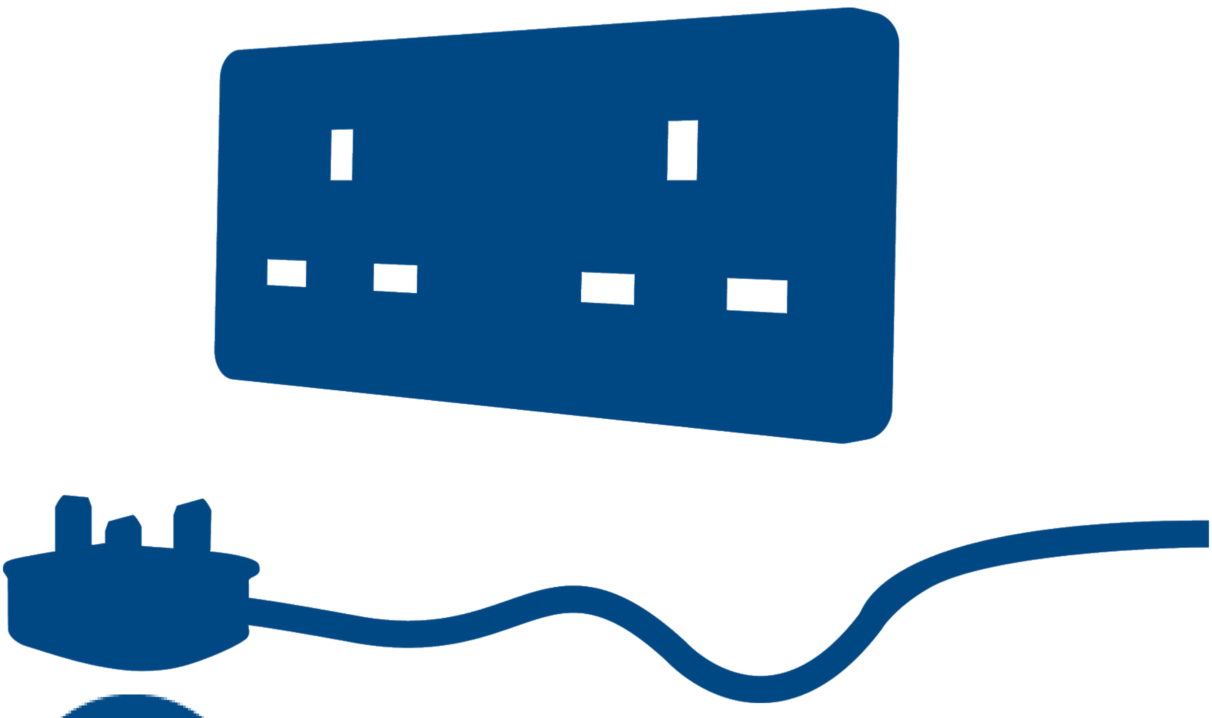
Ofgem consultation on RIIO-2 Draft Determinations Sector and Company Specific Sections

Citizens Advice submission

September 2020



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This is the second of 3 submissions in response to the RIIO-2 draft determinations' consultation. Please read our first response which contains our Executive Summary as this provides context to the responses in this section.

2. Electricity System Operator Questions

In its Business Plan, the ESO estimated that it would create £2 billion of net benefits for consumers over the RIIO-2 period. Given the perceived uncertainty around the ESO's forward plans, the proposed 2 year Business Plan should provide an opportunity to work in an agile and innovative way alongside Ofgem and stakeholders to ensure the realisation of the potential benefits for consumers.

ESOQ1. Do you agree with our proposal to incorporate EMR into the ESO's wider outputs incentives scheme?

As outlined in our response to the SSMD, we think that EMR is a complementary function of other ESO activities and while its performance should be monitored, we think there is no compelling case to support opening up the ESO's delivery body function up to competition. Particularly given the ring fence between ESO and the EMR Delivery Body.

Given the anticipated stability of the EMR Delivery Body within the ESO it is sensible to align the ESO and EMR Delivery Body incentives, it will support business planning and potentially offer opportunities for efficiencies and added value in a combined ESO and EMR functions. This should include the increased liquidity in EMR auctions and reducing barriers in prequalification and delivery processes. It is important that there are specific targets and performance measures related to the EMR.

ESOQ2. Do you agree that it is appropriate to maintain the ring-fence between the EMR DB and ESO in its current form?

A proposal for the removal of the ring-fence will need to be an evidence-based approach to address how the removal of each ring-fence requirement will not risk conflicts of interest. This includes the administrative and physical separation of staff; restrictions to the flow of data and information; the establishment of a data handling team for Confidential EMR Information purposes; and a compliance code and non-disclosure agreements for staff. The legal separation of the ESO from NGET does not remove the need to retain protections to deliver the impact of ring-fencing.

ESOQ3. Do you agree we should regulate system restoration costs in a consistent manner to other external balancing costs?

We support Ofgem's conclusion that the disallowance process for system restoration costs has helped address the previous uplift in Black Start procurement costs.

As this issue has been largely addressed and procuring and managing balancing and operational services should be conducted impartially, it is sensible to remove this potential heightened area of risk for the ESO.

ESOQ4. Do you agree with our approach to setting up-front performance expectations?

Setting up-front performance expectations encourages objective targets towards an efficient delivery for end consumers who fund energy systems through their bills. Where an ambitious plan is delivered against by a company this should mean positive reward and outperformance should be a stretch target. This is particularly important for the ESO given its central role in facilitating system development.

The scorecard approach as encouraged by the ERSG, will need to set out specific outcomes for performance that provide the ESO with clear and manageable performance metrics within which they can operate. It is crucial that there is clear alignment in expectations for the ESO, particularly if incentive payments or penalties are 'banked' every 6 months. To ensure that this award process is deliverable requires a design that is clear to the ERSG and ESO Performance Panel.

The ESO, ESRG and ESO Performance Panel are well placed to provide input on the performance expectations and it is vital Ofgem provides good transparency about how it weights their views in the process. Without this guidance from Ofgem, the ESRG and Performance Panel will not be able to understand how their input has shaped Ofgem decisions. Strong transparency from Ofgem also helps provide the ESO confidence that decisions on its performance metrics are being shaped by those stakeholders not just highly familiar with the ESO performance, but also the live challenges and priorities of connected services and users.

ESOQ5. Do you agree that a financial reward or penalty should be determined every two-years, to align with the period over which we set expectations, costs and outputs?

It is sensible that incentives schemes are aligned with the timeline for the ESO 2 year business plan. The deliverables that the ESO are incentivised to deliver should be apparent within the business plan as should longer-term planning to encourage a strategic approach and predictability of ESO service development.

Given the perceived limited predictability of business planning and price control for the ESO that leads to a 2 year process as opposed to 5 years for other networks in RIIO-2, it is sensible to assume that within the 2 year period there will also be greater uncertainty about performance and milestones.

We support the ESO in banking incentives every 6 months given the uncertainty around the new scorecard approach which is still yet to be defined. We think the scorecard can encourage greater clarity over the price control from all parties on performance, evaluation and for future planning processes.

The 6 month process could be a series of early decisions that provide a degree of performance incentive and feedback that test the evaluation process. Having a performance incentive to these decisions will encourage the interim feedback and evaluation to be viewed as contributory to pre-agreed 2 year deliverables. This helps avoid mission-creep but allows a timely response to required changes in focus that the ESO and Ofgem wouldn't have anticipated. This should enable the ESO to understand and respond positively to the process. It will also mean that the ESO has to provide an updated scorecard that provides industry with some transparency about performance rather than waiting for the longer period of 2 years.

Given that the Business Plan priority is the delivery of outcomes over the 2 year period, there should be a weighting to the final delivery incentive set at the start of the business plan. However, within the 2 year period the 'banked' incentives or penalties could be weighted variably according to input from the ESO and Ofgem.

ESOQ6. Do you agree with our proposed approach to within-scheme feedback, including the timings and approach to performance panel sessions?

We agree with the performance panel schedule to align with a 6-monthly performance review. We also agree with the single score for each ESO role. We think it should be at the Panel's discretion to try and reach consensus but to reflect disagreement where it can't.

ESOQ7. Do you agree with our proposed evaluation criteria for RIIO-2?

We think Ofgem has moved in the right direction in RIIO-2 to be more evaluative of ESO performance. However, we do not think it is clear that Ofgem has set the right evaluation criteria for RIIO-2. We agree with Ofgem that in some cases evaluative criteria are required to effectively capture the outcomes that matter to stakeholders and consumers. However, we think that with the combination of highly rigid metrics alongside wider loose evaluation criteria there is a risk that the decision making process lacks clarity. We encourage evaluative criteria, aided by ESO input to be more interpretative of real world uncertainty and a range of outcomes that can be indicative of the same performance.

Providing metrics with clear guidance and processes for adjustments based on the impact of external factors should be possible even where outcomes need to be agile, flexible and innovative.

Currently, the way that the evaluation criteria are set out is not standardised across the roles as there are exceptions made for Role 3. As a result, there appears to be limited value in having a standard format across Roles. We are concerned that presumed need for evaluative requirements may increase complexity and decrease transparency in the process.

We think there are criteria that can be clearer to provide greater clarity for the ESO and stakeholders. For example, plan delivery and demonstration of plan benefits should have clearer metrics attached to the evidence requirements to meet the outcomes required. For example: what are the thresholds for evidence that realises the plans benefits? What is a legitimate mitigating factor and how is it weighted?

The controllability of outcomes for the ESO will vary across roles and for each criterion. So while an evaluative process may best capture performance overall, we think that Ofgem needs to provide detailed guidance over how they perceive controllability and evidence thresholds relative to the A-E criteria.

As discussed in Question 5 and 6 we support the idea of interim evaluations of ESO performance but this will only be possible with a series of efficiently delivered scorecard evaluations that are indicative of performance from across the criteria.

ESOQ8. Do you agree with our proposals on the incentive scheme value?

We hope greater ex-ante confidence on how incentives will be achieved will drive innovation alongside the possible top end of excellent performance reward. We think the value of the 2-year scheme value of £30 million upside and £12 million downside (£15 million to -£6 million on an annual basis) factors in anticipated strong consumer benefit from good ESO performance. Alongside WACC returns, the incentive schemes potential total Return on Regulatory Equity (RoRE) range of 1%-16%, which would be generous were it to be achieved, and it is questionable if this range is realistically achievable given the transparency of the evaluation process.

Outputs consultation questions

ESOQ9. Do you think that our proposals will capture the full scope of minimum obligations/standards associated with the ESO's Business Plan activities?

We think that the proposals capture the scope of obligations that should be reflected in the ESO's Business Plan activities but that additional detail is welcome. We support Ofgem's planned consultation on licence changes and framework guidance.

The question is framed as an administrative licence change that assumes that the ESO Business Plan already reflects these objectives. We accept that this might be the case and accept that there may be logistical reasons these additions are not in place. However, we would still expect the licence changes to impact the ESO decision making rationale after the price control. Any changes - particularly those that relate to additional responsibilities - should make clear any change of expectation through framework guidance and the required presentation of evidence by the ESO.

ESOQ10. Do you agree with our proposed changes to the ESO Roles Framework guidance?

We agree with the proposed framework guidance changes and to keep it under review as appropriate. However, greater transparency around the sub role activity costs would be beneficial.

We are unable to see explicitly that stakeholders and consumers will get value from codes given their limit return potential relative to other activity. There appears to only be a topline figure of £19.5 million for the code governance administration function in the draft determination. Further transparency on costs to match other codes would help improve trust in the separation of functions and the attribution of costs. The ESO has been a poor performer among the code administrators according to Ofgem's annual satisfaction survey and we think that Ofgem could also consider opening the function up to alternative providers to boost performance.

ESOQ11. Do you agree with our grading of the ESO's RIIO-2 aims and Delivery Schedule for 2021-23?

We think that ESO could have provided clearer linkage between it’s 2 year plan and 5 year outcomes. The ESO needs to work with Ofgem to develop and justify it’s guidance on the range of outcomes against a deliverable.

Citizens Advice are working closely with the ESO on greater coordination in offshore networks and for early competition in transmission networks, which will impact the aims and delivery schedule ahead of Final Determination.

ESOQ12. What are the priorities for the ESO to achieve by March 2023 to exceed your expectations?

No response provided

ESOQ13. Do you agree that these are the right performance metrics to assess ESO’s performance?

We welcome the ESO’s stakeholder engagement in the development of the proposed metrics. We also support Ofgem’s approach to simplifying the proposed metrics and the rigour that has been applied. This should minimise complexity, unintended consequences and administrative burden. However, to ensure that the ESO has metrics (rather than just supporting evidence) that capture the key outputs that relate back to it’s RIIO-2 vision and deliverables, we want further consideration about how more flexible and dynamic metrics can reflect the lack of clearly predictable clear ESO outcomes. We think key ESO outputs will, correctly in some instances, have significant dependency on other actors or policy and regulatory development, have limited evidence of historical performance or have limited applicable benchmarks.

As discussed in ESOQ4 and 7, we encourage Ofgem to consider responsive and dynamic evaluation and metrics that provide more predictable criteria that reflect the information and context information available. We think further Ofgem guidance around the applicability and mitigation for criteria and metrics can factor in the trajectories of outcomes that the ESO can deliver against.

ESOQ14. Do you agree that these benchmarks are sufficiently challenging?

No response provided

ESOQ15. Do you have any comments on the revised methodologies we have proposed (in Appendix 3) for assessing ESO's performance on balancing costs and forecasting?

No response provided.

ESOQ16. Do you agree with our proposals for measuring stakeholder satisfaction?

We support Ofgem's approach to reforming the consumer and stakeholder satisfaction surveys. Setting out criteria for the commissioning, benchmarking and targets should improve the standardisation of the process. We think that conducting surveys on a 6-monthly basis to inform performance reviews is an appropriate frequency and does not create excessive regulatory burden.

ESOQ17. Do you agree with the proposed approach to tracking plan benefits?

We support Ofgem's decision to require the ESO to regularly track plan benefits as outlined. It should also be an opportunity for the ESO to highlight potential blockers and risks to plan benefits. The ESO plan will inevitably have regulatory and system externalities which should be flagged at regular intervals as part of the general overview report.

ESOQ18. Do you agree with our suggested areas for regularly reported evidence?

The suggested areas for regularly reported evidence is highly detailed and will provide an indicator of both ESO actions and system characteristics that will constrain progress towards Net Zero. This is likely to be detailed and valuable reporting which we hope Ofgem will actively respond to.

Costs consultation questions

ESOQ19. Do you agree with our overall approach to cost regulation for the ESO?

Relative to the return on capital from investment the ESO presents significant potential benefits for the energy systems and the consumer. As a result, the efficacy of investment in delivering maximum overall benefit for consumers should be a clear priority. We see this as a good reason to remove the Totex Incentive Mechanism and cost minimisation priority from RIIO1.

The proposed value for money criteria and the large disallowance risk will present a strong incentive for the ESO to provide efficient internal costs. It is sensible to bring the disallowance arrangements in line with other networks in RIIO-2, while reflecting the primary focus on ESO's delivery of wider outputs. We support this overall approach. However, we question whether the proposed benchmark, drawing from the ESO Business Plan, will provide a robust view of the efficient level of expenditure. Ofgem seems to accept this as they plan to place emphasis on the supporting rationale for expenditure rather than just on performance against the benchmark.

Given the high risk attached to disallowances currently in the determination it would seem difficult for the ESO to assess the risks being attached to their expenditure. Guidance on what the supporting rationale criteria for efficient expenditure should be clearly set out by Ofgem with ESO-specific examples of anticipated mitigating circumstances for variation from the benchmark.

ESOQ20. Do you agree with our assessment of the ESO's totex?

No response provided

ESOQ21. Do you agree with the method we have taken to set each role-specific cost benchmark, including the proportions of capex and business support allocated to each role?

We agree with the level of detailed information collected in setting totex and the role-specific cost benchmarks. However, the granular approach to the benchmark will not capture whether the non-role specific outcome of overall cost efficiency has been achieved. The ESO should be incentivised to show how it has prioritised the elements of its delivery. There will be decisions in one area of the business with potential knock on impacts in other areas of the business in terms of time, cost and also consumer benefit risk. We encourage the benchmark or supporting rationale for expenditure to ensure cost allocation is strategically focused on delivering maximum overall benefit for consumers.

ESOQ22. Do you agree with our proposed approach to updating the internal costs benchmark within the price control?

We support Ofgem's approach to updating internal cost benchmarks. However, following the approach outlined in ESOQ13 there is scope to add another column to the benchmark to collect information on mitigating factors. This column should also have clear and demanding evidence requirements from Ofgem relating to what constitutes an uncontrollable variable for the ESO.

