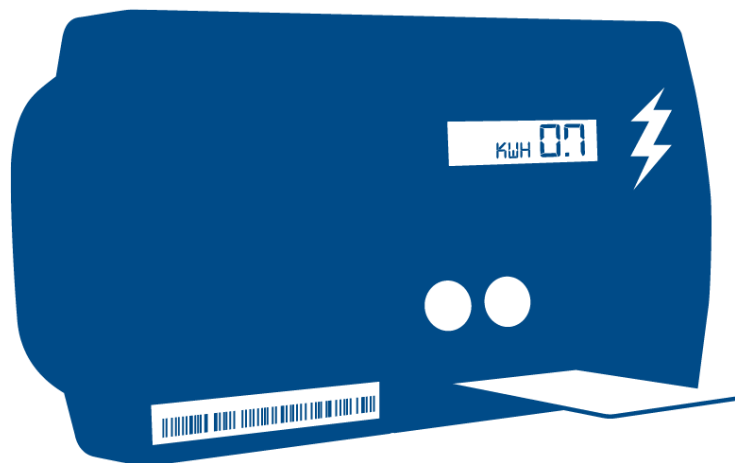


Citizens Advice response to the Ofgem RII0-ED2 Draft Determinations Consultation - Company Specific Questions

Citizens Advice
August 2022



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Company Specific questions

ENWL Annex

2. Setting Outputs

ENWL-Q1. What are your views on the company specific parameters we have proposed for the common outputs that we have set out above?

No response provided.

ENWL-Q2. What are your views on our proposals for ENWL's bespoke ODIs?

No response provided.

ENWL-Q3. What are your views on our proposals for ENWL's bespoke price control deliverables?

On Smart Street, we are supportive of funding this activity through baseline with a PCD to ensure delivery and clawback for under-delivery. We agree that a PCD mechanism will be preferable to a CVP with a reward as we note the concerns regarding the potential consumer benefits which Ofgem believes may be overstated. We therefore also welcome the annual reporting required by ENWL to explain the benefits that Smart Street has delivered to consumers and associated benefits in reduced energy consumption. We believe that voltage control offers many potential benefits in reducing generation, carbon emissions, reinforcement or flexibility costs, and for consumers' bills. **We recommend that Ofgem closely reviews these annual reports on Smart Street's benefits and if there are demonstrable benefits to consumers and cost savings, Ofgem should consider encouraging a wider roll-out of the service by other DNOs within the ED2 period.**

On the Vulnerable customer network improvements, we agree with Ofgem that there may be considerable overlap with the IIS. However, we do recognise that fewer and shorter interruptions would benefit customers who, because of their

circumstances, would be made more vulnerable because of an interruption and believe that DNOs should consider such impacts as a BAU activity.

ENWL-Q4. What are your views on our proposals for ENWL's CVPs?

On Smart Street, see our response to ENWL-Q3.

On CLASS, we note that Ofgem considers a CVP for this activity inappropriate as it disrupts any future decision on the treatment of CLASS. We support this position as Ofgem continues to consider funding options for CLASS. However, **we recommend that Ofgem makes a decision on CLASS rapidly so that benefits of this service can be gained by consumers.**

3. Setting baseline allowance

ENWL-Q5. What are your views on our proposals for the outcome of Stages 3 and 4 of the BPI for ENWL?

No response provided.

4. Adjusting baseline allowances for uncertainty

ENWL-Q6. What are your views on our proposals for ENWL's bespoke UM?

No response provided.

5. Innovation

ENWL-Q7. What are your views on the level of proposed NIA funding for ENWL?

No response provided.

NPg Annex

2. Setting Outputs

NPg-Q1. What are your views on the company specific parameters we have proposed for the common outputs that we have set out above?

NPg's target under the consumer vulnerability incentive for the value of low carbon support services shows that in year 2 NPg is targeting a negative NPV of -£660,000. By contrast all other DNOs have positive targets ranging from £440,000 to £1.7 million in year 2 up to £6.4 million in year 5. We note that even if NPg were to maximise the reward cap at year 2 under this incentive the NPV would still be negative¹. In other words, delivering NPG's strategy at year 2 will cost its customers more than the benefits they will receive under most scenarios unless the input values to the SROI methodology change within the price control, such as more volumes being delivered and greater benefits than forecast.

