emissions¹². We are therefore concerned that the licence obligation and inclusion of losses in BCF efforts may not be adequate in driving losses to be as low as reasonably practicable. **Ofgem should consider feedback on how the LDR was calibrated for ED1 and propose in SSMD a revised or new mechanism to drive ambitious action on losses.**

OUTQ62 Do you agree with our proposal to retain the visual impact allowance for RIIO-ED2?

We agree with the proposal to retain the visual impact allowance for ED2 as this is an important topic for many local people and visitors to areas of outstanding natural beauty and national parks. We note that this was operated as a use-it-or-lose-it allowance in ED1 with a total allowance of £123.1 million with spending to date at £23.8 million. None of the DNOs has used all of their individual allowance and in many cases, they have used very little.

We note that the scheme is currently seen to be flexible and allows DNOs to respond to stakeholder wishes and willingness to pay (WTP) evidence, including using solutions such as undergrounding as well as camouflaging. We have no objection to the continuation of the scheme but would query whether smaller overall and individual allowances would be more appropriate for ED2 given the shorter 5 year price control and the low usage to date of the allowance in many cases. It is not critical that the allowance is lower, however, as consumers are not paying for unused allowances as this is a use-it-or-lose-it allowance.

OUTQ63 Do you agree with our proposed approach to setting a funding pot for the visual impact allowance for RIIO-ED2?

The methodology for setting a funding pot appears reasonable as it is based on the approach taken in ED1 which used WTP evidence to determine the pot size and then allocated individual DNO allowances by numbers of customers and

¹² Enertechnos, [The Road to 2050: Is our energy infrastructure ready to deliver net zero emissions?](#), September 2020

length of lines to be undergrounded. The ED1 approach ensured that each DNO licence area had an adequate amount of potential funding with no DNO being in the position of being under-funded.

We support continuation of the scheme and its methodology but would query whether smaller overall and individual allowances would be more appropriate for ED2 given the shorter 5 year price control and the low usage to date of the allowance in many cases. It is not critical that the allowance is lower, however, as consumers are not paying for unused allowances as this is a use-it-or-lose-it allowance.

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