ESOQ23. Are our disallowance proposals proportionate and do they provide the ESO with sufficient ex ante certainty?

As set out in Question 19, the disallowance proposals represent a large amount of potential ESO exposure to risk in the price control. Particularly when considered alongside other downside incentive risks.

We encourage Ofgem to consider how it can go beyond the principles it sets out on cost allowance to provide greater ex ante confidence in how the mechanism will be used. It is stated that it will be a "last resort", this suggests that there is a range of acceptable mitigating factors in determining efficient cost. It would be helpful for the ESO and stakeholders to have sight of examples or parameters for these criteria.

ESOQ24. Do our proposed changes to the reporting of changes to the ESO's shared services costs offer a sufficient level of consumer protection?

Given the increasing contrast in ESO and transmission company financing methodologies within National Grid (the ESO's pass through remuneration model for example) it is likely that spending in shared assets will have an unequal expectation of cost risk.

There appears to be clear incentives for National Grid not to claim a significant excess share of expenditure to the ESO and the separation of IT services should further reduce this risk. We support tightening reporting requirements to maximise the direct attribution of costs.

As with combined ESO roles, National Grid's shared services and complementary functions should see more effective and efficient provision of value to consumers. The ESO Board should be ensuring the economies of scale are effectively realised for consumers.

Finance consultation questions

ESOQ25. Is there a better method for setting a debt allowance for the ESO?

No response provided

ESOQ26. Do you have evidence to suggest the equity allowance should be higher or lower for the ESO?

We support Ofgem's argument that the ESO's systematic risk benefits from a cost pass-through policy during RIIO-2 and means that, relative to RIIO-1 the ESO holds lower risk. Further, banking of incentives every 6 months and greater clarity on the risk of cost disallowance will further reduce systematic risk.

We have highlighted in our finance chapter why the assumptions on equity beta and cost of equity in RIIO-2 broadly can be lower.

ESOQ27. Do you agree that our proposals for additional funding reflect the ESO's role during RIIO-2?

We think Ofgem's £1.9 million of additional funding is unnecessary and reward is better provided through incentive mechanisms that are earned.

The Challenge Group's view on financial viability contrasts significantly to that of the ESO. We find the Challenge Group's view more likely given that the cost of capital in the price control broadly could be lower and there is evidence that total market returns are underestimated.

We think Ofgem is being generous , particularly if the ESO banks a share of incentive every 6 months as we supported and because, as highlighted in this response, there is more that can be done by Ofgem to provide greater ex ante confidence and further boost financeability.

ESOQ28. Do you have a strong view on how the ESO should recover its costs for a WCF or whether the implied allowance is sufficiently accurate for the full RIIO-2 period?

No response provided

ESOQ29. Do you agree that our proposed funding and financing arrangements allow the ESO to efficiently finance its activities?

We have largely responded to this question in Question 27. We would only add, as argued in our SSMD response, we support Ofgem setting a 55% notional gearing level for RIIO-2 and we agree with the ESO that financeability tests indicate strong credit worthiness.

Innovation consultation questions

ESOQ30. Do you agree with the level of proposed NIA funding for ESO? If not please outline why.

Wider proposals for the ESO price control, such as the cost-pass through approach, provide greater flexibility for innovation to be taken forward by the

ESO. We think that this approach should be matched for non-BAU innovation funding through the NIA.

We have not sought to compare ESO's NIA funding with the funding it received in RIIO-1 as its RIIO-1 NIA funding was linked to NGET's base revenue, both before and after separation. However, we appreciate that its RIIO-2 request is relatively larger as a percentage of totex than other network companies. Many of the ESO's innovation activities do not deliver benefits to the ESO's internal costs, but instead deliver benefits to wider balancing costs controlled by the ESO, which are over £1 billion each year.

The ESO has a vital role in reshaping the energy system to meet Net Zero and highlighting risks of distributional impacts in the transition so as to positively impact the market for energy services. We support the focussed use of the NIA for innovation projects relating to longer-term energy system transition challenges or consumer vulnerability issues. In particular, we support the requirement for the NIA projects to each have an impact assessment to consider the expected effects of the innovative solution upon consumers with vulnerabilities.

This makes its approach to high risk innovation particularly important. Aligning innovation work with other network companies and academics should be a priority and we question whether a 2 year funding commitment fully supports this work.

The RIIO-2 and ED2 determinations present an agreed statement of intent from Ofgem and networks shaped by consumers and stakeholders. The ESO should be on an equal footing to engage in projects over the course of the price control and have an opportunity to be agile with new projects as appropriate over the 5 year cycle.

ESOQ31. Do you agree that ESO's NIA funding should be subject to the condition that all projects must involve partnership with other network companies, third party innovators and/or academics?

Consistent with feedback from the ERSG, we consider that the unique position of the ESO means that the ESO must do more to consider the innovation challenges and strategic direction of industry as a whole, and demonstrate stronger partnership with academics and wider industry. Accordingly we propose that the ESO's NIA funded innovation projects must involve partnership with other network companies, third party innovators and/or academics.

Uncertainty consultation questions

ESOQ32. Do you believe our price control design is sufficiently flexible to account for uncertainty? Are there any relevant foreseeable future uncertainties which we have not identified here?

No response provided

ESOQ33. Do you have any views on whether we should introduce a different funding approach or uncertainty mechanism to account for the risk of material changes to the ESO's revenue collection role? Do you have any views on how this should be designed?

No response provided

Other areas consultation questions

ESOQ34. Do you agree with our assessment that the current approach, with the ESO's IT provided by National Grid Group is not appropriate for the future? Have we identified the correct concerns with the current model?

We reiterate the ESRG view that the funding from consumer bills is retained in the company IT capital. This includes IT expertise, capability and intellectual property not being held by external providers or held within National Grid Group. We agree that the IT investment decisions should be shaped by the ESO's need and not the relative opportunity and constraints within National Grid.

We think this transition needs to be prompt but also done in a measured way to be cost effective for the consumer. We recognise the shared services model provides efficiencies in the short term. However, in the longer term ensuring ESO has full control of IT will be the cost effective option.

ESOQ35. Do you agree that the ESO needs full control of its IT provision? Are there other options that you think are preferable?

This is the option we think is likely to be the most suitable that fully mitigates all of the issues with the current model

ESOQ36. Do you have a view on the proposed timing of implementing IT autonomy?

RIIO-2, for the ESO is an opportune time to plan the transition to IT autonomy and set out a long term approach. However, it is important that ambition for preparation and speed of transition does not force unnecessary costs. We do not think there is clear evidence yet that the current approach has ambition, or whether further ambition will be a proportionate response to address the risks attached to the current approach. We note the work the ESO is conducting in this area which will provide more information.

ESOQ37. Do you agree with our position that the ESO should recover its internal costs based on actual spend within year? Do you believe this change would create any new information/forecasting needs to allow industry to anticipate and manage this?

No response provided.

ESOQ38. Do you have views on whether the NIA and other ESO pass-through items should be recovered via TNUOS or BSUOS?

No response provided.

ESOQ39. Where or how can the ESO's existing reporting requirements be streamlined?

No response provided.

ESOQ40. Do the proposed timings for the BP2 process provide sufficient time for the ESO to develop and refine a robust plan, stakeholders to contribute to this and Ofgem to undertake the necessary assessment and decision making?

We support the proposed timings.

3. Electricity Transmission Questions

ETQ1. Do you agree with our proposals to switch off the incentive in year one of RIIOET2 in order to pilot the Quality of Connections survey and develop the baseline targets?

We support the focus on customer satisfaction for ET2, especially given the potential for different types of customer or new customers to interact with the electricity transmission sector. There is a need for robust baseline targets for this new incentive mechanism for the rest of ET2 and think it is important to have a development year to establish appropriate baselines for the rest of ET2. It is important that the incentive is well calibrated to drive appropriate behaviours. To drive behaviour we would encourage an indicator of minimum incentive range under consideration during the pilot and development phase.

We would encourage Ofgem to expect TO's ongoing commitments and initiatives to support quality of connections to continue during this development year. We support the further consultation planned for the incentives and targets, as well as the use of common industry milestones in the connections process to capture specific issues that may be arising in the process. It may be valuable to associate specific incentives for particular milestones.

We believe that the target audience for the connections survey should be as broad as possible to incorporate a wide range of views including new participants. We expect the User Groups to have a key role in assurance of survey reach and implementation.

ETQ2. Do you have views on the common milestones, target audience and question of overall satisfaction for the Quality of Connections survey incentive provided in Appendix 2?

See out response to ETQ1.

ETQ3. Do you think there are any additional KPIs that have not been included in the final NAP which would support monitoring of performance in adherence to the NAP and/or add transparency of the outage planning, management and implementation process for relevant stakeholders?

No response provided.

ETQ4. Do you agree with our proposed LPD mechanisms and do you agree with the criterion that we are proposing to use for our LPD mechanisms?

In our response to the SSMC[1], we were supportive of large project delivery mechanisms within the ET sector to ensure incentivisation of timely delivery. We see these as an important supplement to competition in tendering contracts so provide better consumer protections for delivery. We support LPD mechanisms being applied to RIIOET1 Strategic Wider Works projects. We also encourage Ofgem to keep the £100 million minimum under review and consider additional discretion where delay to lower value projects will risk significant consumer detriment.

The range of options including re-profiling of allowances, milestone-based approaches, or project delay charges provide a clear default option and discretion to use more targeted measures. We encourage Ofgem to actively refer to stakeholder guidance in taking these decisions. We also support the application of the LPD mechanisms to other sectors (e.g. GT and GD).

ETQ5. What are your views on applying our LPD mechanisms to some or all of the projects identified at paragraph 2.74?

We are not able to evaluate the consumer impact of delay on each of the identified projects beyond an assumption that re-profiling of allowances will be a minimum requirement. However, we would encourage User Groups and the Challenge Group to consider a clear set of transparent criteria in coming to a view. We would recommend using competition as far as is reasonable on a Cost Benefit Analysis basis to secure lower costs for consumers, and to ensure assured bidders. Additional benefits that can be revealed regarding the cost of capital for these projects subject to competition should be factored into company returns.

ETQ6. What are your views on our consultation position for the three electricity TOs' EAP proposals in RIIO-2 as set out in this document?

It is important that monopoly network companies are operated in a way that demonstrates good corporate social responsibility and in a way that minimises their environmental impact. They have an important role to play in society to reduce this impact, lead by example and contribute to decarbonisation. It is therefore appropriate for consumers' money to be spent where it is

[1] Citizens Advice, Response to the Ofgem RIIO-2 Sector Specific consultation, March 2019.

proportionate. Ofgem should ensure that progress made in RIIO-1 is banked for consumers, that incentives are proportionate to the outcomes, and that uncertainty mechanisms are used effectively where solutions are less known or available.

We broadly agree with Ofgem's decision to accept the TO proposals and welcome the additional conditions and revisions Ofgem has placed on companies to ensure that the £81million of spend is well justified and leads to significant improvements in the performance of transmission networks. We note that there is some significant variance in ambition and inconsistency in benchmarking targets, making comparisons difficult. Ofgem should therefore ensure that reporting methods and metrics in AERs are consistent and comparable so that progress can be assessed, companies held accountable for progress, and environmental outcomes such as abated tCO2e and 'Net Zero' deadlines set out clearly.

We would also encourage Ofgem to consider an annual environmental showcase event to provide companies an opportunity to present the progress they make in reducing their own operational carbon footprint and the key role they are playing in the Net Zero transition. With heightened stakeholder and customer interest in this issue and an important need for scrutiny we see value in this being explored by Ofgem in addition to the existing AER requirements.

We welcome the inclusion of the existing licence condition on reporting transmission losses in the reporting of AERs. Losses represent significant proportions of transmission companies BCF and ensuring reporting is side by side with other activities and targets allows for better scrutiny.

We support in principle Ofgem's decision to include the funding for EAP commitments in baseline allowances. However, Ofgem should set out clearly how money that is unspent by companies would be clawed back at the close out of RIIO-2.

<u>Reducing business carbon footprint (BCF)</u>

We support Ofgem's decision to accept targets that are based on scientific evidence and a robust methodology. However, we note that there is an inconsistency in the type of commitments adopted and it is difficult to compare targets. We also note that where targets vary in scope and in nature Ofgem has not provided a clear rationale for why it accepts these differing proposals. In order for transmission networks to decarbonise their businesses, it's important that where possible similar ambition is reached by all companies and across as many emission areas as possible.

For example some proposals on BCF contain explicit scope 1 and 2 emissions targets while others do not. It is also disappointing that at this stage we cannot comment on decisions relating to SPTs commitments on BCF. However, the commitment to adopt a target for scope 3 emissions is welcome given how important it is that companies begin to grapple with the challenge of how they will reduce these emissions which they have less direct control over.

The variation in targets continues in both emissions from building energy use and we note that only SHET and SPT have requested funds to achieve their targets. Ofgem in its final determinations should make clear the rationale for allowing these additional costs into baseline when NGET have not. We note that Ofgem has requested additional detail from companies and we would urge Ofgem to ensure it is satisfied that outcomes are clear and well justified.

We agree that electricity transmission networks have an important role to play in facilitating the decarbonisation of transport and leading by example. We note a range of targets and commitments in this area with replacement of operational fleets ranging from 50% to 100% by 2025-26. Again, Ofgem should be transparent in its rationale for proposing to accept different commitments and drive consistency where possible. There are proposals by all three companies to install EV charging points across their networks. Ofgem have not made any reference to the needs case justification for the number of charging points required and nor whether they are subject to market competition or use by the public. Ofgem should be satisfied that where consumer’s money is being spent on EV charging facilities, that this is subject to competition, is efficiently incurred, with the most consumer value sought, for example by making them part of the public charging network.

<u>Reducing pollution to the local environment</u>

We welcome the commitments from companies in this area, especially emissions of IIG and SF6 whose greenhouse warming potential is approximately 23,900 times more than CO2. However, we note the difference in funding approaches by the companies between funding requests and uncertainty mechanisms (UMs). Ofgem should set out how, in the absence of a UM, SPT and SHET would be expected to respond to a ruling by the EU Commission on controlling F-gasses.

We agree with Ofgem that replacing assets or building new assets should be free of SF6 as early as is practical. SPT has committed to procuring assets with half the manufacturer-guaranteed leakage rates. As Ofgem highlights this as a benchmark for best practice we urge Ofgem to set out its expectations that best practice should also be followed by NGET and SHET. We would also encourage Ofgem to consider how the price control can encourage collaboration between transmission companies and distribution network operators. It is in the interest of consumers that decarbonising the whole system is achieved at least cost.

We understand Ofgem's rationale for removing the licence condition on losses and incorporating it into the AER. It's important that Ofgem monitors networks progress in reducing losses and is open to reviewing this decision if necessary ahead of RIIO-3.

Sustainable resource use, recycling and reducing waste.

We agree that in the area of embodied carbon in new network build, further ambition should be shown by SPT and SHET given NGET's commitment to achieve Net Zero carbon construction by the end of RIIO-2.

We agree with Ofgem's decisions on sustainable resource use, recycling and waste reduction including the disallowance of SHET's PCDs for waste to landfill and recycling targets where NGET and SPT have included these as commitments. Given the variance in targets proposed, it is important that Ofgem ensures that reporting methods and metrics in AERs are consistent and comparable.

ETQ7. What are your views on our consultation position for setting the expenditure cap for visual amenity mitigation projects in RIIO-2?

We are aware of the importance to stakeholders and companies of the visual amenity impacts of network infrastructure. The options outlined by Ofgem within the ET sector document provides 3 proposed levels of funding for companies' visual amenity mitigation projects:

- £925 million based on willingness to pay (WTP) data
- £725 million based upon the total of proposed Business Plan projects
- £465 million based upon Ofgem's review of potential pipeline projects identified within the Business Plans that have a high importance for visual impacts and affordable impacts on energy bills

Ofgem's preferred option is number 3, the £465 million amount of funding.

We note that the WTP and consumer research that underpinned the Business Plans' proposals were undertaken prior to the COVID-19 pandemic. Our own research[2] has identified potential economic impacts that may mean that prior WTP may no longer be valid due to general affordability concerns, increased unemployment, and pressures on household incomes. The full impacts of the COVID-19 situation are not yet known and this fact should be acknowledged when assessing the funding for visual amenity mitigation projects. It is also possible that there may be shifting views from consumers on environmental issues, including visual amenity, which may conversely increase the desire to have additional or more extensive projects relating to mitigation of visual impacts. As such, we would recommend that the £465 million funding proposed by Ofgem is subject to a review of Business Plan projects, perhaps at the mid-point of RIIO-2, to allow for the changes in WTP and consumer views to be captured. The funding for visual amenity mitigation could then be amended in line with any substantive changes in consumer willingness or ability to fund particular projects, and to reflect general changing consumer appetite with respect to visual amenity.