We have serious concerns that, under the current proposals, NPg could receive rewards for delivering NPV values that are negative. One of the core principles of the vulnerability incentive is creating and delivering strategies which deliver positive value to customers. It is therefore unclear why Ofgem is permitting a strategy to be delivered that does not provide a net positive value by the same point of the price control as others are proposing to deliver positive values. This represents an area where we believe there are disproportionately large differences between the value for money that customers will experience in different DNO areas.

We recommend that Ofgem undertakes further analysis of all the proposed NPV targets by DNOs for the delivery of LCT services to ensure they are comparable. Where any DNO aims to deliver value in their strategy which is less than the cost of the activity we recommend that Ofgem rejects these strategies in their current form, pending resubmission, and do not permit rewards to be paid under the incentive where NPV values are negative.

¹ -£528,000 NPV in year 2

NPg-Q2. What are your views on our proposal to reject NPg's bespoke price control deliverable?

We support Ofgem's decision to reject the PCD for the High Voltage Automation proposal given its possible overlap with the IIS, and the decision to not provide funding for QoS activities due to the potential of double benefiting.

NPg-Q3. What are your views on our proposals for NPg's CVPs?

On the One-stop app for vulnerable customers, we agree with Ofgem in accepting the proposal but rejecting the CVP reward. Providing more accessible communication channels to access services has clear benefits to customers where it is well executed and provides the services customers want and need. However, we agree that the overlap with existing services already provided by DNOs means that this proposal is not demonstrably beyond BAU.

On the Dynamic voltage optimisation for customer energy efficiency, we support Ofgem's decision to accept the CVP but provide no reward. We note Ofgem's view that the consumer benefits are not clear at this point given its trial status. We welcome the requirement to undertake annual reporting to identify consumer and other benefits. As with ENWL's Smart Street, we believe that consideration should be given to a roll-out of such voltage optimisation to other DNOs during ED2 if benefits can be proved.

On Open Insights, we support Ofgem's position that such an analytics tool to help customers to self-serve is a BAU activity and should be funded under baseline funding with delivery tracked through the Major Connections Annual Report.

On Phase one rollout of the next generation energy system, we support Ofgem's position that this CVP should be rejected. It is still not a proven solution, was not considered a whole systems solution (therefore ineligible), and if proven, should be a BAU activity.

3. Setting baseline allowances

NPg-Q4. What are your views on our proposals for the outcome of Stages 3 and 4 of the BPI for NPg?

No response provided.

5. Innovation

NPg-Q5. What are your views on the level of proposed NIA funding for NPg?

No response provided.

SPEN Annex

2. Setting outputs

SPEN-Q1. What are your views on the values for the company specific parameters we have proposed for the common outputs that we have set out above?

No response provided.

SPEN-Q2. What are your views on our proposals for SPEN's bespoke ODIs?

On the Advice Services ODI-F, we support Ofgem's rejection of the ODI-F given the overlap with other incentives. However, it is not clear from Ofgem's position whether this proposal will still receive baseline funding due to its inclusion under the vulnerability strategy which Ofgem proposes to accept without any specific amendments. Ofgem also comments on the fact that DNOs' focus should be on providing advice where there is clear network benefit or clear benefits to vulnerable customers, including customers who are in fuel poverty. **We therefore recommend that Ofgem looks at whether it is appropriate to provide any baseline funding under the vulnerability strategy and further incentivise it through the vulnerability strategy ODI-F where services are being delivered to all customers including businesses as SPEN proposes.**

If it is Ofgem's intention not to provide baseline funding here, then Ofgem will also need to revisit the range of similar advice services proposed by all DNOs in their vulnerability strategies which, at present, are due to be accepted as they are.

SPEN-Q3. What are your views on our proposals for SPEN's bespoke PCDs?

We note that a number of the PCDs relate to CVPs. We have addressed our views on the CVPs in our response to the following question.

For the other PCDs, we support Ofgem's rejection of the Land Rights proposed PCD as it relates to an ED1 matter and Ofgem believes that this should be managed via totex allowances. The Biodiversity Licence Obligation with clawback

has been partially rejected by Ofgem and we support that position given the apparent lack of supporting evidence for a wider project. Given the importance of biodiversity, it appears suitable to fund a smaller sum (£0.5 million) via baseline allowances with a PCD to protect consumers from under-delivery.

SPEN-Q4. What are your views on our proposals for SPEN's CVPs?

