

5 Consideration of Consumers, Consumer Value and Delivery of Outputs under RIIO-ED2

5.1 Executive Summary

The consumer is at the heart of economic regulation and protecting the interests of consumers is Ofgem's principal duty. Yet the legislation is clear that the needs and interests of consumers are multi-faceted and comprise not only today's but also future consumers. In addition Ofgem is required to consider not simply a narrow set of interests, such as bills paid by today's consumers but rather consumer interests as a whole including energy security and sustainability, and indeed the advancement of broader policy objectives.

The RIIO-2 framework has encouraged deeper and more extensive customer and stakeholder engagement. Legitimacy of the overall Final Determination will be enhanced and Ofgem can truly be seen to support and act in consumer interests where this is specifically taken into account.

WPD secured customer and stakeholder support for the 42 core commitments set out in our Business Plan and for the 6 Consumer Value Propositions which accompanied it. Consumers recognised that these commitments and CVPs cost marginally more, in terms of bills today but deliver additional consumer value under lenses such as the Social Return on Investment (SROI) and as expressed by a Willingness to Pay (WTP).

There is no clear articulation in the Draft Determination (DD) as to how Ofgem has taken consumer views and consumer expressed preferences into account in arriving at its proposals; nor does the DD provide much insight as to how Ofgem has sought to balance the various, sometimes competing, duties it is charged with. Further detail and clarity on how Ofgem has taken into account and sought to discharge its duties should be specifically set out by Ofgem in the Final Determination.

In terms of measurement and discharge of Ofgem's consumer duty, a lens and framework which examines and measures consumer value specifically would complement existing measures and metrics such as Return on Regulated Equity (RoRE). RoRE measures that which customers pay in terms of shareholder returns irrespective of the value that is delivered. A consumer value metric would better measure the degree to which consumers benefit or are better off by virtue of that which is delivered for the amount that consumers ultimately pay. WPD would like to see such a metric be developed to aid decision making and scrutiny of decision making.

Incentive regulation has an important role to play in terms of driving consumer value. A regulatory framework which is subject to economic incentives ultimately helps ensure both regulated entity and consumer interests are aligned. While regulated entities may benefit from enhanced performance it is consumers who ultimately benefit to a greater extent through revealed efficiency and the delivery of enhanced quality of service.

This is well accepted in terms of input costs and cost efficiency, but despite over a decade of the RIIO framework remains less developed in terms of support for innovation and for outputs. Indeed the DDs in respect of RIIO-ED2, which see a narrowing of incentive bands, combined with a skewing of payments focused on penalties and downside, represent a retrograde step in this regard and erode, rather than enhance, consumer value as a result.

Performance under output incentives is expressed not in terms of value but in terms of RoRE. Moreover, the package shows limited ambition to achieve the upside (+195bps RoRE) whilst having significant impact on the downside -400bps RoRE and has created significantly asymmetry in the package. Ofgem has introduced a Return Adjustment Mechanism at +/- 300bps RoRE and +/- 400bps RoRE to enhance the legitimacy of the package and ensure returns paid for by consumers are within appropriate bounds. Yet at the same time Ofgem has set an incentive

package which means that the level of return, and consumer value which would come with that, under an incentive-based sharing mechanism is simply not realisable.

No real explanation as to how this is in consumer interest has been provided. Ofgem's own impact assessment has remained disproportionately focused on the cost and bill impact of the proposals, and the impact on the level of financial performance which regulated utilities might achieve rather than on how consumer value can be unlocked or what specifically consumers and stakeholders indicated that they would like to see. While the lenses employed by Ofgem are important they represent only a partial lens and taken alone miss critical elements.

We have set out 14 areas – and these are a minimum - where the DD specifically leaves consumer value untapped and where, assessed against a consumer value lens, the DD unaltered could not be said to be protecting the interests of consumers.

The cumulative scale of the loss of consumer value is very significant.

- a. £55m reduction in incentive to deliver under the IIS;
- b. Over £40m of lost Net Benefits in terms of the three CVPs proposed by WPD where Ofgem has accepted that there are benefits but has not proposed to apply a framework of reward;
- c. Significant delays in delivery of key enablers of Net Zero such as EV and Heat Pump roll out; and
- d. Loss of value to consumers through poorer incentive properties and delays which come through implementing key activities not within a well-defined business plan but through a variety of individual not yet fully defined Uncertainty Mechanisms.

Where Ofgem has accepted Consumer Value Propositions deliver Net Benefit and should be accepted it is important that they are actually incorporated in a manner which enables them to be delivered and which recognises that benefit. We have set out in our accompanying paper on CVPs how this can be addressed in a manner which ensures the measurement and reward mechanisms are robust and consumers only pay where both programmes and benefits are delivered.