ETQ8. Do you have any views on our outputs that have not been covered through any of the specific consultation questions set out elsewhere in this chapter? If so, please set them out, making clear which output you are referring to.

Electricity Not Supplied Incentive

We note that this incentive is proposed to be retained within ET2. We stated, in our response to the Sector Specific Methodology Consultation[3], that we are supportive of the retention of this incentive in principle, but that we wished to see a realignment of the value of this incentive incorporating consumers' views, plus we wished to see a penalty-only incentive, and a banking of RIIO-1 improvements for RIIO-2. We note that the incentive value has not been substantially amended and we would welcome the continued amendment to the incentive value during RIIO-2 to VoLL values to reflect changing consumer views of electricity transmission security of supply. We are keen to understand why TO willingness to pay evidence was not deemed appropriate. We support the banking of RIIO-1 improvements for RIIO-2 and continued tightening of targets for each ET company. We also note that the incentive has both a reward and

[2] Citizens Advice, Meeting Net Zero - Options for network company highly anticipatory investments in a post-COVID-19 environment, July 2020,
[3] Citizens Advice, Response to the Ofgem RIIO-2 Sector Specific consultation, March 2019.

penalty element. We would reiterate our prior comments, where we feel that a penalty-only mechanism is preferable.

ETQ9. Do you have any views on our overall approach to setting totex allowances?

See also our Executive Summary and General Comments.

We note that Ofgem was not satisfied with either the justifications given for certain work or activity levels within the TO Business Plans, or took a different view of efficient costs that was lower than TO company proposals. As such, each of the 3 TOs had their baseline requests reduced substantially.

We are not best placed to be able to undertake a thorough review of needs cases, nor to be able to evaluate detailed costs assessments and comparability between the TO companies, to ascertain whether the setting of the totex allowances are accurate and cost-efficient. We note the various methods that have been employed in the assessments by Ofgem, including the use of Engineering Justification Papers, Business Plan Data Templates, Network Asset Risk Metric Tables, and supporting papers. Comparative and historical data were used where available, including data compared to the GT sector. We further note the commissioning of Atkins Consultancy to aid in the totex allowance evaluation.

We support Ofgem's decision to increase evidence requirements. It is appropriate that network companies provide a high degree of transparency on their costs to the regulator to help accountability of the RIIO2 process. This does not and should not fetter a company's discretion to provide appropriate funding of its activities that respond effectively to meet consumer needs. As such, we do not feel that we can comment substantially on the way that the allowances were set, apart from the following:

- We support the use of UMs to permit further investment when there is increased clarity in scope, timing, or costs for projects.
- We support the ongoing efficiency challenge (1.2% per annum to all capex costs (excluding those subject to use-it-or-lose-it conditions) and 1.4% to all opex costs) to incorporate the innovation and efficiency gains that should be expected by consumers on an ongoing basis.

ETQ10. Do you agree with our proposed eligibility criteria for the LOTI re-opener and do you agree with the assessment stages, and their associated timings?

We think there is merit in allowing the re-opener to be available to TOs at all times due to the importance of facilitating the speed of delivery.

We would like to understand the impact of close scrutiny on large project deliverables to understand more about why the round £100 million figure is being used as a minimum threshold.

ETQ11. Do you agree with our proposed definition of PCF for RIIO-2, and the areas of work that we intend that definition to cover?

No response provided

ETQ12. Do you agree with our proposal to assess PCF costs as part of RIIO-2 Closeout, following the principles set out in Chapter 4?

Ofgem's proposed approach to assess incurred PCF costs at RIIO-2 Closeout appears to provide a suitable balance in providing TOs the flexibility to incur efficient costs while protecting consumers from funding PCF for speculative projects. We believe that it appears to be well calibrated and note the requirement for TOs to submit well justified submissions as part of an ex post cost assessment process.

ETQ13. Do you agree with our proposed scope of, associated eligibility criteria for, and timing of the submission window under the MSIP re-opener?

No response provided.

4. NGET Questions

NGETQ1. Do you agree that an Environmental Scorecard ODI-F would be in the interests of existing and future consumers?

It is important that monopoly network companies are operated in a way that demonstrates good corporate social responsibility and in a way that minimises their environmental impact. They have an important role to play in society to reduce this impact, lead by example and contribute to the Net Zero transition. It is therefore appropriate for consumers' money to be spent where it is proportionate. Ofgem should ensure that progress made in RIIO-1 is banked for consumers, that incentives are proportionate to the outcomes, and that uncertainty mechanisms are used effectively where solutions are less known or available.

Ofgem's intention to recalibrate the incentive rate appears to ensure that rewards are proportionate to the outcomes and we welcome Ofgem's flexibility in consulting on two options which can be combined to ensure rewards are appropriate and proportionate. Our preferred option is to equate the incentive to the economic value of the disbenefit/benefit arising from the performance level in each area. We believe this represents better value to consumers.

We note that Ofgem's decision regarding the bespoke ODI-F is similar to that taken for NGGT. Ofgem proposes to reduce the weight of the three metrics relating to waste, recycling and resource use as it did for NGGT. We would urge Ofgem to ensure that it is satisfied that where financial rewards are available they would not act as a double reward where an activity also reduces operational costs.

We note that Ofgem has not decided to apply a common ODI-F to all ET companies. Given the important role that transmission companies should play in reducing the environmental impact of their operations, we believe that it is fair to employ the mechanism across all ET companies ensuring that there is equal incentive to go beyond targets. The lack of common ODI-F would provide little incentive for SPT and SHET to exceed their targets. We note Ofgem's explanation that other electricity TOs have not proposed enough comparable targets in their EAPs. However, we would encourage Ofgem to consider how it could calibrate a common ODI-F in a way that is relative to each company's accepted EAP commitment targets to ensure that environmental impact is reduced as effectively as possible in all licence areas. With a common ODI-F in place we would see value in a new annual environmental showcase event as set out in response to ETQ6.

NGETQ2. Do you support our proposed changes to NGET's Environmental Scorecard proposal?

See our response to NGETQ1.

NGETQ3. Do you agree with our proposal to reject the Accelerating Low Carbon Connections ODI-F?

While efforts to connect low carbon connections as quickly as possible is certainly desirable, we agree that the proposed ODI may be too difficult to employ in practice for the reasons that Ofgem have set out, notably the difficulty in avoiding in-built contingency.

We agree that the Quality of Connections Incentive should drive TOs to manage the connections process to meet its customers' needs, which can be assumed to be prompt low carbon connections to meet individual needs and contribute to the Net Zero transition.

NGETQ4. Do you agree with our consultation position to reject the 'RIIO-T2 System Outage Management Proposals to Reduce Constraint Costs'?

No response provided.

NGETQ5. Do you agree with our proposals on the PCDs? If no, please outline why.

We are not commenting on all of the PCDs listed, however, we have comments on the following PCDs listed for NGET:

We note that NGET proposed a UM to fund a large-scale programme of intervention works on network assets containing and leaking SF6. Ofgem has rejected the UM but has proposed to accept this programme as a PCD for baseline funding. The target would be for a sustained 33% reduction in annual SF6 emissions by the end of RIIO-ET2, with annual reporting. We note that the baseline funding for this PCD is subject to NGET's submission of a well-justified programme in August 2020 for SF6 asset interventions in RIIO-2. We understand the rationale for moving this proposed UM to a PCD with baseline funding given the reasons provided, namely, that efficient costs can be set up front, there can be interactions made with other parts of the Business Plan, and additional accountability for delivery including a financial claw-back for non-delivery. We are concerned that there may be potential overlap with the Interruption and Insulation (IIG) ODI, as Ofgem has noted, which has similar aims. The bespoke measure appears to have a higher target for SF6 reduction. In our response to the SSMC[4], we supported incentives to reduce IIGs and therefore, in principle, have no objection to this additional bespoke measure provided that the benefits

[4] Citizens Advice, Response to the Ofgem RIIO-2 Sector Specific consultation, March 2019.

of having a further measure is not administratively costly, and that there is appropriate stakeholder support for this additional PCD.

We do, however, note that 1 disadvantage, although it is of low risk, is the proposed PCD would reduce Ofgem or NGET's ability to scale up the target should changes in the industry mean that SF6 alternatives are developed and can be deployed more widely or more cost efficiently.

NGET proposed a £2.5 million PCD for offsetting the emissions it cannot eliminate technically or cost effectively. This has been accepted as a bespoke UM. This UM is a use-it-or-lose-it mechanism to achieve Net Zero capital carbon via actions such as afforestation, energy efficiency projects or supporting community renewables. Capital carbon is caused by carbon emissions as a result of construction and does not count towards NGET's BCF, although it would constitute about 9% of that figure. The baseline allowance for this UM would be £2.5 million. The UM would return unused allowances to consumers. We have previously argued that carbon offsetting should be funded by shareholders. However, we support this additional UM provided it effectively achieves the aim of reducing the impact of carbon emissions by NGET, there is evidence of stakeholder support for the aim, and there is a clawback mechanism to return unspent funds to consumers.

NGETQ6. Do you agree with our proposed approach to facilitating NGET's transition to an EV fleet?

We note that all ET companies variously proposed measures to convert some or all of their fleet of vehicles to EVs during RIIO-2 to reduce their BCFs. Ofgem states that there were differing approaches from each company and therefore NGET's measure was assessed separately. We note that Ofgem was unable to establish a common EV unit cost. A qualitative assessment of costs was then undertaken. The PCD, which will supply baseline allowances of £26.74 million, should provide for 499 EVs and charging infrastructure at 234 sites by the end of RIIO-2. We support the measure as proposed as we note that it has had appropriate scrutiny of costs, is evidenced with stakeholder support, and that there is an automatic clawback mechanism for any volume not delivered.

We recognise that establishing EV and charging unit costs at this stage is difficult to achieve with confidence. On balance we think Ofgem have made an appropriate decision with the information available. The inclusion of PCD and that efficiencies would be subject to the TIM provides consumers additional protection against windfall gains.

We would encourage Ofgem to clarify that it is satisfied that all 234 EV charging points have a well justified needs case and are subject to effective competition wherever appropriate.

NGETQ7. Do you agree that there is a need for a SF6 asset intervention PCD, and do you agree with our rationale for making this mechanism a PCD rather than a UM?

See our response to NGETQ5.

NGETQ8. Do you agree with our proposals on the CVPs? If no, please outline why.

NGET was assessed to have failed to meet minimum requirements within Stage 1 of the Business Plan Incentive and therefore was ineligible for any CVP rewards at Stage 2. However, in the event that Ofgem's position changes as a result of this consultation, Ofgem has provided its views of the NGET CVPs.

In our Call for evidence response[5] on the Business Plans, we noted that we were not convinced that the various companies' CVPs, as a whole, demonstrated significant additional value for consumers. As such, the rejection by Ofgem of many of NGET's CVPs is appropriate. We note that only 1 of the 10 proposed CVPs would have been accepted if the company had succeeded at Stage 1 of the BPI (Caring for the natural environment CVP).

NGETQ9. Do you agree with our consultation position to accept (subject to eligibility) NGET's caring for the natural environment CVP? Do you agree with our proposal to requantify the value of the CVP?

We note that this CVP is currently ineligible for an award as NGET was assessed to have failed to meet minimum requirements for Stage 1 of the BPI. As such our comments on this CVP are made with this fact in mind.

The Caring for the Natural Environment CVP aims to increase the natural capital value of all of its non-operational land by 10% during RIIO-2, delivering £14.67 million of benefit. If successfully delivered, this CVP would have resulted in environmental value enhancement across NGET's sites, totalling around 2,800 hectares. This CVP had stakeholder support and Ofgem assessed that the

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[5] Citizens Advice, Response to the Ofgem call for evidence on the Electricity Transmission, Gas Transmission, Gas Distribution and Electricity System Operator Business Plans for RIIO-2, February 2020,

measure went beyond BAU. We note that the valuation of improvement has been difficult to verify and that there is further work to be undertaken with NGET and other TOs that submitted similar proposals to develop a robust common methodology for calculating the value that consumers place on diversity and natural capital ahead of the RIIO-2 final determinations. We support this CVP, in principle and subject to eligibility, as this CVP has stakeholder support and should lead to consumer-valued benefits beyond BAU. We welcome the development of a robust, common methodology to assess these biodiversity and natural capital benefits.

For questions NGETQ10 - NGETQ16:

No response provided.

NGETQ17. Do you agree with our proposal to use a funding route more directly linked to actual engineering work on individual projects, and to provide a further route for funding through a re-opener window?

We support this proposal.

NGETQ18. Do you agree with our proposal to reject NGET's UIP UM?

As we noted in our SSMC response,[6] we support mitigation schemes in principle, but we believe that any such projects should have support from their consumers as well as strongly evidenced willingness to pay research. We note that Ofgem has stated that they are rejecting this proposal due to lack of sufficient evidence of the need for the Urban Improvement Provision (where NGET would make improvements in assets or in public spaces in deprived urban communities). The potential costs don't appear to be clearly presented. While there was stakeholder support for the UIP UM, there did not appear to be particularly strong support. As such, we would support the rejection of this proposal as there needs to be robust evidence of need and support before consumers should be asked to pay for a company's activity.

NGETQ19. Do you agree with our proposal to provide a UIOLI allowance for offsetting capital carbon emissions?

See our response to NGETQ5 where we have made comments regarding the UIOLI for the Net Zero carbon capital construction proposal.

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[6] Citizens Advice, Response to the Ofgem call for evidence on the Electricity Transmission, Gas Transmission, Gas Distribution and Electricity System Operator Business Plans for RIIO-2, February 2020,

NGETQ20. Do you agree with the level of proposed NIA funding for NGET?

We note that Ofgem are proposing to accept £49.3 million of the £75.6 million NIA funding requested by NGET. We note that the projects considered are those that Ofgem believes will require NIA funding to proceed, due to high risk or not delivering benefits during the price control period. We have no objection to the level of funding proposed.

5. SPT Questions

SPTQ1. Do you agree with our proposals on the bespoke ODIs? If you disagree, please outline why.

No response provided.

SPTQ2. Do you agree that SPT's bespoke ODI-R would be in the interests of existing and future consumers and do you have any views on the proposed metrics to track SPT's progress in delivering the ODI-R?

We agree this bespoke ODI-R would be in the interests of existing and future consumers. We note that the only accepted bespoke ODI for SPT was relating to the 1 accepted CVP. The accepted bespoke ODI-R relates to providing non-operational land, at no charge, to community groups to install 4MW of renewable generation and enhance biodiversity. We note that the reason for acceptance was that this ODI-R will deliver additional environmental benefits for current and future consumers at minimal cost. The proposed £1.6331 million CVP reward will be clawed back on a pro-rata basis if the 4MW of renewable generation is not installed. We welcome the reporting of this ODI-R and CVP within the Annual Environment Report using the metrics proposed. We would however urge Ofgem to consider how it could encourage SPT to exceed its target of 4MW of renewable generation to ensure that land use and consumer benefit is maximised.

We would support ongoing monitoring of this scheme to assess its value. If it proves beneficial, we would recommend roll-out to other companies to make best use of non-operational land with other network companies within RIIO-2 and also for RIIO-ED2.

SPTQ3. Do you agree with our proposal to reject SPT's bespoke ODI-F at this time?

No response provided.

SPTQ4. Do you agree that SPT's bespoke ODI-F should be rejected?

Ofgem proposes to reject SPT's bespoke ODI-F on its additional contribution to the low carbon transition. We agree that the bespoke output does not represent good value to consumers as noted by Ofgem in its assessment of abated tCO2e for the proposed rollout of EV fleet. As noted in response to NGETQ1 transmission networks have an important role to play in decarbonising their own business operations and it is appropriate for consumers money to be spent where it is proportionate. We also stated that we support the environmental scorecard ODI-F for NGET on the basis that it is proportionate and appears to be well calibrated. It is important that RIIO-2 has a framework that provides consistent incentive for all network companies subject to these draft determinations to have proportionate incentives to reduce their environmental impact. We therefore encourage Ofgem to consider how environmental incentive mechanisms like those which have been accepted for NGET and NGGT could be common for SPT, SHET and gas distribution companies. It is in consumers' interests that all networks are being driven to the same extent to at least meet their EAP commitments and where possible to outperform them. The symmetrical incentive accepted by Ofgem for NGET and NGGT appears to achieve this balance.

SPTQ5. Do you agree with our consultation position to reject the "RIIO-T2 System Outage Management Proposals to Reduce Constraint Costs"?

No response provided.

SPTQ6. Do you agree with our proposals on the PCDs? If not, please outline why.

No response provided.

SPTQ7. Do you agree that SPT's bespoke Net Zero Fund should be included in RIIO-ET2?