On Direct low carbon transition support to vulnerable customers, we support Ofgem's position to reject the CVP and, we assume, not provide baseline funding for this activity. We share Ofgem's concerns about the overlap with the smart meter rollout by energy suppliers and on what is considered an appropriate role for a DNO. We note that generally where DNOs have included proposals to extend their role directly or indirectly into customers' homes, this is conducted with partners and is shareholder-funded such as UKPN's social fund on the energy transition.

On the EV Optioneering CVP, we note that Ofgem is proposing to fund this activity via baseline with no reward. Given that support to Local Authorities is a BAU function, we support Ofgem's position that this proposal does not go sufficiently beyond BAU to justify a separate CVP.

On the Network loss reductions and safety enhancement CVP and the Advanced Fault Management CVP, we support Ofgem's position that these are BAU functions and support the funding of the activities via baseline with PCDs to protect consumers from under-delivery.

3. Setting baseline allowances

SPEN-Q5. What are your views on our proposals for the outcome of Stages 3 and 4 of the BPI for SPEN?

No response provided.

4. Adjusting baseline allowances for uncertainty

SPEN-Q6. What are your views on our proposals for SPEN's bespoke UMs?

On the Distribution Net Zero Fund, we note that this proposed UIOLI to support innovation and vulnerable customers has been rejected as Ofgem were not satisfied with the evidence for the size of the funding pot and the needs case. We agree that customers should only fund well justified proposals and note that other funds of this nature or similar are shareholder funded, such as SPEN transmission's Green Economy Fund in GD1, and in ED2 SSEN's powering communities to Net Zero fund, WPDs community matters support fund and UKPN's social fund on the energy transition. That being said, ENWL has proposed a customer funded innovation fund for vulnerability and LCT which is proposed as customer funded, albeit on a smaller scale. Nevertheless, **we recommend that Ofgem ensures there is adequate consistency in its approach to what is appropriate for customers to fund, what is shareholder funded and what should fall under the Network Innovation Allowance.**

5. Innovation

SPEN-Q7. What are your views on the level of proposed NIA funding for SPEN?

No response provided.

SSEN Annex

2. Setting outputs

SSEN-Q1. What are your views on the company specific parameters we have proposed for the common outputs that are set out above?

No response provided.

SSEN-Q2. What are your views on our proposals for SSEN's bespoke ODIs?

Bespoke PCDs

We note that the SF6 reduction PCD is rejected but that there will be further engagement with DNOs on methodologies to identify contaminated assets for reporting and for the environmental re-opener. We refer Ofgem to our answer to Core-Q13 for our views on SF6 reduction proposals.

We note that the Nature-Based Solution for Carbon Removal is proposed to be rejected as it may not offer value for money for consumers and there is insufficient information regarding the methodology for accounting for this activity within their science-based target. We note that further information is to be sought from the DNO. We refer Ofgem to our views on carbon offsetting or removal in our response to Core-Q13.

SSEN-Q3. What are your views on our proposals to reject SSEN's CVP relating to Embedded Whole Systems Support Services for Local Authorities and its CVP relating to supporting broadband to island communities through DNO assets?

No response provided.

SSEN-Q4. What are your views on our consultation position to accept SSEN’s CVP to protect marine biodiversity (life below water)?

No response provided.

SSEN-Q5. What are your views on our consultation position to accept and partially reward SSEN’s CVP for personal resilience plans?

We agree with Ofgem’s proposal to accept and reward the battery element of this CVP. We recognise that this element represents a new activity that goes beyond BAU for a DNO and which is only included as an activity to explore under innovation funding during ED2 by other DNOs.

We agree with Ofgem that the provision of personal resilience plans is not demonstrably beyond BAU and the baseline expectations, though we recognise it is a worthwhile activity.

However, further clarity is required from Ofgem on its proposed decision. Ofgem states that the approved deliverable includes tailored resilience plans to all medically dependent customers and all new PSR sign-ups funded through baseline allowances in addition to the funding for battery provision. This appears to have no associated baseline funding. SSEN’s proposal is to deliver resilience plans to all PSR customers and we would support them delivering this, to prevent a lottery between customers who signed up to the PSR before or after the start of ED2 and because SSEN will have to contact these customers as part of PSR data cleanse processes anyway. **Ofgem should therefore make it clear whether it is intentionally reducing the scope of this activity and why, as well as setting out what funding arrangements, if any, underpin this noting Ofgem’s expectation that DNOs should have a data and information strategy to meet the needs of vulnerable customers in line with Principle 1 of the baseline expectations.**

SSEN-Q6. What are your views on our proposal for SSEN’s ‘Energy Efficiency Accelerator for Smarter Networks’ and ‘Local and community flexibility market stimulation’ CVP?