WPD is seeking specific amendment and repair of the DD in terms of adjustment to :

- a. Reversal of the artificial restriction of the cap on upside under the IIS from +100 bps RoRE to +250bps RoRE as at RIIO-ED1 to unlock the value to consumers in terms of consumers' Value of Lost Load and WTP for enhanced reliability on the network;
- b. Amendment to the target setting under IIS to take into account and to reward previous performance – and by corollary to not reward previous under performance – as part of the overall dynamic efficiency within the sector;
- c. Amendment to the Major Connections incentive to provide a symmetric upside and downside incentive and to recognise the value placed upon delivery of these connections in a timely fashion;
- d. Provision for the consumer value enhancing CVP-1, CVP-2, CVP-3 and CVP-5 propositions made by WPD to unlock the net benefits as set out applying the rewards framework set out in the RIIO2 Business Plan Guidance;
- e. Provision of full 5-year Network Innovation Allowances to encourage innovation; and
- f. Reduction in the Materiality Threshold under the Uncertainty Mechanism from 1% of baseline to 0.5% in line with RIIO GD2/T2 and in a manner which seeks to ensure the appropriate incentives are there to deliver under those categories of expenditure subject to the threshold.

Each of these measures is individually designed to unlock consumer value and to enhance consumer welfare. Collectively they significantly enhance and aid Ofgem's discharge of its duty to protect the interests of consumers.

We believe these measures should be complemented by the development of the Consumer Value Metric both as a decision-making tool – including where choices are being made between schemes or incentive design which seeks to enhance value, and as a measurement of performance by regulated entities in terms of the delivery of that value. Implementing these measures would put the consumer back at the heart of the regulatory system, ensuring their voices are heard and reflected in the choices made. Having the ability to measure the impact of what we all do by how it enhances consumer welfare and consumer value and ultimately best protects the interests of consumers.

5.2 Ofgem's Principal Duty and the Importance of the Consumer in reaching a Final Determination

It is important to remind ourselves of the principal aspects of the framework and the lens by which the proposals as set out within the Draft Determinations (DDs) ought to be considered and assessed.

Indeed, the discharge by Ofgem of its duties in accordance with the statutory framework represents the ultimate test as to whether the proposals as set out have or will successfully deliver on that which they are designed to deliver on.

Ofgem's principal statutory duty in regulating the distribution of electricity is 'to protect the interests of **existing and future** consumers in relation to electricity conveyed by distribution systems'¹ (emphasis added) ("the Principal Duty")

This encompasses 'those interests of both existing and future consumers taken as a whole (emphasis added), including:

their interests in the reduction of electricity-supply emissions of targeted greenhouse gases; and

*their interests in the security of the supply of electricity to them*²

Ofgem is further required to carry out its functions in a manner which:

promotes efficiency and economy on the part of persons authorised by licences to distribute electricity and which

[.....]

*has regard to the effect on the environment of activities connected with the distribution of electricity*³

Further, in fulfilling its duties, including the Principal Duty, Ofgem shall have regard to:

the need to secure that all reasonable demands for electricity are met; and

the need to secure that licence holders are able to finance the activities which are the subject of obligations; and

*the need to contribute to the achievement of sustainable development.*⁴

And finally further, in discharging its duties:

*Ofgem must have regard to the strategic priorities set out in the strategy and policy statement and is required to carry out its respective regulatory functions in the manner which it considers is best calculated to further the delivery of the policy outcomes*⁵.

¹ Electricity Act, 1989 – Section 3A (1) (as amended)

² Electricity Act, 1989 – Section 3A (1A) (as amended)

³ Electricity Act, 1989 – Section 3A(5) (as amended)

⁴ Electricity Act, 1989 – Section 3A(2) (as amended)

⁵ Energy Act, 2013 – Section 132

5.3 The Evolving Discharge of the Duties over time within the Regulatory Construct

The discharge by Ofgem of its role has evolved over time as the provision of regulated networks has matured and the needs of consumers and the wider economic and environmental context has changed.

Initially the focus was on increasing cost-efficiency whilst driving up service levels – an approach that reflected the pre-privatisation legacy of the industry. As time passed, cost efficiencies became harder to find and there was a recognition that what had previously been a conversation between regulator and regulated network needed to be broadened to embrace customers and stakeholders. The RIIO framework embedded this formally into network regulation with obligations being placed on the network companies to engage with their customers and stakeholders to inform the design of their business plans.