We note that this Net Zero Fund will provide £20 million of funding, on a use-it-or-lose-it basis, to provide funding on an application basis, to community projects that support low carbon initiatives with tangible outcomes that benefit vulnerable communities and contribute to the UK's Net Zero objectives. We note that this Fund builds upon the existing voluntary £20 million Green Economy Fund[7] that ends at the end of the RIIO-1 price control period.

We support this scheme given the evidence of strong stakeholder support and positive consumer Willingness to Pay for it. We also support the requirements for publishing information about applicants, project progress and outcomes. We note that Ofgem considered extending this funding programme to the other TOs, however, they were not in the same position as SPT as they had not the same experience as SPT had from its Green Economy Fund. Given the focus on Net Zero in RIIO-2 we think it would be a missed opportunity if NGET and SHET were not in a position to enable similar projects given the scheme's focus on consumer vulnerability and the potential value it could return to local community groups. We would recommend Ofgem finding ways (perhaps via a reopener) to enable the other TOs to also undertake such a scheme during the RIIO-2 price control period, provided that there is demonstrable support for the scheme by the respective TOs' stakeholders and consumers.

SPTQ8. Do you have any views on the conditions we are proposing applying to SPT's bespoke output?

See our response to SPTQ7.

SPTQ9. Do you agree with our proposals on the CVPs? If not, please outline why.

In our Call for evidence response[8] on the Business Plans, we noted that we were not convinced that the various companies' CVPs, as a whole, demonstrated significant additional value for consumers. As such, the rejection by Ofgem of many of SPT's CVPs appears correct.

SPTQ10. Do you agree with our consultation position to accept the maximise benefit from non-operational land CVP?

See also our response to SPTQ2.

For questions SPTQ11 - SPTQ17:

No response provided.

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[7] The T1 Green Economy fund is valued by SPT at £20 million on a like for like basis.

[8] Citizens Advice, Response to the Ofgem call for evidence on the Electricity Transmission, Gas Transmission, Gas Distribution and Electricity System Operator Business Plans for RIIO-2, February 2020,

SPTQ18. Do you agree with the level of proposed NIA funding for SPT? If not, please outline why.

We note that Ofgem are proposing to accept £10 million of the £13.5 million NIA funding requested by SPT. We note that the projects considered are those that Ofgem believes will require NIA funding to proceed, due to high risk or not delivering benefits during the price control period. We have no objection to the level of funding proposed.

6. SHET Questions

SHETQ1. Do you agree with our proposals on the bespoke ODIs?

We agree with the proposals to accept the 3 bespoke ODIs (Energy Not Supplied Compensation Scheme, and the 2 international benchmarking ODI-Rs). The ENS Compensation Scheme continues a RIIO-1 scheme to compensate customers that face the higher risks of outages due to the SHET network's particular features. We note that the common sector ENS incentive scheme should incentivise improvements to supply security in the SHET area. The 2 benchmarking ODIs are both reputational and aim to demonstrate high performance against international targets. We support this benchmarking and note Ofgem's requirement that reporting is open and transparent, and should be administratively light so as not to be costly for consumers.

SHETQ2. Do you agree with our consultation position to reject the 'RIIO-2 System Outage Management Proposals to Reduce Constraint costs?

No response provided.

SHETQ3. Do you agree with proposals on the bespoke PCDs? If not, please outline why.

No response provided.

SHETQ4. Do you agree with our proposals on the CVPs? If not, please outline why.

In our Call for evidence response[9] on the Business Plans, we noted that we were not convinced that the various companies' CVPs, as a whole, demonstrated significant additional value for consumers. As such, the rejection by Ofgem of many of SHET's CVPs is consistent.

SHETQ5. Do you agree with our proposal to approve the Biodiversity No Net Loss / Net Gain CVP and do you agree with our proposal to re-quantify the value of it?

Biodiversity is a valuable additional aim for SHET and we support the proposal to approve the CVP. We welcome further analysis of the value for this CVP to ensure that consumers are paying for an outcome that they value at an appropriate cost.

For questions SHETQ6 - SHETQ11:

We are aware of the growth of connected generation in the region. Firstly, the UK Government has set out potential changes to the next round of renewable subsidies, the Contracts for Difference (CfD), which is likely to result in significant growth in renewables looking to connect to our network in the RIIO-T2 period. This includes the potential reintroduction of onshore wind as well as changes that could improve the competitiveness of remote island wind.

Secondly, Crown Estate Scotland has set out extremely ambitious offshore wind leasing plans, Scotwind, which is likely to result in significant demand for future renewable connections and the need for major strategic reinforcements to connect and transport that power, alleviating current and future grid constraints.

But we recognise that SHET need to provide compelling evidence to Ofgem for funding of their network.

Its important that the evidence provided by SHET for funding is high quality, and then Ofgem provide the right level of funding for security of supply. This is important for consumers particularly in the North of Scotland. Transmission faults, whilst thankfully rare, can have far-reaching impacts on homes and businesses, significantly more so than faults on the local electricity network. Some recent examples of this are:

[9] Citizens Advice, Response to the Ofgem call for evidence on the Electricity Transmission, Gas Transmission, Gas Distribution and Electricity System Operator Business Plans for RIIO-2, February 2020,

- The snow storms that resulted in the collapse of transmission towers in Argyll in March 2013 which resulted in thousands of homes and businesses in Arran and Kintyre being off supply for up to a week.
- A 'blackout' affecting over 200,000 customers in the north of Scotland in April 2014 resulting from a single fault in a substation, with many homes and businesses off supply for up to eight hours.
- The collapse of a transmission tower following a landslip at Quoich in December 2018 which resulted in faults affecting over 20,000 homes and businesses on Skye and the Western Isles.

SHETQ12. Do you agree with our proposal to accept SHET's subsea cable repair re-opener?

We note that the majority of SHET's UM proposals have been rejected as they have been largely covered by common UMs for the sector, been included as baseline funding, or were rejected due to lack of detail. The single accepted UM subsea cable repair re-opener covers the risk from high cost low probability events, such as sub-sea faults or unforeseen damage revealed by inspections. We agree that this re-opener appears to be a reasonable mechanism to address this risk as such a fault may have material consumer impacts.

SHETQ13. Do you agree with the level of proposed NIA funding for SHET? If not, please outline why.

We note that Ofgem are proposing to accept SHET's NIA funding request in full (request of £8 million) and note that the projects considered are those that Ofgem believes will require NIA funding to proceed, due to high risk or not delivering benefits during the price control period. We have no objection to the level of funding proposed.

7. Gas Transmission Questions

GTQ1. Do you agree with the outputs package that we are proposing for the GT sector?

We note that the outputs package is aligned to cover all 3 Business Plan output categories (Meeting the needs of consumers and network users, Deliver an environmentally sustainable network, Maintain a safe and resilient network). We were supportive of the 3 output categories in our Sector Specific Methodology consultation response[10], as we believed that they had consumers' needs at their heart.

We note the GT2 proposed outputs package, which has 16 common outputs, and 10 bespoke outputs. We support the use of common outputs where there is similarity in approach cross-sectorally, which should promote cost efficiency for companies and Ofgem in managing these outputs. We also support the approach of using bespoke outputs to manage particular risks relevant to NGGT, for instance, decommissioning or environmental aspects, or for specific projects at an early stage of development.

It is important that monopoly network companies are operated in a way that demonstrates good corporate social responsibility and in a way that minimises their environmental impact. They have an important role to play in society to reduce this impact, lead by example and contribute to the Net Zero transition. It is therefore appropriate for consumers' money to be spent where it is proportionate. Ofgem should ensure that progress made in RIIO-1 is banked for consumers, that incentives are proportionate to the outcomes, and that uncertainty mechanisms are used effectively where solutions are less known or available.

We welcome the inclusion of many of the areas into NGGT's baseline allowance to help reduce its BCF and resource use while increasing biodiversity and natural capital. We welcome Ofgem's acceptance of many of NGGT's EAP commitments. However, we note that NGGT has proposed to replace 30% of its fleet with EVs while Ofgem have accepted NGET's proposal to replace 60% of its fleet, SHET's proposal to replace 50%[11] and SPT's to replace 100%. We would urge Ofgem to ensure it is satisfied that targets proposed are comparable where appropriate.

Ofgem proposes to accept the Environmental Incentive for NGGT with a number of changes. Ofgem's intention to recalibrate the incentive rate appears to ensure that rewards are proportionate to the outcomes and we welcome Ofgem's flexibility in consulting on two options which can be combined to ensure rewards are appropriate and proportionate. Our preferred option is to equate the incentive to the economic value of the disbenefit/benefit arising from the

[10] Citizens Advice, Response to the Ofgem RIIO-2 Sector Specific consultation, March 2019.
[11] SHET has lower target (50%) compared to NGET due to license area, topography and EV charging infrastructure

performance level in each area. We believe this represents better value to consumers.

We note that Ofgem's proposed changes to the bespoke ODI-F are similar to that taken for NGET. Ofgem proposes to reduce the weight of the 3 metrics relating to waste, recycling and resource use as it did for NGET. While this does seem appropriate and proportionate we would urge Ofgem to ensure that it is satisfied that where financial rewards are available they would not act as a double reward where an activity also reduces operational costs.

We note that Ofgem proposes to change the greenhouse gas emissions scheme to a symmetrical incentive. Given the environmental impact it is appropriate to incentivise this where it is proportionate to the outcome.

As stated elsewhere, we encourage Ofgem to consider the value of an annual environmental showcase event for gas distribution and transmission companies to present their progress on EAP commitments and company and sector specific measures such as the greenhouse gas emissions scheme for gas transmission. There is heightened stakeholder interest in this area and a need for greater scrutiny of companies' progress to decarbonise their business operations and their key role in the Net Zero transition.

GTQ2. Do you agree with our overall approach to cost assessment in the GT sector?

In our response to the Sector Specific Methodology consultation[12], we noted that we supported, in principle, the aim to evolve the cost assessment measures in GT1 for GT2. As such, we are in agreement with the proposed evolution of the cost assessment process which builds upon the work of the GT1 price control. In particular, we welcome the ongoing robust scrutiny that Ofgem is proposing to use to ensure that there is cost efficiency, including the requirement for Capex needs cases to be supported by comprehensive Engineering Justification Plans (EJPs). We note the additional work undertaken by Ofgem, using Atkins Consultancy, to assess the EJPs and the aim to manage risks to the consumer of over- or under-delivery through the proposed Uncertainty Mechanisms and other delivery mechanisms, such as PCDs. We believe that protecting consumers from the risks of over-paying for assets or paying for stranded (under-utilised) assets will be mitigated through the use of rigorous costs benchmarking, use of EJPs, the Uncertainty Mechanisms, and specific PCDs. The uncertain scope of

[12] Citizens Advice, Response to the Ofgem RIIO-2 Sector Specific consultation, March 2019.

work or costs for many projects which are still at an early stage, are therefore suitable for Uncertainty Mechanisms, such as re-openers, and we support their use.

We note that where there can be consistency in approach, such as in cyber or physical security costs assessment, that this is undertaken using a common cross-sector approach. We believe that this is an appropriate methodology to minimise costs to the consumer via Ofgem's and companies' cost-efficiencies through procedural familiarity.

We support the proposed ongoing efficiency challenge of 1.2% per annum for Capex and 1.4% for Opex to drive innovation and efficiencies within BAU.

GTQ3. Do you agree with the UM package that we are proposing for the GT sector?

See our response to GTQ2.

8. NGGT Questions

NGGTQ1. Do you agree with our proposals for the Customer Satisfaction ODI-F?

In our SSMC response[13], we noted that we supported a financial incentive for Customer Satisfaction for NGGT to drive the service level that customers want. We also noted that we wanted the incentive to improve upon RIIO-1 customer service levels. As such, we are pleased to see the retention of this ODI-F and the setting of higher, but apparently achievable, targets for GT2. We note the symmetrical nature of the incentive (+/-0.5% of Base Revenue) which we support.

For questions NGGTQ2 - NGGTQ5:

No response provided.

NGGTQ6. Do you agree with our proposals for the GHG emissions incentive?

[13] Citizens Advice, Response to the Ofgem RIIO-2 Sector Specific consultation, March 2019.

It is important that monopoly network companies are operated in a way that demonstrates good corporate social responsibility and in a way that minimises their environmental impact. They have an important role to play in society to reduce this impact, lead by example and contribute to the Net Zero transition. It is therefore appropriate for consumers money to be spent where it is proportionate.

We note that Ofgem has proposed to amend the GHG emissions incentive in light of Net Zero legislation and the greater role that networks should play in reducing the environmental impact of their operations. It appears appropriate and proportionate for the incentive to become symmetrical. Increasing both rewards and penalties as a result of increasing the venting equivalent factor and tying it to the BEIS non-traded carbon price also seems appropriate and should drive greater focus and effort in reducing emissions.

NGGTQ7. Do you agree with out proposals for the NTS Shrinkage incentive

Reducing the cost and amount of shrinkage on the NTS is important and represents an area where NGGT should do what it can to minimise both. We note that Ofgem has employed external consultants to conduct extensive analysis of both the NTS shrinkage incentive in GT1 and also the proposals presented by NGGT in its Business Plan in response to Ofgem's position in the SSMD.

Where financial rewards are based on outcomes which cannot be clearly attributable to a company's actions then it is right for Ofgem to take decisions to amend or remove the incentive mechanism. Given the extensive and detailed analysis of the incentive we support Ofgem's decision to change the incentive to reputational only and to include new requirements for example on investigating the causes of 'unaccounted for gas' (UAG) and 'calorific value shrinkage' (CVS). However, we would urge Ofgem to monitor whether the reputational incentive is driving the outcomes it expects and take further actions where necessary.

NGGTQ8. Do you agree with our proposals on the bespoke ODIs? If no, please outline why.

We note that Ofgem has accepted 2 bespoke ODIs and rejected 5. We agree with Ofgem's proposed decisions and note the duplication of some proposed ODIs with existing common reputational ODIs and some licence obligations. We support the acceptance of the environmental ODI-F and make further comments in response to GTQ1.

We support Ofgem's acceptance of the proposed stakeholder satisfaction survey ODI-R. As stated in our Executive Summary and General Comments we also suggest that Ofgem considers an ODI-F stakeholder engagement incentive in RIIO-2 to incentivise companies to reach a consistent best practice level, reward exceptional engagement practices, and further embed stakeholder engagement within the company activities.

NGGTQ9. Do you agree with our proposals for the Environmental incentive?

See our response to GTQ1 where we have addressed our views on this output.

For questions NGGTQ10 - NGGTQ13:

See our response to GTQ2 where we have addressed our views on outputs, incentives, and UMs in outline.

NGGTQ14. Do you agree with the proposal to reduce entry baseline capacity at St Fergus?

No response provided.

NGGTQ15. Do you agree with the proposal to reduce entry baseline capacity at Theddlethorpe?

No response provided.

NGGTQ16. Do you agree with our proposals on the CVPs? If no, please outline why.

We note that Ofgem considers that NGGT has failed Stage 1 of the BPI and is therefore ineligible for any CVP rewards. We have provided comments on the CVP in light of this fact and that the CVP rewards would only become relevant should the BPI Stage 1 situation be amended to a 'Pass'.

Ofgem would have approved 2 CVPs if NGGT had passed Stage 1 of the BPI. The 2 CVPs are:

- Natural environment improvements, where the value of non-operational land is enhanced by 10% over the course of RIIO-1, delivering £1.75 million in community and environmental benefits.

- Community initiatives, where 0.3% of major project spend is committed to consumer-led community improvements, delivering £0.6 million through community benefits.

In both cases, Ofgem decided that both of these schemes delivered benefits beyond BAU. We note that 6 further CVPs were rejected for reasons given for the rejection of other network companies' CVPs, namely that the work should be covered by BAU, or the needs case or detail was not sufficient, or it represented work covered under an existing licence obligation. We support the rejection of these CVPs.

NGGTQ17. Do you agree with our consultation position to allow (subject to eligibility under the BPI) the natural environment improvements CVP?

We note that the natural environment improvements CVP is mirrored by similar proposals for NGET and SHET and welcome the ongoing work of Ofgem with all 3 companies to establish a common methodology for evaluating consumers' value for biodiversity. We support the CVP (subject to eligibility under the BPI), as we believe that this CVP had stakeholder support, was relatively inexpensive and makes good use of non-operational land to improve biodiversity. We support the use of a pro-rata clawback mechanism to ensure that consumers do not pay for projects that are incomplete.

NGGTQ18. Do you agree with our proposal to re-quantify the value of the CVP?

See our response to NGGTQ17.

NGGTQ19. Do you agree with our consultation position to accept (subject to eligibility under the BPI) the community initiatives CVP?