We support Ofgem’s position to reject this proposed CVP covering these two areas. We note the various reasons given for Ofgem’s rejection of this CVP including lack of support by the CG or CEG, the low or negative social returns

and network benefits, and how some of the activity may be seen to be a DSO baseline expectation.

3. Setting baseline allowance

SSEN-Q7. What are your views on our proposals for the outcome of Stages 3 and 4 of the BPI for SSEN?

No response provided.

4. Adjusting baseline allowances for uncertainty

SSEN-Q8. What are your views on our proposals for SSEN's bespoke UMs?

No response provided.

SSEN-Q9. What are your views on our proposal for a re-opener? Do you think this is the most suitable mechanism to mitigate investment decision risks in this area?

No response provided.

SSEN-Q10. What are your views on our proposal for a re-opener to deal with the uncertain costs associated with Shetland? Do you think this is the most suitable mechanism to mitigate investment decision risks in this area?

No response provided.

5. Innovation

SSEN-Q11. What are your views on the level of proposed NIA funding for SSEN?

No response provided.

UKPN Annex

2. Setting Outputs

UKPN-Q1. What are your views on the company specific parameters we have proposed for the common outputs that we have set out above?

No response provided.

UKPN-Q2. What are your views on our proposals for UKPN's bespoke ODIs?

On Short Interruptions (SIs), we welcome UKPN's proposals with respect to reducing the SIs for customers and paying compensation for those experiencing high numbers of SIs. We recognise that Ofgem is not intending to put in place a minimum standard for SIs at this point (see also our response to Core-Q51) and that Ofgem does not support a bespoke ODI for UKPN for its SI proposal. We agree that an ODI may not be needed for this commitment, which will need to be reported upon under Standard Licence Condition (SLC) 50. **We recommend that information from UKPN's activities in the SI topic area are used to help develop future minimum standards and compensation levels.**

UKPN-Q3. What are your views on our proposal to implement a collaborative streetworks ODI-F as set out above?

On Collaborative Streetworks in the Greater London Area, we note the strong consumer and stakeholder support for this activity, and welcome its inclusion as an ODI-F given the consumer benefits that should accrue from having utilities collaborate in a 'dig once' strategy. We are not best placed to comment on the costs and incentive framework in detail but welcome the cap on revenue to protect consumers. Ofgem does not currently have evidence to show whether such a scheme would be effective for other DNOs in their licence areas, however, we would encourage UKPN to share details of the performance of this scheme, which may be effective in other large urban areas, for instance, for potential implementation for ED3.

UKPN-Q4. What are our views on our proposals for UKPN’s bespoke PCDs?

No response provided.

UKPN-Q5. What are your views on our proposal to fund investment to release capacity in off-gas grid areas ahead of need via a PCD as set out above?

On off-gas grid anticipatory investment, we note that Ofgem is intending to accept the anticipatory investment element of this proposal as a PCD. It was originally submitted as a CVP. We support the change to a PCD arrangement as it is not clear why a DNO should be rewarded for this activity and the CEG also raised this concern. It is not evident, however, why this investment is needed separately from the secondary LV driver mechanism unless the off-gas grid investments would be implemented long before being triggered under the secondary LV driver. If such early investment is needed for off-gas grid investments, it is not clear why other DNOs would not also have put forward such proposals for anticipatory investment in off-gas grid areas. As such, we would recommend that Ofgem considers whether this activity is required to be funded separately from similar activities that are to be undertaken in baseline allowances or via the secondary LV volume driver by other DNOs. If Ofgem is satisfied that this activity should be funded using a separate mechanism, we welcome the use of a PCD to protect consumers from under- or non-delivery given the high value of the allowances proposed (£73.1 million).

We support Ofgem’s decision to not fund the second element of the proposal, namely the provision of advice to support coordinated heat decarbonisation and energy efficiency uptake, for the reasons outlined in the Draft Determinations Annex.

UKPN-Q6. Which metrics could be used for holding UKPN to account for delivery of its off-gas grid proposal via a PCD and protecting consumers by clawing back allowances?

No response provided.

UKPN-Q7. What are your views on our proposal for UKPN’s CVPs?