With escalating energy bills and wider economic challenges there is increased pressure to seek reductions in consumer bills. However, this legitimate desire from Ofgem to exert downward pressure on bills has come at the same time as there is a requirement for a significant increase in investment in the network, to facilitate Net Zero. Through their role in enabling the decarbonisation of power generation, heat and transport, DNOs are an important contributor to delivering national Net Zero commitments.

In reality, the cost of distribution services represents a small proportion of the overall value chain and the increased costs which consumers are currently facing are primarily driven by changes in the wholesale markets. Ofgem has estimated that the DD proposals save customers an average of £11 per annum. This is a modest cost saving and there is a real possibility that the DD proposals lead to a loss of value that exceeds this.

Moreover, whilst it may be correct to wish to avoid investments which result in underused capacity and potential asset stranding, there is the risk that Ofgem is simply intent on passing most of the cost on to future consumers to mitigate short term cost pressures.

As part of the DDs, Ofgem has attempted to draw together these threads in the following statements:

“Over the past 18 months global energy costs have risen substantially, [...]”

This makes Ofgem’s mission to protect the interests of consumers more important than ever - ensuring a secure supply of electricity and gas, and helping the country make the transition to a low carbon domestic energy system at least cost. [...]”

Over the five-year period to 2028 DNOs will need to make the investments that will:

help ensure the delivery of a GB-wide network to enable electric vehicle (EV) charging as we move away from petrol and diesel cars

increase our grid capacity to power heat pumps (HPs) as we transition from gas boilers

support an increase the number of small-scale renewables connecting directly to the distribution grids

help make our power supplies more resilient to more frequent storms, such as those seen through last winter.

.....Ultimately, any investments made in the electricity grid will be paid for by consumers through their energy bills, and it is Ofgem's principal objective to protect the interests of consumers.”⁶

This is best summarised as ensuring security of supply, laying the foundations for Net Zero but within the constraints imposed by restricting any rise in consumer bills.

For the avoidance of doubt, we agree with Ofgem in this aim however, the implication of the proposals is that Ofgem will protect consumers by minimising the level of investments paid for by them and this we do not agree with.

Ofgem can protect consumers by minimising bills and certainly minimising the costs that consumers pay is, *ceteris paribus*, desirable. However crucially it is nowhere specified within the statutory framework that this and this alone is the objective.

Ofgem can equally protect customers – particularly both **existing and future customers**⁷ - through the provision of value adding investments and Ofgem can further protect customers – particularly by reference to consideration of their **interests taken as a whole**⁸ - through supporting the delivery of wider policy objectives as indeed is specified in the context of its overall statutory remit.

This points to a need and real benefit in having clarity in how Ofgem views and discharges its duties and how it has chosen to weigh the sometimes competing choices between today's customers and the bills they pay with investment to unlock future customer benefits and investments which enable delivery in relation to the wider policy agenda. We therefore request that Ofgem clearly articulate the basis by which it has considered the discharge of its duties in relation to any decisions taken as part of its Final Determination.

5.3.1 Ofgem's Impact assessment for RIIO-ED2

Alongside the DDs, Ofgem has produced a revised Impact Assessment which updates analysis provided at the publication of the Sector Specific Methodology Decision (SSMD).

This impact assessment describes the success of ED1 in relation to the companies' delivery of high levels of service and reliability, but questions whether the associated outperformance has been 'earned' or whether it results from the companies taking advantage of their information asymmetry.

It is insightful that this is primarily a document which considers benefits to consumers in terms of financial measures – both absolute values, such as transfers of benefits from company to consumer, as well as Return on Regulated Equity (RoRE) and does not focus on the impact, or value, of that which is delivered through the plans. There are only two measures (out of 10) which are non-financial and in the case of Output Delivery Incentives, the analysis acknowledges that "*Consumer benefits may reduce where companies reduce delivery of outputs as a result of recalibration and removal of incentives*".

As constructed, the Impact Assessment supports the view that Ofgem sees its statutory duty as being expressed solely through keeping downward pressure on consumer charges. The near complete absence of any assessment of how the various regulatory mechanisms might discourage or delay the delivery of services to consumers is concerning.

⁶ RIIO-ED2 Draft Determinations, Overview document – paragraphs 2.1 - 2.8 (edited)

⁷ Electricity Act, 1989, Section 3A(1) (as amended)

⁸ Electricity Act, 199, Section 3A (1A) (as amended)

5.4 A Consumer Value Lens/ Framework

The UK approach to regulation, is an incentive-based approach built around *ex ante* revenue and target setting. This continues to be the underlying principle driving regulation – enshrined in the RPI-X@20 review that led to RIIO. Ofgem's review of the RIIO-1 approach did not propose changing the underlying principle, just the way that elements have been calibrated and the protections that exist for consumers.