We note that the value of the reward for the community initiatives CVP is £0.22 million and will provide benefits of £0.6 million. We support the clawback mechanism to incentivise delivery of the projects and to ensure consumers do not pay for uncompleted projects. Given the relatively small cost, the strong stakeholder support, and the community benefits that are to be provided by these projects, we support this CVP.

For questions NGGTQ20 - NGGTQ32:

No response provided.

NGGTQ33. Do you agree with our proposed approach to assessing risk?

We have noted the principles outlined at 3.470 of the NGGT document and support the approach taken by Ofgem to assess the risks for projects.

For questions NGGTQ34 - NGGTQ38:

See our response to GTQ2 where we have addressed our views on UMs in outline.

NGGTQ39. Do you agree with the level of proposed NIA funding for NGGT? If not, please outline why.

We note that Ofgem are proposing to accept £20 million of the £30.9 million NIA funding requested by NGGT. We note that the projects considered are those that Ofgem believes will require NIA funding to proceed, due to high risk or not delivering benefits during the price control period. We have no objection to the level of funding proposed.

9. Gas Distribution Sector Questions

Output consultation questions

GDQ1. Do you have any views on our common outputs that haven't been covered through any of the specific consultation questions set out elsewhere in this chapter? If so, please set them out, making clear which output you are referring to.

Minimum standards

We have no sight of the new Licence Condition relating to consumer vulnerability minimum standards, which needs to be in place before GD2 starts. In our response to the Sector Specific Methodology Consultation[14] we advocated for a principles-based Licence Obligation (LO) which should go a long way to embedding support for customers in vulnerable circumstances, whilst leaving GDNs the freedom to develop best practice.

Customer satisfaction survey

With respect to the customer satisfaction survey proposed ODI-F, we note that there are no questions within the consultation regarding this incentive scheme, however, we have the following comments:

- We welcome the continuation of a financial incentive scheme to focus attention by the GDNs on improving customer satisfaction. We believe that the incentive in GD1 has driven positive change in company behaviour and we favoured a reward/penalty incentive scheme to more closely mirror the commercial environment.

- We welcome the focus on having rewards for stretching and improved customer satisfaction scores from GD1 to further drive increased customer satisfaction and to embed those improvements already achieved in GD1.

[14] Citizens Advice, Response to the Ofgem RIIO-2 Sector Specific consultation, March 2019.

- In our response to the Sector Specific Methodology Consultation[15], we had supported Ofgem's suggestion for a dynamic target, however, have noted that Ofgem are intending to use a fixed target system. As there are protections within the ODI-F mechanism to reward only upper quartile performance improvements, we are supportive of the fixed targets proposed.

- We also advocated for segmented customer satisfaction surveys so that the views of those on the Priority Services Register (PSR) would be captured. We note that this was not possible for the trial, but that it will be reported via the consumer vulnerability ODI-R. We would still welcome a firmer incentive mechanism for segmented survey results that have PSR customers as a distinct segment.

Complaints

The proposed penalty-only financial incentive mechanism for complaints is welcomed as we believe that a customer needing to complain is a sign of company failure and should therefore be mirrored in a penalty-only regime. We note that the targets set for GD2 appears to have been set within the range of average scores achieved in GD1. While the proposed GD2 target will maintain improvements that have been made within GD1, we did advocate within the Sector Specific Methodology Consultation response for a target that aimed for an improved service. As such, we are disappointed in the target that appears to only maintain current levels of performance.

We would urge Ofgem to consider that with all companies performing better (lower) than 5 in 2018-19, the current target allows headroom for performance to worsen without any risk of penalty. This would not necessarily drive improved performance. We are also concerned that if the maximum penalty of 0.5% of baseline revenue is only applied if scores are 10 or above, then this may not be stretching enough. Scores above or near 10 have not been recorded by companies since 2016-17 and since then average scores have improved continually, especially among the worst performing licensees. The four worst licensees in 2016-17 recorded an average score of 9.99. In 2018-19 the same 4 licence areas recorded an average score of 3.48, representing significant improvement[16]. To drive companies to ensure performance does not reach those levels and to particularly incentivise worse performing companies, a more

[15] Citizens Advice, Response to the Ofgem RIIO-2 Sector Specific consultation, March 2019.
[16] Citizens Advice analysis of RIIO-1 Gas Distribution Annual Report 2018-19, Supplementary Data File 2018-19, July 2020

stretching target (less than 10) would be appropriate to increase both the risk and value of penalty for performance deteriorating below the minimum.

Emergency Response

We welcome the revisions to the Emergency Response LO to include requirements for those attending as first responders to have completed sufficient training to deal with the situation competently and appropriately, and that the companies must be able to demonstrate that those attending gas escapes are able to deal with the situation competently and appropriately.

Unplanned interruptions

We note the ODI-F proposed to ensure that companies do not allow the duration of unplanned interruptions to deteriorate. We note that Cadent North London has an additional separate ODI-F to cover the MOB situations in its area. In our Sector Specific Methodology Consultation response[17], we advocated for a more stringent penalty regime for unplanned interruptions as we felt that the existing GSOP and other incentive mechanisms for this issue was insufficient to encourage GDNs to meet even the minimum requirements. As such, the use of an ODI-F penalty mechanism is welcomed which will hopefully provide the encouragement needed for companies to perform better in this area.

In particular, we note that there is a minimum performance level, which we support, and that the penalty value could be up to 0.5% of Base Revenue, which should provide incentive for GDNs to meet minimum levels. We also support the Excessive Deterioration level procedures where companies are required to submit a report outlining the causes of such breaches and any mitigating actions taken. We are supportive of the MOB-specific incentive regime for Cadent North London. In our Sector Specific Methodology Consultation response, we advocated for a separate regime for MOB unplanned interruptions. We note that the regime has been applied to only 1 licence area and understand the rationale for selecting Cadent North London given prior difficulties in this area. However, we would advocate for a wider application of the MOB ODI-F for unplanned interruptions to all GDNs. We welcome the proposed consultation on the RIGS to aim to achieve consistency in reporting across GDNs for unplanned interruptions.

Priority Services Register

[17]Citizens Advice, Response to the Ofgem RIIO-2 Sector Specific consultation, March 2019.

We note Ofgem's consideration that the collaboration element of the UIOLI allowance (25%) could be used to deliver a cross-sector and cross-utility PSR. We would welcome assurances from Ofgem that efforts to drive changes to the scope of the PSR or an equivalent register whether or not it is GDN-led could be funded via the UIOLI allowance.

Impact of COVID-19 on outputs decisions

Ofgem has made many decisions about proposed bespoke outputs on the basis that the funding for the activity could be sourced from the UIOLI allowance totalling £30 million with 25% ring fenced for collaborative projects. We are mindful that the decision regarding this allowance was made in May 2019. We are now in a situation where COVID-19 has resulted in lockdowns, economic recession and has put a spotlight on vulnerability and especially transient vulnerability. This puts into question how those in vulnerable situations are identified, the level of services required to support consumers, and increased affordability issues. In light of this there are also potential changes in energy consumers' willingness to pay preferences and recognition of the importance that services to those in vulnerable situations can play in providing support[18]. We would urge Ofgem to consider whether the decision it took regarding the size of the UIOLI allowance last year is still appropriate given the events that have taken place since.

Use it or lose it allowance

We are aware from the GD2 customer and social working group of a number of Ofgem's considerations on how the UIOLI allowance may be administered. We note that Ofgem intends for the company proportion of the UIOLI allowance to be included in baseline allowances and for projects that make use of this funding to be 'registered' with Ofgem. We note that it is not clear at this stage that Ofgem would give explicit approval for a project. Ofgem rightly has clawback mechanisms for projects that do not produce the intended outputs and that may not be considered eligible according to guidance. We are concerned that when combined, these two elements could cause GDNs to be too cautious in the projects they register because of the risk of clawback and the lack of positive incentive. This would be detrimental to the services offered to customers in vulnerable situations. We would encourage Ofgem to ensure guidance is clear, encourages improvement on GD1 activities, and differentiates clearly where NIA funding for vulnerability activities is more appropriate. We

[18] Citizens Advice, "Meeting Net Zero", p.4, and Europe Economics, "Impact of COVID-19 crisis on appropriate risk allocation mechanisms for highly anticipatory infrastructure investments in the energy sector", p.12, 2020.

would urge Ofgem to consider whether it is appropriate to give more formal approval for projects to mitigate these risks.

We also note from working groups Ofgem's consideration that the UIOLI allowance should not fund activities where there are already funding sources. We would urge Ofgem to consider that availability of funding may not be equal across all GDN licence areas, and that activities rewarded through GD1 already have crossover with DNO activities in ED1, for example energy advice. There is also a strong possibility that alternative funding sources can be exhausted and GDNs and their partners may not be able to make use of them even where present. We agree with Ofgem's intentions to ensure that consumers' money is being spent efficiently and effectively. However, the right balance should be struck so as not to exclude GDNs from proposing both banked GD1 activities that customers and stakeholders would expect but also new and innovative projects.

GDQ2. What are your views on the reporting metrics we have proposed for the consumer vulnerability ODI-R?

In our view the metrics proposed, while useful, do not provide enough focus on consumer outcomes for activities intended to lift households out of fuel poverty. We note Ofgem's rejection of a metric on the number of households receiving FPNES connections evidenced to be in fuel poverty due to concerns about intrusiveness. However, such metrics are common in other processes of delivering energy advice and support for household energy efficiency measures, for example in the third sector. Such a metric would help to ensure that efforts and improvements to target FPNES connections can be evidenced as being effective, and that the scheme is lifting households out of fuel poverty as it is intended to.

We share Ofgem's concern regarding a metric on the number of referrals to the PSR as we believe focus should not solely be on quantity but also on the quality of those referrals and the services offered to customers on the PSR. However, Ofgem should consider a metric that demonstrates the PSR reach by needs code. The ED2 SSMC proposes that DNOs as a baseline standard proactively target the advertising of the PSR based on gaps in PSR reach. Such a metric would drive companies to focus on driving PSR registrations according to the needs of their licence area and the needs of their customers.

We note the absence of a common SROI metric. SROI metrics would be a valuable point of assessment, transparency and scrutiny, ensuring value for money and benefit for consumers. We understand that SROI is being considered for inclusion as part of the registration process for UIOLI projects. This is beneficial and it is important that as far as is practically possible, SROI methodology is common across GD2 and ED2. We are aware that there are efforts by both GDNs and DNOs to develop SROI tools. Ofgem should clarify its expectations and intentions for a tool to be developed and for it to be common across both price controls before final determinations are made.

GDQ3. What are your views on the design of the annual showcase events, including whether they should be held at a national or regional level?

We support the first showcase event taking place in 2021-22 to encourage early engagement with stakeholders. However, the plan for GDNs to organise these events provides some flexibility of exactly when events would take place. Ofgem should ensure that GDNs present consistent, complete and comparable data at each event. It may therefore be useful for Ofgem to consider the timing of showcase events in relation to the intended timelines for reporting on common metrics (for example RIGs, RRPs) and the publication of reports (for example, annual reports). Ofgem should also ensure that the events are well publicised, to include a wide range of cross sector and third sector organisations.

We look forward to the opportunity to contribute in discussions about what further requirements would make showcase events most effective. We believe that showcase events should be an opportunity for GDNs to showcase their activities and successes, but to also be an honest reflection on where things have not worked as well and to be open to scrutiny. Events should be a listening exercise for both stakeholders and GDNs and should provide similar levels of scrutiny as the Ofgem Open Hearings are intended to achieve. Consideration should be given to how holding such events would take place if COVID-19 still prevents attendance in person.

In order to enable the greatest level of opportunity for attendance and therefore scrutiny, events should be regional and should be free for attendees. Both attendees and those organising the events should be representative of the consumers networks seek to serve. Showcase events should also be independently chaired and guidance should require explicit reporting on certain common metrics and information to ensure progress updates are provided on all registered activities funded by the UIOLI allowance and the NIA where it relates to consumer vulnerability.

As stated in Q9, we think there is value in an equivalent annual environmental showcase event for gas distribution and all transmission companies to present their AERs, the progress they are making to decarbonise their business operations and the key role they are playing in the Net Zero transition.

GDQ4. Do you agree with our position to change the FPNES from a PCD to a capped volume driver?

We welcome the continued support of the FPNES scheme to assist those that are off-grid and in fuel poverty, as we had advocated for its continuance in GD2 within our response to the Sector Specific Methodology Consultation[19]. However, we are concerned about the change in delivery model from a PCD to an ODI-R. We believe this change results in a weaker incentive for companies to deliver, especially as some companies already struggled to meet their annual targets in GD1[20]. We are concerned GDNs will not have the same level of incentive to deliver in GD2. A PCD to deliver targets in the business plans with a financial penalty for non-delivery would provide a stronger incentive and reassurance that GDNs would deliver. We would like Ofgem to provide clarity on why they think an ODI-R will ensure delivery by GDNs. If Ofgem continues to use an ODI-R for the scheme then we support the introduction of a volume driver which could help extend the delivery past company targets.

To achieve the best value for money, and increase the impact of the scheme by lifting people out of fuel poverty, better targeting is vital. Our support is based on the condition that the targeting rate (currently estimated to be at 30%) is improved and reported against. These connections for fuel poor homes are cross-subsidised by all gas bill payers.

Ofgem should ensure that FPNES eligibility criteria are effective and reflect the best practice and criteria of existing schemes that help to enable fuel poor connections to be made. This would ensure that FPNES is not hindered by incompatibility with other schemes. In particular this should reflect criteria for ECO, ECO flex, and those policies in devolved nations, for example Nest in Wales, where there is now health-based eligibility. Widening criteria to meet local schemes like this could help the scheme meet targets and make use of the volume driver.

[19] Citizens Advice, Response to the Ofgem RIIO-2 Sector Specific consultation, March 2019.
[20] Ofgem, RIIO-1 Gas Distribution Annual Report 2018-19, 2020.

We understand Ofgem's consideration of controlling the number of new gas connections. We also understand that Ofgem are considering their responsibility to help decarbonisation by ensuring that FPNES connections are made only where a gas connection is identified as the 'best option' for the customer. It is not clear at present how cost, carbon emissions, household circumstances and other factors would be weighted in such an assessment. We do support the intention to ensure that customers receive tailored solutions that are best for them, help to lift them out of fuel poverty, and where possible are best for the environment. However, Ofgem should ensure that this does not disproportionately hinder the ability of GDNs to use FPNES to help lift their customers out of fuel poverty. It would seem appropriate for assessments to be made by an independent party but we do not have evidence of what or who is best placed to do this.

We would also urge Ofgem to consider how GDNs could be encouraged to propose new and innovative ways to lift those out of poverty who they can identify with FPNES identification methods, but may not be able to deliver new gas connections to. This could mean for example signposting via partners to low carbon heating technology where this is identified as the best option for a customer. There are opportunities to go further to explore low carbon or hybrid heat solutions. A gas connection is just one of many solutions that can help a household out of fuel poverty, and concerns around the carbon impact remain.

GDQ5. For GSOP3, is a 48 hour exclusion period for the provision of access to hot water and food in the event of a major incident appropriate? Should this be extended to cover interruptions that are not a major incident?

We welcome the proposals to revise the GSOP regime, including updating some specific GSOPs, to have automatic payment, to have a doubling of GSOP and cap amounts, and to update the GSOP payments and caps by CPIH. Many of these points we advocated for in the Sector Specific Methodology Consultation response and we are pleased to see their inclusion, particularly automatic payment.

We note that some GDNs put forward proposals for bespoke ODIs relating to GSOPs but agree with Ofgem's approach to not have bespoke ODIs but proceed with a comprehensive common revision of the GSOPs as this will facilitate clarity for consumers. We are in agreement that GDNs wishing to go further than the GSOPs should use company shareholder funds, rather than funding these via consumer bills. We are, however, disappointed that caps for GSOPs remain. In the Sector Specific Methodology Consultation response, we supported an option for compensation caps to be removed to ensure that the worst affected customers receive appropriate compensation for the poorest performance. The lifting of payment caps would also be in line with the electricity distributors' methodology. A doubling of the caps and an ongoing link to CPIH is welcomed, however, we still would welcome removal of GSOP caps for the reasons given. We welcome the consultation proposed for Statutory Instrument changes for GSOPs in Autumn 2020.

We note Ofgem's proposed 48 hour exclusion period. As GSOPs define the minimum standards expected by Ofgem we would urge Ofgem to set out in its final determinations the evidence that GDNs have submitted. Ofgem should set out clearly the reasons that it has confidence that a 48 hour exclusion is not unachievable but is also not a slower speed of response than GDNs can already reasonably achieve in response to interruptions during GD1, and is expected in other sectors.