On the Consumer Vulnerability Fuel Poverty support programme, we agree with Ofgem’s decision to reject this CVP recognising that the overall increase in scale

of support and associated costs funded by customers may not be adequately justified. We note Ofgem's acknowledgement of the uncertainty on whether the £9m of shareholder funding is contingent on the £9m of customer funding. Our understanding from the UKPN Open Hearings² is that UKPN intends to provide the shareholder funding but we would welcome further confirmation in their response to the Draft Determinations.

In summarising Ofgem's explanation and expectations, we note that UKPN intends to deliver support to 100,000 customers with in-depth direct fuel poverty support at a cost of £9m (by shareholders). They will also reach a further 300,000 customers with tailored support through UKPN's regional collaboration programme at no extra cost to consumers.

While we agree with Ofgem's decision on this matter, it does highlight a very significant variation in approach by DNOs and Ofgem. For example, Ofgem proposes to fund ENWL's vulnerability strategy which includes £10 million to deliver fuel poverty support for 250,000 customers which is divided into 125,000 customers who "access support" and 125,000 customers who are "aware of support". While in this instance the cost to deliver per customer supported appears to be less than half the cost of UKPN's proposal, ENWL's activity is entirely funded by customers while UKPN's is not.

As we state in our executive summary response to the Overview and Core Methodology Questions, we cannot see evidence that Ofgem has adequately considered or attempted to reconcile the extreme differences in how DNOs will fund these activities between funding through customers' bills or by shareholders, nor the associated costs and benefits.

On the Whole Systems CVP for off-gas grid, we have addressed our comments at UKPN-Q5.

On the Whole Systems CVP for Public Charging, we support Ofgem's position to reject this CVP which would have subsidised the cost of network connections for EV chargepoints. We did not believe that a CVP was suitable for such a subsidy and that other mechanisms for determining appropriate socialisation of connection charges should be undertaken within charging reviews.

3. Setting baseline allowances

² Ofgem, [UKPN ED2 Open Hearing - Transcript](#), March 2022, page 23

UKPN-Q8. What are your views on our proposals for the outcome of Stages 3 and 4 of the BPI for UKPN?

No response provided.

4. Adjusting baseline allowances for uncertainty

UKPN-Q9. What are your views on our proposals for UKPN's bespoke UMs?

No response provided.

5. Innovation

UKPN-Q10. What are your views on the level of proposed NIA funding for UKPN?

No response provided.

WPD Annex

2. Setting Outputs

WPD-Q1. What are your views on the company specific parameters we have proposed for the common outputs that we have set out above?

No response provided.

WPD-Q2. What are your views on our proposals on WPD's bespoke output delivery incentives?

No response provided.

WPD-Q3. What are your views on our proposals for WPD's bespoke price control deliverables?

No response provided.

WPD-Q4. What are your views on our proposals for WPD's CVPs?

On CVP 5 Smart energy action plans, we note that Ofgem is proposing to fund this CVP with a reward. We agree with Ofgem that this proposal represents an activity which is beyond BAU and believe it maximises existing touchpoints with consumers and is therefore more closely aligned with the DNO's core role compared to other proposals. We share Ofgem's concern that the associated reward value is high compared to the cost to deliver. For example, when compared with SSEN's accepted CVP to deliver batteries to medically dependent customers, the reward value is 16% of the cost and 28% of the benefit. Under WPD's proposal the reward value is 72% and 50% respectively. We believe that WPD's reward should be more proportionate to the costs and benefits. We also support Ofgem's proposal that the clawback mechanism should consider the value delivered based on the outcomes measurement. However, **we recommend that Ofgem also includes the volumes delivered in the clawback mechanism. A key commitment of the CVP is delivering smart**

energy action plans to 1.2 million PSR customers every 2 years. Should the value of the benefits outturn differently, it may be possible to deliver less support but with the same value. Including volumes in the clawback would protect against this.

On CVP 6 £1 million Community Matters Fund, while we welcome the shareholder-funded nature of this fund, we agree with Ofgem that this constitutes Corporate Social Responsibility and should not be subject to reward.

3. Setting baseline allowances

WPD-Q5. What are your views on our proposals for the outcome of Stages 3 and 4 of the BPI for WPD?

No response provided.

4. Adjusting baseline allowances for uncertainty

WPD-Q6. What are your views on our proposals on WPD's bespoke UMs?

No response provided.

5. Innovation

WPD-Q7. What are your views on the level of proposed NIA funding for WPD?

No response provided.

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