Benefits from incentive-based regulation have been seen over the past decades through the significant improvements in cost efficiency (productive, allocative and dynamic) alongside improvements in service quality. These cost savings are shared between companies and consumers. While the mechanism by which the sharing takes place has changed over time, the key principle has not. Companies need an incentive to undertake efficiency savings but between 50% and 85% of the savings accrue to consumers through lower prices than would otherwise have been the case.⁹ The corollary is that between 15% and 50% of the benefits flow to the companies and their shareholders. This is largely accepted and has a legitimacy enshrined within the concept of the regulatory contract over many years.

There have been two primary approaches, rooted in regulation, that have facilitated the improvements in service that have been seen, as follows:

Outputs – provides a stronger emphasis on making network companies accountable for what they deliver and making them tangible and measurable so that consumers can understand what they are receiving in exchange for the cost allowances being provided.

Incentivisation – incentive arrangements have been defined to complement outputs, some of which are financially-based whilst others are reputational. The principle is that the availability of rewards should encourage companies to strive to improve so as to meet their targets in terms of the delivery of outputs whilst doing so with efficiency.

These concepts of outputs and incentives are useful vehicles through which DNOs can discuss the choices which are open to them in a business planning process, as they provide tangible outcomes which customers and stakeholders can readily engage with.

⁹ The precise split of savings between consumers and companies depends on the replicability of the savings and their impact on future cost efficiency targets. The benefits to customers may exceed 85% in certain instances.

5.5 Outputs and Incentives in RIIO-ED2

Table 1 shows the list of financial ODIs available to DNOs as well as the incentive rates and the translation of those into £m values for WPD.

ODI-F	Purpose	New or existing	Incentive Rate as % RoRE	WPD Potential Upside (£m annual 20/21 prices)	WPD Potential Downside (£m annual 20/21 prices)
Customer Satisfaction Survey (CSS)	To encourage DNOs to improve the quality of customer service and reward exceptional performance	Existing	+0.40% / -0.40%	14.7	-14.7
Complaints Metric (CM)	To ensure good performance from DNOs when handling complaints	Existing	0% / -0.20%	0	-7.3
Time to Connect (TTC)	To incentivise DNOs to reduce the time it takes to connect minor connection customers to the network	Existing	+0.15% / -0.15%	5.2	-5.2
Major Connections	To ensure DNOs provide quality service to major customers seeking to connect to the network	New	0% / -0.35%	0	-12.9
Vulnerability	To incentivise the provision of appropriate support services to consumers in vulnerable situations	New	+0.20% / -0.20%	7.3	-7.3
DSO	To drive DNOs to more efficiently develop and use their network, considering flexible and smart alternatives to network reinforcement	New	+0.20% / -0.20%	7.3	-7.3
Interruptions Incentive Scheme	To incentivise DNOs to improve network reliability and reduce outages	Existing	+1.00% / -2.50%	36.7	-91.9
Total			+1.95% / -4.00%	71.2	-146.6

Table 1 – ODI-Fs as applied to WPD in the ED2 Draft Determinations

This table demonstrates that Ofgem is proposing an overall incentive package that is heavily skewed to the downside; that is, the maximum penalties (£146.6m) are more than double the magnitude of the maximum rewards (£71.2m) available.

In the following sub-sections, we have reviewed 3 of the major ED2 incentives schemes, which are new or subject to significant change. These provide key insights into Ofgem's general approach to the use of incentives and its attitude to delivering consumer value in this price control.

5.6 Interruptions Incentive Scheme

The Interruptions Incentive Scheme (IIS) was first implemented in 2001, to drive up performance in relation to the number and duration of power outages experienced by consumers. It has yielded very significant improvements such that GB now has high levels of network reliability by international standards. However, for RIIO-ED2, Ofgem is proposing to make two key changes to the IIS:

- Reducing the upside revenue cap to 1.00% from 2.50%, whilst retaining a downside penalty floor of -2.50%.
- Modifying the target setting mechanism for duration (CMLs) to align it with that used for frequency (ClIs).

The implications of these changes merit further consideration as follows:

5.6.1 Reduction in reward cap

The IIS was developed as a mechanism to encourage DNOs to improve network reliability in a framework that generally incentivises cost savings. Through the IIS, companies are instead incentivised to invest in capex and maintenance programmes to improve reliability to earn financial rewards.

The core reason for encouraging reliability improvements is to enhance consumer welfare and create additional value where the benefits resulting from the delivery of the outputs exceed the costs of delivering that improvement – in this case through improved reliability and quality of service.