We welcome Ofgem's question about whether the amended GSOP3 should be extended to cover interruptions that are not a major incident. We understand that GDNs submitted consumer evidence that supports this extension of GSOP3. We would therefore urge Ofgem to further clarify whether the consumer support was to only ensure support was provided to PSR customers in this way if more than 250 customers in total were affected by an interruption. Interruptions can exacerbate a customer's vulnerability and some may not be able to prepare for, or respond to an interruption in a way that ensures their needs are met. It would therefore seem appropriate that Ofgem explores the option of extending this level of support to PSR customers when triggered by a lower interruption threshold, or irrespective of the number of customers affected.

Ofgem proposes to extend the duration period for payments for failure to provide alternative heating and cooking facilities. We support Ofgem's intention to drive GDNs to ensure that once a GSOP has been missed, services are still provided to customers who need them. Given the four or eight hour current standard, we would urge Ofgem to consider whether allowing a further 24 hours between each subsequent period for which services are not provided would drive GDNs to be doing all they can to provide services as urgently as possible. It is possible that if the 24 hours commenced after the four or eight hours had lapsed that this would still represent a significant lag in the support provided from the initial interruption.

GDQ6. In relation to our proposal to extend quotation GSOPs on entry and exit connections, is it sufficient – in regard to green gas entry enquiries – for these GSOPs to apply to the provision of initial and full capacity studies? Are there other parts of the green gas entry process we need to consider to ensure an improved service provision?

No response provided.

GDQ7. What are your views on our consultation position to monitor the provision of and adherence to appointment timeslots for purge and relight activity through an ODI-R? Are our suggested reporting measurements reasonable?

We commend the bespoke outputs proposed by companies that led to this common ODI-R proposed by Ofgem. We believe that given changes in technology and consumer expectations, time slots should always be agreed with customers where possible. We agree with Ofgem that this ODI-R would be valuable in monitoring the reporting metrics proposed by Ofgem. We also agree with Ofgem that it is desirable to incentivise GDNs to provide smaller range timeslots where possible to ensure customers are informed and can make necessary arrangements.

We support the proposed reporting on the basis that we consider that the ODI-R should drive a standard of 2 hour timeslots. We note that Ofgem will not require compensation to be paid but has encouraged GDNs to do this voluntarily and source funds from company shareholders. We support this measure and encourage GDNs to ensure that their priority is to ensure that appointments agreed with customers are not missed. Lastly, we would urge Ofgem to ensure that to be meaningful, this reputational reporting is a requirement for the annual showcase event in addition to any further reporting.

GDQ8. Do you agree with our proposed option to provide Cadent and SGN with consumer funding through totex baseline or a financial ODI reward for collaborative streetworks activities?

We agree that a common approach is necessary to incentivise the co-development of efficient collaborative processes and ultimately, to incorporate these processes into both companies' business as usual streetworks. We would like to see a consistent target and metric across both companies to be developed. We support the case for an ODI reward, either financial or reputational, to be used as a reward for the collaborative streetworks activities. If a financial ODI is used then caps and collars should be used to protect consumers, and companies, from excessive gain or loss.

GDQ9. How should we set targets for the shrinkage financial incentive?

As we stated in our SSMC response, we welcome an increased focus on the issue of shrinkage and environmental emissions for GD2 and the wide-ranging output mechanisms that are proposed for GD2. Shrinkage contributes a significant proportion of GDN's business carbon footprint and it is important that proportionate incentives are in place to drive companies to reduce this element of their environmental impact.

From the information provided in the draft determinations, it seems appropriate to set targets based on an average of the values recorded in 2017-18 to 2019-20 to ensure that weather variations and the effects COVID-19 are reflected. We would, however, encourage Ofgem to ensure that the targets remain stretching to ensure incentives are proportionate and justified. This could, for example, mean setting targets at a particular quartile or percentile above average.

GDQ10. Do you have any views on what clarifications are needed to ensure a consistent method of calculating the benchmark shrinkage volumes?

No response provided.

GDQ11. Do you think a deadband should apply to the financial incentive? If so, please provide evidence as to how this could be quantified.

No response provided.

GDQ12. What are your views on our consultation position for the four GDNs' EAP proposals in RIIO-2 as set out in this document?

It is important that monopoly network companies are operated in a way that demonstrates good corporate social responsibility and in a way that minimises their environmental impact. They have an important role to play in society to reduce this impact, lead by example and contribute to the Net Zero transition. It is therefore appropriate for consumers money to be spent where it is proportionate. Ofgem should ensure that progress made in RIIO-1 is banked for consumers, that incentives are proportionate to the outcomes, and that uncertainty mechanisms are used effectively where solutions are less known or available.

We therefore welcome the introduction of the Environmental Action Plan (EAP) and Annual Environmental Reporting (AER) for RIIO-2 which will provide greater levels of focus for companies to reduce their environmental impact and provide greater detailed scrutiny of the progress made by companies. We broadly agree with Ofgem's position to accept all of the GDN's EAP commitments across the seven commitment areas. We also support the additional conditions that Ofgem has placed on companies in order to seek clarifications and confidence in what companies have proposed. These amendments demonstrate high levels of detailed scrutiny. We further welcome the inclusion of the ODI-R for shrinkage in the AER and the introduction of a common ODI-R for BCF reduction targets.

We also encourage Ofgem to consider the value of an annual environmental showcase event as part of the ODI-R. We suggest that it would be similar to the consumer vulnerability showcase event proposed by Ofgem. RIIO-2 represents a crucial period in the path to Net Zero and with heightened stakeholder and customer interest, a more public facing showcase event could be valuable in providing a platform for companies to demonstrate how they have decarbonised their own business operations and played a key role in the Net Zero transition on their network.

Incentivisation

We are concerned that Ofgem has proposed to accept the 2 bespoke environmental ODI-F outputs from NGET and NGGT while leaving an incentivisation gap for the remaining electricity TOs and all GDNs. There is a level of similarity in some of the environmental actions that these companies can take and we have addressed the lack of consistent financial incentive for other electricity transmission companies elsewhere.

Gas distribution networks have a vital role to play in reducing their environmental impact and where incentives are well calibrated and proportional they can provide good consumer value. Ahead of final determinations, Ofgem should consider the merits of establishing an ODI-F that is calibrated similarly to those of NGET and NGGT to ensure that all companies subject to the AER have the same incentive to outperform their EAP commitments and avoid under-delivery.

Reducing business carbon footprint (BCF)

We note that although targets for business carbon footprint (BCF) are based on robust and science-based methodologies, direct comparisons between companies for these targets and across all EAP commitments remain difficult. As Ofgem itself has noted, companies have proposed different targets which are based on varying benchmarks. This will make comparative assessment challenging during RIIO-2. As much as possible target setting and benchmarking should be standardised to enable better scrutiny and comparison of company performance. We agree that information on what companies are doing to achieve their targets should be easily accessible and comparable. We therefore urge Ofgem to consider setting an earlier date for comparable and consistent AER reporting than “the end of GD2”. This would ensure data and information is comparable as early as possible, especially during such an environmentally critical price control.

We agree that companies should update their science-based targets to exclude leakage and present the expected reductions as described by Ofgem. However, we would see benefit in companies presenting BCF reduction targets both including and excluding leakage. This would benefit clarity and comparison of targets and ensure this significant source of BCF emissions is retained clearly within the scope of the Environmental Action Plan in addition to the ODI-R reporting.

Among the commitments to reduce emissions from building and energy use we note that Ofgem has accepted commitments that vary significantly in ambition. For example one company has committed to buying 100% renewable energy by the end of RIIO-2 while another has committed to achieving this from the start of RIIO-2. It would be beneficial if Ofgem could be more transparent about why such varying commitments have been accepted. More consistent commitments would ensure similar progress is achieved across the board, and we would also encourage companies to consider whether targets could be more ambitious.

Commercial fleet and charging infrastructure

We agree with Ofgem that network companies should be leading by example to convert their own internal combustion engine (ICE) fleets to low carbon emitting alternatives where this represents good value to consumers. This again represents an area where commitments are difficult to compare and seem to range in ambition. For example, targets to replace commercial fleet range from 25% to 50% during GD2. Where possible the price control should drive consistent outcomes. Where this is not possible, Ofgem should be clear in their determinations why different levels of ambition have been accepted.

For the reasons described by Ofgem we believe it may be in consumers' best interest to establish a commercial low emissions vehicle PCD. Should the information provided by GDNs lead to this decision, we would urge Ofgem to ensure that unit prices reflect any economies of scale and expected decreases in the costs of low emissions vehicles that may occur during the price control period.

<u>Sustainable resource use, recycling and waste</u>

We agree with Ofgem that GDNs should strengthen their ambitions in reducing embodied carbon by setting targets for reducing the amount of carbon embedded in new infrastructure and report appropriately on this through the AER.

We note that for resource use, recycling and waste, Ofgem has accepted proposals that vary from achieving zero avoidable waste to landfill in year one of GD2, to the end of GD2, with one company proposing to achieve this within the next 15 years. Ofgem should consider whether such a range in ambition is in consumers' best interests. We agree with Ofgem in encouraging SGN and WWU to be more ambitious and propose stretching targets in the area of removing single use plastics.

GDQ13. Do you agree with our consultation position to include progress on biomethane in GDN's AERs, alongside standard connections data?

Yes, we welcome the reporting. Biomethane has an important role to play in the decarbonisation of heat and therefore it is important that progress in this area by GDN's is recorded alongside AER's and connection data. We had hoped to see a stronger incentive for biomethane initiatives especially those that display an innovative approach to network development/planning for low carbon future (e.g. developing standards of service for connecting bio-methane producers and/or other low carbon technologies to the network). Without an incentive for encouraging uptake of greener gas, green gas connections will be only driven only by the market which may not be enough. Ofgem should take a greater lead in facilitating measurable environmental outputs and in driving the industry to help meet the UK's 2050 carbon target.

For questions GDQ14 - GDQ21:

No response provided.

GDQ22. What are your views on our proposal for a common PCD for capital investments?

We support Ofgem's proposal to allow £267 million of capital investments across all GDNs as part of this PCD. We consider that customers should be protected if GDNs do not deliver these specific projects in line with agreed specifications and a PCD mechanism enables funds to be returned to customers in this event. The commitment for independently audited engineering reports confirming the completion of each project as specified in the Business Plan provides a strong protection that this money will be used as intended. We think that a common PCD is appropriate because the discrete nature of these capital investments is consistent across the sector.

GDQ23. What are your views on our proposals for delivery, clawback and deliverables for the capital projects PCD?

We agree with Ofgem's proposals on clawback, it is important that consumer funds are protected.

GDQ24. Do you agree with our approach for funding physical security for the GD sector? And do you agree that in light of the proposed baseline totex that the physical security PCD is no longer required for the GD sector?

We have addressed our general views on funding physical security within our response to the Core Document Q18 and have no further comment for this question.

GDQ25. Do you consider that the enhanced obligations framework for exit capacity and the additional information being sought are appropriate?

We support changes to make the gas system more efficient overall as this will have benefits for consumers. Consumers will benefit from efficient and accurate capacity bookings from the NTS. We agree that formalising requirements will improve consistency. We would expect to see GDNs and NGGT follow a collaborative approach to optimise the use of existing capacity and to take account of whole gas system impacts.

Approach to Cost Assessment Consultation Questions

GDQ26. Do you agree with our proposal of using a top-down regression model?

We agree with the proposal.

GDQ27. Do you agree with our proposed approach to benchmarking modelled costs at the 85th percentile?

We agree with the proposal.

GDQ28. Do you agree with our proposed approach to estimating embedded ongoing efficiency and values calculated?

We agree with the proposal.

For questions GDQ29 - GDQ41:

No response provided.

GDQ42. Do you have any views on our common UMs that haven't been covered through any of the specific consultation questions set out elsewhere in this chapter? If so, please set them out, making clear which output you are referring to.

We have addressed our views of the overall approach to UMs within our responses to the Core Document questions at Q12 and Q13. For ease, we have repeated our main points here:

> "*We are supportive of the wide range of re-openers within the RIIO-2 price control, as we believe that they will offer a suitable mechanism to ensure that investments in assets are facilitated but also that consumers are protected from the risk of stranded assets or from paying unnecessarily high costs. When projects are in an early stage of development and the needs case or cost profile is not clear, the opportunity to delay until there is better information is valuable.*
>
> *We support the use of a common approach for re-openers (apart from the Coordinated Adjustment Mechanism (CAM) which has its own parameters) to give clarity and consistency for network companies in the re-openers' operation, including matters such as materiality thresholds, timings, the Authority's right to trigger re-openers at any time, and application windows. We note that there will be a further consultation on the guidance for re-opener processes and procedures and welcome this consultation to address any specific issues that may cause concern.*"

We note the range of UMs that have been adopted for the GD sector (15 mechanisms, including 4 Pass-Throughs, 2 Volume Drivers, and 9 Re-openers), the 15 Common UMs across all sectors (discussed within the Core Document), and the 1 bespoke UM (for Cadent on London medium pressure). In particular, we note that the GD sector is able to access the Net Zero re-opener which is available to support companies in responding to changes in government policy and wider consumer needs to deliver Net Zero requirements. We acknowledge that the GD sector UMs have been developed through engagement with GDNs following the submission of their Business Plans and appear to offer a broad set of mechanisms to address the variety of activities and projects that the GD sector will undertake in the next 5 years.

We have comments on a specific UM as follows:

- Costs related to gas theft - we are supportive of the changes to moving the costs of investigation and money recovered for gas theft into totex. By doing so, there is a higher incentive on GDNs to investigate gas theft and both consumers and companies will benefit from the recovery costs as well as the prevention of ongoing theft costs. We note that there will need to be a licence change to facilitate this approach.

GDQ43. What are your views on the proposed re-opener for Tier 1 stubs?

We note that the GDNs had differing approaches to addressing how to fund the costs of the Tier 1 stubs replacement programme, including totex, PCD and having a wait-and-see approach until the HSE review. We support the re-opener mechanism for this programme given the range of uncertainties relating to the scope, timing and costs.

GDQ44. What are your views on our proposal to introduce a <7bar diversions reopener?

No response provided.

GDQ45. What are your views on the triggers and windows for the MOBs safety reopener?

We note the proposal for a MOB re-opener. We support the re-opener which should permit GDNs to respond to any material changes in requirements relating to MOBs from required changes following reviews and consultations by the HSE, Ministry of Housing, Communities & Local Government, other regulators, or from the Hackitt report (post-Grenfell Tower review of Building Regulations and Fire Safety). We note that GDNs can trigger the re-opener at specific intervals in the second and third years of the price control, which appears a reasonable approach.

Ofgem should ensure that all reopeners are implemented as efficiently as possible, providing clear guidance in a timely manner to avoid any subsequent costs being passed onto consumers.

GDQ46. What are your views on our consultation position to address bespoke decarbonisation of heat re-openers through our proposed innovation stimulus, Net Zero and Heat Policy re-opener mechanisms?

We note that this re-opener has been developed following extensive stakeholder engagement including through the Ofgem RIIO-2 Decarbonisation Working Group. As such, the windows and triggers relating to this re-opener have had substantial scrutiny and opportunity for stakeholders to provide input, which is a welcome developmental procedure. We note that the triggers for the re-openers respond to a broad range of potential changes in matters such as government policy or regulatory requirements. The windows are in the earlier years of the price control (2022 and 2023), however, we support the rationale provided in the consultation that policy or other material changes proposed in the later years will be unlikely to have immediate implementation and therefore, funding can be adjusted for RIIO-3.

We are also aware of the availability of the Heat Policy and Net Zero re-openers which also provide opportunities for all GDNs to meet changes in policy, developments in hydrogen or other technologies. These wider and common re-openers appear preferable for efficiency purposes than having company-by-company re-openers. In particular, for large hydrogen projects, the use of the Heat Policy, Net Zero re-opener, and innovation funding (such as the SIF) should provide the responsiveness and scrutiny necessary to facilitate such projects, including ensuring that there is appropriate competition, all options are considered, collaboration is fostered, and that there is no duplication between the GDNs.

We note and support the establishment of the Net Zero Advisory Group (NZAG) (which includes membership of the National Infrastructure Commission and the Committee on Climate Change, among other stakeholders). The NZAG should assist in driving the right strategy for the GD sector and in selecting the correct type of UM or innovation funding programme.

As we noted in the Executive Summary and in response to Q23, there could be additional costs incurred by consumers as a result of the Net Zero reopener and we make recommendations on how Ofgem could anticipate this and provide some protection for consumers bills. Ofgem should ensure that all reopeners are implemented as efficiently as possible, providing clear guidance in a timely manner to avoid any subsequent costs being passed onto consumers.

GDQ47. What are your views on the questions set out in paragraph 4.57 of this document in relation to large hydrogen projects?

See our answer to GDQ46.