Through successive price controls, including RIIO-ED2, DNOs have observed and measured customers' desire for improved reliability. Even with GB's high levels of reliability, engagement has shown that customers still value reliability improvement. Ofgem have recognised this stating "*The Business Plans submitted by the DNOs identified that their customers were generally supportive of greater reliability, as evidenced by the engagement undertaken with them.*"¹⁰ However, Ofgem also refer to a letter from Citizen's Advice which suggests "*that customers may not have understood the cost of further improvements (ie through payment of IIS rewards) and so it cannot be assumed they wanted improved levels of reliability at any cost.*"

We are not suggesting that improvements in reliability should be provided at any cost – however, if the benefit exceeds the cost then it would be reasonable to consider whether it offers enhanced consumer value.

Ofgem is also proposing to re-examine the assumed Value of Lost Load (VoLL) ahead of RIIO-ED3, as a check on how much consumers value network availability. We support this exercise, it is overdue and in particular given the change in consumption patterns stemming from more people working from home. In addition, the move towards greater electrification in the home and uptake of electric vehicles will make consumers more reliant on their electricity supply. Ultimately, we believe that this will play through into a higher VoLL.

Given the fact that VoLL may increase, it is surprising that Ofgem is proposing to de-emphasise improvements in reliability as this is the consequence of reducing the cap on IIS rewards. Even in the absence of increasing VoLL, Ofgem should consider increasing the power of the incentive, rather than weakening it, so as to increase consumer value as it would be necessary for DNOs to undertake increasing marginal cost projects to deliver further improvements.

¹⁰ RIIO-ED2 Core Methodology document - paragraph 6.14

Furthermore, we would strongly disagree with the assertion that IIS rewards have to fall to make room for other incentives. If there are other areas of performance which merit greater incentivisation, then the answer is to do precisely that, rather than seek to keep the “incentive pot” the same by reducing the rewards on existing incentives. This is supported by the outcomes of Willingness to Pay research, which showed that consumers would be willing to pay small increases in charges for defined benefits.

In summary, the lens for this incentive has increasingly become distorted by targeting reductions in RoRE / reducing RoRE gains as opposed to targeting the optimum level of outputs. Reducing the reward cap on the IIS will reduce the amount of reliability improvements DNOs will be willing to make.

In re-evaluating the appropriate VoLL for domestic consumers, Ofgem needs to be led by the evidence and so if VoLL increases, then this places even more emphasis on improving the reliability of the distribution networks. Overall, the priority for Ofgem should always be the interests of consumers, however through these actions Ofgem is at risk of leaving attainable consumer value on the table.

Note: this focus on outputs is something that other regulatory regimes are increasingly moving towards. In its draft methodology for PR24, Ofwat, for example, considers that rewards and penalties should generally be symmetric, is proposing to reduce the role of caps and collars, and is proposing to remove incentive deadbands. The purpose of these proposals is to re-focus water company behaviours towards those that benefit customers the most. This is almost in direct contrast to the approach followed by Ofgem.

It is our proposal, therefore, that Ofgem retain the symmetric nature of IIS and the current incentive rates in place during ED1 (+/- 2.50%).

5.6.2 Modification of CML target setting

The ED1 methodology for setting CML targets is based on the lower quartile performance of frontier companies. CML targets have been set this way because, until now, Ofgem held the belief that regardless of network setup/geography and the number of interruptions, DNOs should be able to target a ‘best-practice’ restoration time.

For ED2, Ofgem has decided to base targets on DNO’s own historical averages which is how CI targets have been set to date. This suggests that, after 20 years of IIS, Ofgem has suddenly decided that the ability to reduce restoration times is now determined by the network structure. Perhaps more importantly, it suggests a shift towards maintenance of current performance rather than continuous improvement – a position which Ofgem has no evidence to support and one which is counter to consumer benefit.

By moving the target setting to this new methodology, lagging companies’ ED2 targets have been relaxed and frontier networks (such as WPD) have had their targets tightened. It would appear that Ofgem has concluded that customers in lagging networks do not value improved reliability as much as those in frontier networks. No evidence is advanced to support this proposition.

We are concerned that Ofgem’s instincts are to limit fair, consumer value enhancing rewards to companies instead of prioritising what customers actually want and value. Every DNO has provided evidence to show that customers value improved reliability and every customer in Great Britain is entitled to expect similar reliability levels regardless of where they live.

We do not believe that Ofgem has provided adequate justification to make any changes in the CML target setting methodology and hence we believe that the existing mechanism should be retained with lagging networks incentivised to catch-up via a sufficient upside revenue cap.

5.7 Major Connections Incentive

Major Connections customers are those customers that are connected in market segments where there is an absence of effective competition, and which are not captured by the CSS or TTC incentives. Submitting a Major Connections Strategy was a minimum requirement under Stage 1 of the BPI.

To hold DNOs to account for the delivery of their strategies, Ofgem has proposed an *ex-post* evaluation in the form of a financial ODI. This was proposed initially as a symmetrical incentive with both penalties and rewards. However, in the DDs, Ofgem's position has changed to make this incentive asymmetrical and penalty-only (further reinforcing the overall negative risk/reward balance of the DDs). The proposal from Ofgem is to apply the penalty such that DNOs either face no penalty or the maximum penalty.

The implications of setting an 'all or nothing', penalty-only incentive, with a collar, is that DNOs will only be incentivised to exceed the collar. With no upside reward, DNOs are not incentivised to even meet the target, let alone exceed it. We believe that this is not in the interests of our Major Connections customers.

The incentive should be symmetrical, providing both penalties and rewards, and those incentives should increase depending on how far below/beyond the target the DNO scores. This will not only encourage companies to meet their targets, but also to strive to exceed them.

Throughout the ED2 process, Ofgem has placed considerable importance in companies developing robust and ambitious Major Connections strategies. By then making the incentive penalty-only, Ofgem are now sending the opposite message that 'just enough is good enough'.

It should be noted that Ofgem argues that it is not appropriate to permit upside financial incentives for excellent customer service in markets where competitors exist as it may distort competition. However, this is contrary to previous practise, as they have also stated that financial incentives will not apply in market segments that have passed the Competition Test and that the proposed incentives will apply for services where effective competition does not exist. Therefore, applying an upside incentive in these situations will not distort competition.

5.8 DSO incentive (ODI-F)

We welcome Ofgem's desire to incentivise a step change towards the delivery of DSO functions and services, including facilitating flexibility and greater LV network visibility, while ensuring efficient energy system operation at the lowest costs to consumers. We see this as a key ingredient in the transformation of the Energy System with respect to Net Zero.

RIIO-ED2 represents a transformation in the role of DNOs, with companies required to deliver enhanced and, in some cases, entirely new DSO functions and services. Given how important this is for the operation of the energy market, there is a strong argument for incentives to drive both the extent and pace of change.

Ofgem has recognised this need by proposing a new DSO incentive in the form of a financial ODI. Under this arrangement, DNOs will be assessed *ex-post* against three evaluation criteria:

Stakeholder survey: stakeholder satisfaction is measured against a common *ex ante* target (40% weighting).

Performance panel assessment: a performance panel undertakes an evaluative assessment of company performance (40% weighting).

Outturn performance metrics: outturn performance is measured against ex ante company specific targets (20% weighting).

The three values will then be combined to determine the overall DSO incentive reward/penalty. The proposed incentive value for this ODI-F is +/- 0.2% of RoRE per year, equating to a maximum reward for WPD of £7.3m per year.

This transition from DNO to DSO is a fundamental change in the way that networks companies operate which is further recognised by the presence of a DSO re-opener, in addition to this incentive scheme, and the requirement for a fully costed DSO strategy as part of the business plan.

We question whether the modest nature of this incentive will stimulate the kind of innovative approaches that Ofgem is hoping to witness and whether it will generate early and material benefits to consumers. Not only are the rewards small, but the qualitative nature of the evaluation of is almost guaranteed to result in a reward which is below the maximum. Even a maximum penalty will not provide a powerful incentive, given that it would be completely outweighed by, for example, a small failure in relation to IIS performance.

It is our view that this incentive does not reflect the significance of this change, nor is it likely to drive innovation of meaningful performance improvements. We would argue that a potential reward which is more material would be comfortably paid for through additional benefit to consumers.

Incentive based regulation has served customers well and there is a logic and a legitimacy in the sharing of the benefits obtained between shareholders and customers. It is reasonable for Ofgem to take account of consumer sentiment which might include placing limits on the returns which a network company can earn. The proposed Return Adjustment Mechanism (RAM) serves that purpose by placing an overall cap and collar on the rewards or penalties that companies are subject to. However, given the small basket of incentive schemes, it is perverse to slant the package towards downside penalties or to place artificial limits on individual incentive schemes without any comparative evidence of consumer value to underpin this.