GDQ48. Do you have any other comments in relation to this section?

No response provided.

GDQ49. What are your views on our proposal to introduce a new domestic connections volume driver?

We support the proposal for a volume driver for new domestic connections. We note that the political and technological environment surrounding the use of gas in domestic dwellings is uncertain, and that the national and local governments may have changing positions with respect to the continued use of gas. As such, the volume driver for new domestic connections appears to be a reasonable response, and we note that 2 GDNs (Cadent and SGN) also proposed such a UM for their licence areas. A consistent and sector-wide volume driver is preferable to individual bespoke mechanisms.

GDQ50. What are your views on our proposal to continue with the large loads reopener?

We note the rationale for this proposed new large loads re-opener, namely:

- GDNs have presented evidence relating to the large amount of connection enquiries relating to peaking plant electricity generation, although the delivery of such projects is subject to capacity auction outcomes, which are beyond the GDNs' control.
- That a common re-opener is appropriate as the same uncertainty exists for all GDNs.

We note that the triggers and materiality threshold will avoid the re-opener being used repeatedly for smaller projects. We also note the extensive evidence that will need to be provided to trigger the re-opener, such as the new large load connection passing the Economic Test, that upstream reinforcement is required that is not chargeable to the new load, among other requirements.

Given the uncertainties surrounding potential new large loads, and the protections for consumers in the re-opener trigger requirements, we are supportive of this new re-opener.

GDQ51. Do you agree with our definition of a 'large load' to use for this re-opener?

No response provided.

GDQ52. Do you agree with our proposal to continue with a smart meter rollout reopener?

We support the proposal for a common GD-wide smart meter rollout reopener for the reasons given:

- Uncertainty relating to the timing and potential additional costs of the smart meter rollout.
- That the timing and size of the continued smart meter rollout is beyond the GDNs' control as it is dependent upon activity by suppliers.
- Flexibility that may be needed for timelines and targets due to COVID-19.

Ofgem should ensure that all reopeners are implemented as efficiently as possible, providing clear guidance in a timely manner to avoid any subsequent costs being passed onto consumers.

GDQ53. Do you agree with our proposal to continue with a common streetworks re-opener?

We support the proposal to continue with a common streetworks re-opener. We note that all companies included a bespoke re-opener within their Business Plans for the additional and uncertain costs relating to items such as permits for works or lane rental schemes. It is reasonable to have a common re-opener to cover these potential eventualities rather than less efficient bespoke re-openers for each company. We note the use of a materiality threshold and the limitations on what costs would be in scope to narrow the use of this re-opener. The threshold and scope appears reasonable and would have included information from the various Business Plan submissions provided by the GDNs.

10. Cadent Questions

Bespoke ODIs consultation question

Cadent Q1. Do you agree with our proposals on the bespoke ODIs? If not, please outline why.

Cadent proposed in its Business Plan some valuable vulnerability proposals which were supported by their CEG. As we have mentioned in response to GDQ1 and elsewhere, COVID-19 has led to changes in consumer affordability, levels of debt, willingness to pay and has shone a spotlight on the need for vulnerable consumers to be supported. We would therefore urge Ofgem to reassess Cadent's proposals relating to vulnerability in light of this to ensure that these circumstances have been considered and weighted in Ofgem's decision making.

We agree with Ofgem's position regarding obtaining BSI 18477 certification and establishing a performance metric. Ofgem has stated elsewhere that certification has become an expected BAU activity and does not therefore require an ODI. However, we would like Ofgem to clarify its position regarding why some certification and accreditation schemes are proposed to be included in baseline allowances, while others are to be funded through the UIOLI allowance as explained in WWUQ2. We are also unconvinced that using the UIOLI allowance in this way represents its most appropriate use or best value to consumers. Ofgem states in its Sector Specific Methodology Decision for Gas Distribution in paragraph 2.34[21] that the UIOLI allowances is, "for programmes addressing consumer vulnerability and CO safety that go beyond business as usual". Use of the allowance to fund activities like this results in less to spend on activities which more directly tackle consumer vulnerability and carbon monoxide issues.

We support Ofgem's proposal to accept Cadent's high-rise building plans ODI-R. We also agree with Ofgem's invite to Cadent to propose stretching annual targets in order to justify the ODI-R. Building-specific management plans would provide benefits to those customers in MOBs, especially those in vulnerable circumstances by reducing interruption periods.

[21] Ofgem, RIIO-2 Sector Specific Methodology Decision - Gas Distribution, 2019.

Cadent have proposed 3 stakeholder engagement ODIs. We agree with Ofgem's assessment and decision to reject these on the basis that effective stakeholder engagement is an expectation of BAU activities as indicated by the removal of the stakeholder engagement incentive from RIIO-1. However, we do think Ofgem could have gone further in ensuring consistent stakeholder engagement and we have recommended the use of an ODI-F stakeholder engagement incentive to incentivise companies to reach a consistent best practice level. This would further embed stakeholder engagement within the company activities.

We note Ofgem's rejection of Cadent's proposed gas theft ODI. While we agree with Ofgem that this replicates the TIM across all GDNs and the mechanism for costs related to gas theft has been changed. Ofgem should be mindful that Cadent have proposed to share 60% of funds recovered with their customers compared to the 50% share which Ofgem have proposed under the TIM. We also consider this to be beyond BAU and that it could raise standards across the sector.

Cadent proposed 3 ODIs relating to reducing the company's BCF. We agree with Ofgem that bespoke outputs are not appropriate because they appear to unnecessarily replicate the AER. We agree that in relation to 1 output, consumer money should not be used to subsidise employee EV charging infrastructure in their private residences.

We agree with Ofgem's decision regarding the creation of an Entry Gas Customer and Stakeholder Forum to facilitate knowledge sharing and framework changes relating to the connection of distributed gas generation (eg biomethane). We note Ofgem's reason that there was no output beyond simply establishing the forum. We also believe that this could be considered BAU stakeholder engagement.

Cadent's balanced scorecard proposal for MOBs represents the company responding to local needs. However, we agree with Ofgem that without stretching targets or tangible outputs the ODI is not appropriate but would urge Cadent to provide revised proposals before final determinations or develop the idea further during GD2. This would drive improved service for these customer groups.

We support Ofgem's inclusion of the community fund as an ODI-R which is consistent with decisions made regarding other companies' proposals. It will deliver clear benefits to its communities and its customers. Although an ODI-R has been accepted by Ofgem we would encourage Cadent to submit further evidence of stretching targets for all aspects of the Trust Charter ahead of final determinations.

In our response to Ofgem's call for evidence Gas Distribution Business Plans for RIIO-2, we highlighted Cadent's proposed funding model trial to provide free first-time central heating to customers experiencing fuel poverty as a step change for the sector, and responding to a clear need. This need is particularly evidenced by the lower initial FPNES targets that we have seen across all GDNs for GD2 because of a lack of funding for first-time central heating systems. Any effort to bring available funding together to help lift customers out of fuel poverty is therefore welcome.

Cadent have proposed that this ODI-R comes at no additional cost to consumers. We therefore question Ofgem's position that the activity of the trial is funded through the vulnerability and CO UIOLI allowance. We stated in our Business Plan response that we would encourage all GDNs to monitor such a trial closely and consider replicating such a scheme. We therefore see the ODI-R as a potentially useful mechanism of reporting on progress and sharing learning with the sector beyond the annual showcase event. We do note Ofgem's consideration that further justification is required. We would urge Cadent to further justify the ODI-R by setting out clearly how the funding trial will directly enable a proportion of their existing FPNES connection target or the additional number of connections they expect will be made possible by the funding model trial.

Similarly, Ofgem have rejected the ODI-R proposal to improve the targeting of customers in fuel poverty for the range of measures they have proposed due to the availability of funding via the NIA and the UIOLI allowance. However, Cadent's Business Plan[22] proposed no cost relating to this commitment. We would encourage Ofgem to consider again how it would hold companies to account for non-delivery of such a commitment or activity where there is no associated cost proposed. Ofgem should also consider the appropriate balance

[22] Cadent, GD2 Business Plan, page 91

between additional regulatory burden of new ODIs and the risk of activities not being delivered if NIA funding or UIOLI funding may not be appropriate.

Cadent Q2. What should the annual targets be for Cadent's high-rise building plans ODI-R and how can they be made sufficiently stretching?

No response provided.

Bespoke PCDs consultation question

Cadent Q3. Do you agree with our proposals on the bespoke PCDs? If not, please outline why.

We note Ofgem's rejection of the proposed personalised welfare facilities during interruptions. Providing additional services would not only create a better customer experience during an interruption, but widening the eligibility beyond PSR customers rightly reflects that not all customers who are in a vulnerable circumstance are on the PSR. We note that Ofgem has advised that Cadent can submit further justification regarding the costs and proposed service level which goes beyond BAU for Cadent and the GDN sector. We would appreciate further clarification where Ofgem believes the proposal is BAU. Should adequate justification and evidence be provided to Ofgem, we would urge Ofgem to consider the option to amend the GSOP 3 to include any accepted additional service provisions to ensure that service levels experienced by customers does not become a postcode lottery.

We note Ofgem's rejection of Cadent's plan to deliver 5,000 appliance repairs or replacements for customers in vulnerable situations and based on customer need. Ofgem explain that they stated in their SSMD that they, "would not fund the installation of boilers and heating systems through the price control as there is already national, devolved and local government funding for boiler repairs and replacements". We would urge Ofgem to seek further clarification from BEIS about whether it is in fact appropriate for the price control to fund appliance repair and replacement where appliances are faulty or condemned, and where this would leave a customer in a vulnerable situation. We would especially urge this clarification in light of COVID-19 and the impact this and the economic recession has had on increasing affordability and debt issues, and where customers' willingness to pay for such support may have increased[23].

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[23] Citizens Advice, Meeting Net Zero options for network company highly anticipatory investments in a post covid-19 environment, 2020.

We also note that since the decision by Ofgem not to fund the installation of boilers and heating systems, the Government has announced the Green Homes Grant scheme and a local authority delivery scheme as part of this. Both schemes exclude fossil fuel heating systems. Ofgem in seeking clarification from BEIS should consider the confidence it has in alternative sources of funding for appliances repair and replace, and ensure that the price control enables GDNs to respond to customers in vulnerable situations in an economically sustainable way.

We would also note that Cadent's proposal may have been to include appliances beyond just heating systems, for example gas cookers. In addition to further clarification that Ofgem could seek from BEIS, we would urge Cadent to justify further what appliances it intends to include in its proposal and whether the proposal would be most appropriately delivered as a PCD or via the UIOLI allowance. We also note the potential crossover between this proposal and Cadent's proposal to deliver a similar scheme where appliances are replaced following engineering appointments to respond specifically to carbon monoxide-related incidents. We note that Ofgem has rejected this proposal and recommended funding be sourced through the UIOLI allowance.

We note that Cadent proposed in their Business Plan a PCD to cover those activities relating to consumer vulnerability and carbon monoxide where costs exceeded the total UIOLI allowance expected by Cadent. We note that through consumer engagement and research Cadent identified initiatives that far exceed their allowance. Ofgem has proposed to reject this PCD on the basis that the UIOLI allowance is in place to fund these initiatives and that it has been sized "appropriately to maintain an even distribution of funding across the GDNs to prevent a disparity of services available to consumers in vulnerable situations across GB". We are supportive of gas networks playing an active role in tackling vulnerability, fuel poverty and reducing risks associated with carbon monoxide. As stated in response to Cadent Q1, Ofgem should consider whether the size of the UIOLI allowance is still appropriate in light of COVID-19 and ensure that funding is available for activities with strong stakeholder support and that would deliver clear consumer benefits.

We note Ofgem's proposal to reject Cadent's enhanced CO awareness PCD for the same reasons as above. Delivering 2.9 million CO alarms and servicing, repairing or replacing 15,000 unsafe appliances following CO incidents are ambitious proposals with significant scope. We also note that the scope of these proposals significantly exceeds that achieved in GD1. Ofgem have been clear that these activities are to be carried out within the allowances set and we urge Cadent to use a proportionate amount of its allowance by delivering the most effective initiatives as efficiently as possible. As stated above we are also encouraging Ofgem to reconsider the size of the allowance.

Cadent also proposed 2 rejected PCDs to deliver income and energy efficiency advice and to deliver 5,000 additional fuel poverty interventions covering boiler replacement and the installation or insulation. We believe Ofgem should review these decisions for the reasons set out below.

We agree with Ofgem that the price control and consumer spending must be used as effectively as possible but do support price control measures which enable GDNs to bridge funding gaps where necessary and where there are clear benefits to consumers in vulnerable situations. We expect GDNs to continue to ensure that no customer is left in a vulnerable situation. We are therefore concerned that the explicit removal of such funding measures in the price control could put too great a reliance on the availability of other funding via partnerships to ensure that no customer is left in a vulnerable situation. In circumstances where alternative funding for heating and insulation is unavailable we would expect GDNs to make use of hardship funds to help its customers but would welcome clarification on whether this is also Ofgem's expectation.

As stated above, the Green Home Grant scheme explicitly excludes replacement or first time fossil fuel heating systems. We are concerned that if this policy decision indicates a trend towards low carbon heating technology, that available funding for fossil fuel heating systems will be less available than Ofgem has presumed. COVID-19 has also put into stark reality the financial constraints faced by local authorities and we have concerns that any local authority funding streams may not be reliable sources, even at a time when affordability issues are greater. As stated elsewhere, clarification should be sought from BEIS on the potential for the price control to be used for repairing or replacing faulty and condemned appliances where this would otherwise leave consumers in a vulnerable situation. Where GDNs have a touchpoint with consumers and Ofgem cannot be satisfied that there are adequate levels and availability of alternative funding, well calibrated funding mechanisms that deliver important services for consumers in vulnerable situations can represent good value.

CVPs consultation question

Cadent Q4. Do you agree with our proposals on CVPs? If not, please outline why.

Yes we agree by continuation of Ofgem's methodology to reject CVP for any bespoke proposals which have been rejected by Ofgem and for proposals that represent BAU, corporate social responsibility and where performance or targets are not stretching or innovative.

Bespoke UMs consultation question

Cadent Q5. Do you agree with our proposals on the bespoke UMs? If not, please outline why.

We agree with the acceptance of the obligations with respect to MOBs proposal. This is logical given potential changes in external reviews or legislation. We also support the merging of the following UMs to become common UMs: entry capacity enablement, entry charging and access review, flexible reinforcement, specified streetworks (lane rentals), connections and diversions. We commend the work that both Cadent and SGN have undertaken with the street works proposals. Ofgem should ensure that all re-openers are implemented as efficiently as possible, providing clear guidance in a timely manner to avoid any subsequent costs being passed onto consumers.

Innovation consultation question

Cadent Q6. Do you agree with the level of proposed NIA funding for Cadent? If not, please outline why.

We would like to see a clearer explanation from Ofgem with evidence across all decisions for NIA funding for the GDNs. It would be helpful if Ofgem could provide views on each project proposal for this funding. It is unclear if Ofgem thinks Cadent's proposals are rational and reasonable based on the ambition of the proposals and the level of funding received in RIIO1. We would urge Ofgem to be consistent in its feedback on NIA funding decisions across all 4 GDNs. We agree that the repair and replacement in Cadent's proposals should be removed as this is funded through BAU activity. We support an industry-led reporting framework for NIA projects, this will help ensure value is delivered for consumers.

If maintained, we also believe that the gap in evaluation and learning from previous projects could be addressed through projects such as the Network Innovation Framework which could help to standardise and concisely evaluate a range of outputs from various innovation projects.

11. NGN Questions

Common outputs consultation question

NGNQ1. What are your views on the values for the common output parameters we have set out in the NGN Annex?

We have concerns around the ODI-R for the FPNES as detailed in GDQ4, however we support the use of stretch targets. To achieve the best value for money, and increase the impact of the scheme by lifting people out of fuel poverty, better targeting is vital. Our support is based on the condition that the targeting rate (currently estimated to be at 30%) is improved and reported against.

A gas connection is just one of many things that can help a household out of fuel poverty, and concerns around the carbon impact remain. As part of ensuring that customers receive the best option for them we would also encourage GDNs to propose new and innovative ways to lift those out of poverty who they can identify with FPNES identification methods, but may not be able to deliver new gas connections to.

Bespoke ODIs Consultation questions

NGNQ2. Do you agree with our proposals on the bespoke ODIs? If not, please outline why.

We support Ofgem's acceptance of both reputational ODIs covering the Community Partnering Fund and the Hardship Fund proposed by NGN. Both are proposed to be funded by shareholders, and there are clear benefits to their local communities and customers.