It is our view that in finalising the ED2 incentives, Ofgem should adopt the following design principles:

- incentive schemes should be symmetrical given the positive incentive properties these promote and supporting a more balanced package
- less use should be made of caps and collars, with greater reliance placed on the RAM to ensure that overall rewards or penalties will fall within a range which is acceptable to customers

5.9 A broad-based approach to measuring consumer value

To date, Ofgem has measured the strength of incentives and the impact of its regulatory frameworks through an assessment of the impact on the returns to investors – captured in the RoRE measure. This worked well when the primary focus was on incentivising cost savings and consequently equating cost savings with customer value (a key aspect of Ofgem's Primary Duty) was understandable.

The sector has reached a point where cost savings are no longer the primary objective and other sources of customer value are at least equally important. As such, RoRE alone is no longer a sufficient measure of customer value.

An alternative measure of impact that captures consumer value and the consumer surplus generated by the regulatory framework is needed to place alongside RoRE. Some of the key elements that need to be incorporated into such a measure include:

- The measure of cost savings, either captured through TIM or a related mechanism;
- NPV positive benefits achieved through the delivery of investments in infrastructure;
- Output and outcome related benefits delivered through ODI incentives (while it may be easier to value ODI-F incentives, in principle ODI-R incentives should also be included); and
- Consumer benefits arising from sector level advances in innovation and through enhanced Consumer Value propositions.

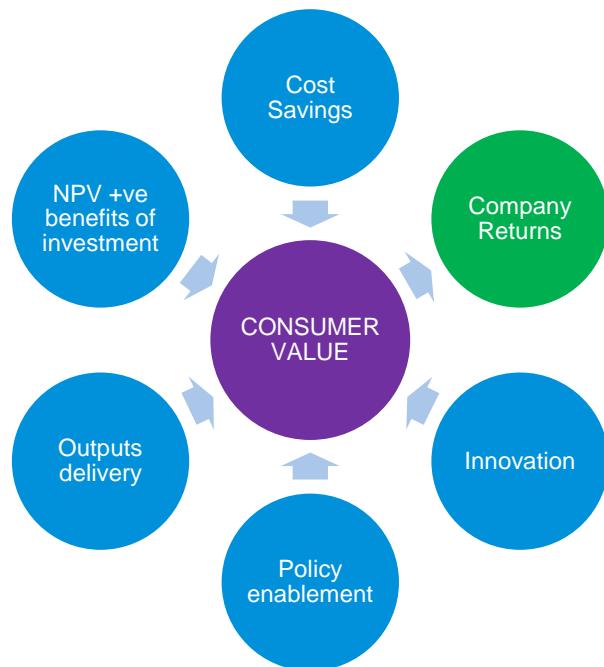


Figure 1 – The components of Consumer Value

Taken together, these, and potentially other benefits, can be thought about in terms of the consumer value or consumer surplus delivered under the regulatory framework and it is these overall outcomes for consumers which should be used to derive the returns made by the networks companies.

Measuring some, or all, the elements may not be straight-forward or precise, however given Ofgem's Primary Duty is about current and future consumers an attempt to assess the impact of the regulatory framework on consumer surplus should be insightful. It will assist by evaluating the appropriateness of the regulatory framework and the discharge by Ofgem of its duties. This will provide a richer picture than a simple focus on how low the average bill is and shareholder RoRE.

Measurement of the consumer surplus benefit could be achieved through different approaches, including:

- The NPV of cost savings passed on to consumers, either directly or indirectly
- A willingness to pay value multiplied by the improvement, valued over the remaining life of the price control (assuming that the benefit becomes incorporated into the base deliverables in the next price control period)

- The *ex-ante* estimate of the positive NPV associated with infrastructure investments when assessed at the allowed WACC (assuming that only marginal investments deliver an NPV of zero)¹¹

This measure should be normalised to allow the impact across different companies to be compared. Further, the individual elements driving consumer value could be compared – a “Consumer Value Metric” (CVM) can be generated that sets out the individual elements of consumer value plus the total view.

To provide an example of how an element of the CVM could be calculated, consider the evidence from CVP1 as proposed in our Business Plan. An NPV of £14.4m is calculated as per approach 1 (page 32 of the CVP1 document). That gives a per consumer benefit of £1.82 (based on 7.9m consumers). Based on the average 2022/23 bill of £80.36 (Business Plan figure 1.8) this equates to 2.3%.

This could be presented in a comparative way, as per the illustrative example below.