We agree with Ofgem's decision to allow associated costs in NGN's baseline allowances for non-regulated customer satisfaction surveys as it is important that surveys are continually tested and improved to ensure the right questions are asked to hold companies to account and drive increased performance. We would encourage Ofgem to think about how in it's final determinations it will hold NGN to account for delivery of the trial it has proposed in the absence of an ODI-R and how learning can be adopted across all GDNs.

We agree with Ofgem's proposal regarding NGN's 2 ODI-Rs for gas escapes. Dealing with gas escapes as quickly as possible would result in lower CO2-e emissions and reduced costs for consumers from not having to pay for the additional escaped gas. As NGN has not requested additional funding for enhanced performance we agree that this is likely to produce net benefits for consumers. If performance among other GDNs on this measure could also be improved and would benefit from a reputational incentive then we would expect Ofgem to explore a common incentive. We would see value in Ofgem stating in its final determinations whether it has explored the merit of making this ODI-R common.

We agree with Ofgem's rejection of those bespoke ODIs which clearly duplicate the reputational incentive contained within EAP and reporting via the AER. We agree with Ofgem's decision to reject 2 appointment related outputs as a result of the new common output for appointments which we support.

We understand Ofgem's rationale for rejecting the proposed ODI-R for a dedicated 24/7 PSR support hotline on the basis that this can be funded via the UIOLI allowance and can be reported on at the showcase event. However, as stated elsewhere, Ofgem should be clear in its expectations of what activities companies should fund with the allowance and ensure the pot is appropriately sized. We also note that the ED2 SSMC proposes dedicated phone lines for PSR customers as a minimum standard in DNOs' vulnerability strategies.

We note that Ofgem rejected 2 bespoke outputs covering energy efficiency advice and carbon monoxide awareness which were also proposed as PCDs. Ofgem also rejected the ODI-R for training of community partners in both these areas. As stated elsewhere, COVID-19 has led to significant increases in debt, especially among some vulnerable groups and is likely to have caused changes in both affordability but also willingness to pay for services that support vulnerable consumers[24]. We would therefore encourage Ofgem to reconsider these proposals in light of this and set out how it plans to ensure that important activities that address vulnerability are delivered in RIIO-2.

NGNQ3. What are your views on our proposal to accept the Job completion leadtime including re-instatement ODI? Do you have a view on what the percentage performance target(s) should be and how is it stretching?

We agree with Ofgem's decision to accept NGN's ODI-R for job completion lead-time including reinstatement on the condition that targets to be proposed are stretching. This appears to be a good example of an ODI-R that identifies company-specific areas for improvement and with evidence that customers value improved services. We note that Ofgem has not stated in the draft determinations whether it carried out an assessment of the merits of the output being made common in the GD sector. If a similar need was identified across other companies, there would be a strong argument for establishing a common output. We would encourage Ofgem to consider this.

Bespoke LO consultation question

NGNQ4. Do you agree with our proposals on the bespoke LOs? If not, please outline why.

We commend NGN for proposing a suite of improved GSOPs but agree with Ofgem's decision to reject the proposals for the reasons provided. Namely that Ofgem already proposed to double all GSOP payments and for others there was not a clear evidence basis for tightening standards. We are in agreement with Ofgem that NGN should voluntarily retain the standards which have been rejected as shareholder funded, especially where customer research has revealed a need.

CVP consultation questions

NGNQ5. Do you agree with our proposals on CVPs? If not, please outline why.

Yes we agree by continuation of Ofgem's methodology to reject CVP for any bespoke proposals which have been rejected by Ofgem and for proposals that

[24] Citizens Advice, "Meeting Net Zero", p.4, and Europe Economics,: "Impact of COVID-19 crisis on appropriate risk allocation mechanisms for highly anticipatory infrastructure investments in the energy sector", p.12, 2020.

represent BAU, corporate social responsibility and where performance or targets are not stretching or innovative.

NGNQ6. Do you agree with our proposal to accept the CVP for Enhanced Repair for Gas Escapes?

We support Ofgem's decision to accept this CVP. We welcome Ofgem's downward revision of both the CVP value and the CVP reward to ensure that rewards are proportionate. The enhanced repair targets would deliver not only improved repair times for gas escapes but also a reduction in carbon emissions and avoided costs to customers for lost gas.

Common UMs consultation question

NGNQ7. What are your views on the baseline values for the Tier 2A iron mains volume driver?

No response provided.

Bespoke UMs consultation question

NGNQ8. Do you agree with our proposals on the bespoke UMs? If no, please outline why.

We support the merging of the following UMs to become common UMs: smart metering, streetworks and large load connections. We also agree with the rejection of the high speed rail proposal as this is superseded by the new common UM. We agree that the TransPennine Rail Electrification should be made a new common PCD where applicable. Ofgem should ensure that all re-openers are implemented as efficiently as possible, providing clear guidance in a timely manner to avoid any subsequent costs being passed onto consumers.

Innovation consultation question

NGNQ9. Do you agree with the level of proposed NIA funding for NGN? If not, please outline why.

Yes, we agree with this decision. NGN have provided rationale for their proposal which seems proportional and comparable to the innovation funding received in RIIO-1. Their proposals to improve solutions for vulnerable consumers in fuel poverty and during unplanned and planned interruptions are important parts of their proposals.

We would like to see a clearer explanation from Ofgem with evidence across all decisions for NIA funding for the GDNs. It would be helpful if Ofgem could provide views on each project proposal for this funding. We would urge Ofgem to be consistent in its feedback on NIA funding decisions across all 4 GDNs. We support an industry-led reporting framework for NIA projects, this will help ensure value is delivered for consumers.

If maintained, we also believe that the gap in evaluation and learning from previous projects could be addressed through projects such as the Network Innovation Framework currently which could help to standardise and concisely evaluate a range of outputs from various innovation projects.

12. SGN Questions

Bespoke ODIs Consultation questions

SGNQ1. Do you agree with our proposals on the bespoke ODIs? If not, please outline why.

Overall, we agree with some of the proposals on the bespoke ODIs. We agree that the HSE requirement for repair within 12 hours should be a BAU level of service now and this is not a stretching enough target to qualify for a bespoke ODI. We also agree with the street work proposals and encourage Ofgem to work with Cadent and SGN to develop a consistent incentive. We would like to see this consistently committed to by all 4 GDNs. Both Cadent and SGN should be recognised for their efforts in these proposals. We agree with Ofgem that it is inappropriate to include biomethane targets within RIIO-GD2 as much of what determines the number and capacity of biomethane connections lies beyond GDNs' control.

Bespoke PCDs consultation question

SGNQ2. Do you agree with our proposals on the bespoke PCDs? If not, please outline why.

We agree with the proposals that Ofgem accepted. We believe that the improved access roll out for biomethane is important to increase the biomethane capacity and the subsequent environmental benefits. We agree that as this proposal includes customer funding, SGN should report and share knowledge learnings the same way as if this were an NIA project. It is important that other GDNs are able to learn from this project. The support of biomethane and hydrogen studies or research would also be beneficial for decarbonisation and the Net Zero transition.

It is important that networks play their part in decarbonising vehicle emissions related to the operation of their businesses as part of reaching the UK's Net Zero targets and we would like to have seen this included as a PCD. We agree that this needs to be done at the lowest cost possible and would support this becoming a common PCD for all GDNs to encourage further development and improvements in this area.

As stated elsewhere, COVID-19 has led to significant increases in debt, especially among some vulnerable groups and is likely to have caused changes in both affordability but also willingness to pay for services that support vulnerable consumers. We would therefore encourage Ofgem to reconsider these proposals in light of this and set out how it plans to ensure that important activities that address vulnerability are delivered in RIIO-2.

SGNQ3. Do you agree with our proposal for SGN's bespoke biomethane technology rollout PCD?

We agree that as this proposal includes customer funding, SGN should report and share knowledge learnings the same way as if this were an NIA project. It is important that other GDNs are able to learn from this project. Overall we support proposals that will help with decarbonisation and the Net Zero transition.

For questions SGNQ4 - SGNQ6:

No response provided.

CVP consultation questions

SGNQ7. Do you agree with our proposals on CVPs? If not, please outline why.

We agree with Ofgem's proposals. We agree that these represent work that should be incorporated in the networks' BAU, carried out as part of corporate social responsibility, where stakeholder support and evidence is lacking and where targets are not more ambitious than with existing strategies. This is a consistent approach taken by Ofgem with the other GDN proposals.

Bespoke UMs consultation question

SGNQ8. Do you agree with our proposals on the bespoke UMs? If not, please outline why.

We would support the merging of the street works proposal into a new common UM. It is key that consumer impacts are minimised as much as possible when undertaking streetworks. We also support the proposal for a new common UM for the smart meter re-opener due to the uncertainty around timings. Further to this we agree with the new connections UM being applied to all GDNs as a common volume driver. Ofgem should ensure that all reopeners are implemented as efficiently as possible, providing clear guidance in a timely manner to avoid any subsequent costs being passed onto consumers.

Innovation consultation question

SGNQ9. Do you agree with the level of proposed NIA funding for SGN? If not, please outline why.

We agree with Ofgem that SGN's proposals for funding were disproportionately high relative to other companies and represented a substantial increase relative to RIIO-1. SGN should ensure their NIA funding proposals are ambitious and innovative and also use funding from BAU allowance. We would like to see SGN provide more evidence for their proposals, and assurance that these innovations will be widely adopted if successful. SGN have clarified that further information on these proposals is available[25].

We would like to see a clearer explanation from Ofgem with evidence across all decisions for NIA funding for the GDNs. It would be helpful if Ofgem could provide views on each project proposal for this funding. We would urge Ofgem to be consistent in its feedback on NIA funding decisions across all 4 GDNs. We

[25] This was set out in SGN's business plan appendix 006 Energy Systems Transition Pg 39-62, Appendix 007 energy futures Whole systems pg 19-23. These are available at https://www.sgnfuture.co.uk/

support an industry-led reporting framework for NIA projects, this will help ensure value is delivered for consumers.

If maintained, we also believe that the gap in evaluation and learning from previous projects could be addressed through projects such as the Network Innovation Framework which could help to standardise and concisely evaluate a range of outputs from various innovation projects.

13. WWU Questions

Common outputs consultation question

WWUQ1. What are your views on the values for the common output parameters we have set out in the WWU Annex?

We have concerns around the ODI-R for the FPNES as detailed in GDQ4, however we support the use of stretch targets. To achieve the best value for money, and increase the impact of the scheme by lifting people out of fuel poverty, better targeting is vital. Our support is based on the condition that the targeting rate (currently estimated to be at 30%) is improved and reported against.

A gas connection is just one of many things that can help a household out of fuel poverty, and concerns around the carbon impact remain. As part of ensuring that customers receive the best option for them we would also encourage GDNs to propose new and innovative ways to lift those out of poverty who they can identify with FPNES identification methods, but may not be able to deliver new gas connections to.

Bespoke ODI consultation questions

WWUQ2. Do you agree with our proposals on the bespoke ODIs? If not, please outline why. Bespoke PCD consultation questions

We agree with Ofgem's position that certification and accreditation has become BAU and an expectation from stakeholders that companies obtain or maintain these. We therefore agree with Ofgem that such proposals have been rejected as ODIs. However, we would ask Ofgem to further clarify its rationale for proposing that WWU receives the associated costs in their proposed Totex baseline allowance for maintaining Institute of Customer Service certification, but does not make the same allowances for maintaining BS 18477 accreditation. It is not clear that this is the intended or best use of the UIOLI allowance.

We agree with Ofgem's decision regarding WWU's other proposed ODIs covering GSOPs, gas theft, and 'purge and relight' measures, and agree with the reasons provided.

WWUQ3. Do you agree with our proposal on the bespoke PCD? If not, please outline why.

We agree with Ofgem's decision to accept the land remediation proposal from WWU. We agree that this would mitigate negative impacts on communities around these sites and that the risk of non-delivery is low.

As stated elsewhere, COVID-19 has led to significant increases in debt, especially among some vulnerable groups and is likely to have caused changes in both affordability but also willingness to pay for services that support vulnerable consumers. We would therefore encourage Ofgem to reconsider these proposals in light of this and set out how it plans to ensure that important activities that address vulnerability are delivered in RIIO-2.

CVP consultation questions

WWUQ4. Do you agree with our proposals on CVPs? If not, please outline why.

We agree with Ofgem's decisions for WWU's CVP proposals and support the inclusion of allowances for the proposal on Local Area Energy Plans and the requirement to share learning. The reasons for rejecting CVP proposals are again consistent with other GDN decisions. We agree that these represent work that should be incorporated in the networks' BAU, carried out as part of corporate social responsibility, where stakeholder support and evidence is lacking and where targets are not more ambitious than with existing strategies. This is a consistent approach taken by Ofgem with the other GDN proposals.

Common UMs consultation question

WWUQ5. What are your views on the baseline values for the Tier 2A iron mains volume driver?

No response provided.

Bespoke UM consultation questions

WWUQ6. Do you agree with our proposals on the bespoke UMs? If no, please outline why.

We would support the merging of the street works proposal into a new common UM, it is key that consumer impacts are minimised as much as possible when undertaking streetworks. We also support the proposal or a new common UM for the smart meter re-opener due to the uncertainty around timings. Further to this we agree with the new connections UM being applied to all GDNs as a common volume driver. We also agree with WWU that there should be a UM for the changes to the charging boundary and welcome Ofgem's suggestion of a common UM with the inclusion in the heat policy re-opener. We support a common re-opener that addresses both large load connections and reinforcements. Ofgem should ensure that all re-openers are implemented as efficiently as possible, providing clear guidance in a timely manner to avoid any subsequent costs being passed onto consumers.

Innovation consultation questions

WWUQ7. Do you agree with the level of proposed NIA funding for WWU? If not, please outline why.

Yes, we agree with this decision. WWU has provided rationale for their proposal which seems proportional and comparable to the innovation funding received in RIIO-1. We also support an industry-led reporting framework for NIA projects, this will help ensure value is delivered for consumers.

We would like to see a clearer explanation from Ofgem with evidence across all decisions for NIA funding for the GDNs. It would be helpful if Ofgem could provide views on each project proposal for this funding. We would urge Ofgem to be consistent in its feedback on NIA funding decisions across all 4 GDNs.

If maintained, we also believe that the gap in evaluation and learning from previous projects could be addressed through projects such as the Network Innovation Framework which could help to standardise and concisely evaluate a range of outputs from various innovation projects.

14. NARM Questions

We support Ofgem's attempts to reduce the risk of windfall gains through the NARM and that this may lead to a significant change from the RIIO-1 approach.

We are concerned about the errors and inconsistencies Ofgem saw in company submissions and we support Ofgem in factoring in their limited confidence in some justified investment options to how the mechanism has developed. However, there are a number of seemingly valid concerns about the NARM proposals in draft determinations and further planned work for developing the model. Issues include on the risk of underspend and specifically for justified over-delivery. We are aware that Ofgem are working with stakeholders to address the issues. Given analysis still being developed and the potential for redesign and development we want to highlight some principles that we would evaluate the final solution against:

1. **Support ex ante confidence in justified spending**

A process for delivering the appropriate level of network stability through an assessment of risk is critical to consumers and their energy services. This means that there needs to be a function to fund activity efficiently. To provide networks with maximum ex ante confidence for investment there needs to be clarity upfront on predictable justified spending versus unjustified spending. Pass-through funding with detailed parameters would seem to meet this criteria.

2. **Provide clear criteria and assessment of both unplanned and unjustified spending**

There will be instances where justified spending was not predictable but still justified (including in over-delivery) and this would seem to require a correction factor based on network deliverables. There needs to be clarity about which instances a company should consider unplanned spending to encourage investment where it would be expected although unplanned to maintain the network. There should also be an incentive to consider asset switching where it would be in the consumer interest.

3. **Strong protections against windfall gains**

We suggest that it seems inevitable that there will need to be a form of evaluation about whether lower costs constitute innovation or underspend that pass on more risk to assets and therefore to consumers. Pass-through funding and ex-post assessment gives Ofgem the most evidence available to assess the rationales for investment against the parameters provided.

4. Avoid creating perverse company priorities

Network activities vary significantly within and between companies and the default position should be to assume variance in the investment parameters for different activities for different companies. This stops the assets that some consumers rely on being weighted unfairly. This should be proportionate and not mean that Ofgem needs to define a raft of different ex ante parameters by activity or company, but there should be a clear categorisation of criteria for justified and expected investment.

5. Avoid unnecessary regulatory burden

Ofgem and networks need a mechanism that uses upfront clarity on the criteria that NARM will deliver against. However, there will always be a degree of principle-based assessment required by networks to reflect the attention of investment parameters and the data that will be required to review consumer exposure to risk of asset failure. The level of retrospective assessment of investment will need to be weighted to Ofgem’s confidence in investment proposals which we hope will improve for the final determination.

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