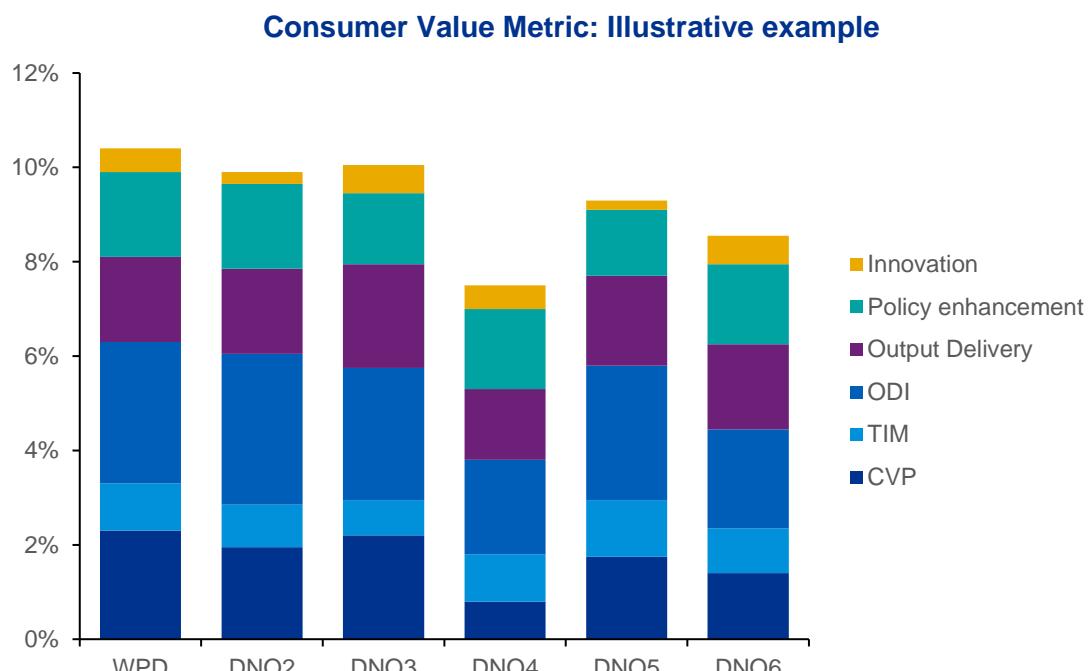


Figure 2 – An illustrative example of a Consumer Value Metric

The consumer value under this metric could be measured and assessed relative to the overall bills paid by customers. Whilst further work would be needed to develop and refine a metric such as this, we believe this could be a powerful tool for companies, consumers and Ofgem to analyse and understand the implications of a company’s Business Plan for the key stakeholder: consumers.

RoRE can be used alongside a measure such as the Consumer Value Metric to determine the impact on shareholders and the Return Adjustment Mechanism is available to ensure that any optimisation would not lead to excessive shareholder returns which could undermine the legitimacy of the package.

¹¹ There may be an argument that some statutory required investments do not deliver even an NPV of zero. The statutory investment requirement ought to mean that there is some societal value being generated that ought to be captured – otherwise what rationale could exist for the investment?

5.9.1 Applying the consumer value lens to the overall DD proposals

Ofgem has taken an approach in its DDs, which we interpret to be seeking to protect the consumer and to discharge its duty in this regard from the narrow definition of bill impact. Applying the broader CVM framework outlined above would provide a more comprehensive view of the consumer implications of the DD. Our assessment of this is provided below.

- TIM – the mechanism is well established but the reduced sharing factor has reduced the overall power of the incentive to unlock value. As a result there is a risk NPV enhancing efficiencies will be lost/ foregone.
- NPV positive investments – the conservatism which has resulted from placing many mechanisms into Uncertainty Mechanisms (UMs) – in combination with the Materiality Threshold – means that companies will be less likely to expend to deliver on NPV positive investment outcomes and that, where they are delivered, they may be delivered later with an NPV-ve cost of delay as well as the additional regulatory and company burden. Also, the asymmetry in the regulatory package and the non-aiming up in respect of Cost of Equity has implications for the ability of companies to undertake such investments.
- ODIs – the artificial capping of upside potential even where delivery would drive additional value creates artificial kinks in terms of assessed consumer benefit which are simply not supported by the analysis and means that incentives to reduce costs at the expense of service quality are present in the framework even where such cost reductions result in reduced consumer welfare.
- Network Innovation and Consumer Value Proposition – the inherent conservatism relative to what can be potentially uncertain benefit payoffs mean expected net benefits may not be delivered. On CVPs the adoption of only 1 CVP (by WPD) with reward in full across the sector creates its own incentive to not seek out or to advance such sector frontier shifting measures.

Taken all together it is clear that Ofgem's approach to the DD has left vital consumer benefit on the table and means that the Primary Duty may not be fully met.

5.9.2 How have customers and stakeholders been engaged in developing and assessing ED2 business plans?

The network companies, encouraged by Ofgem, have sought to widen and deepen external contributions to the RIIO2 price control processes – through a process of “enhanced engagement”.

There has been a significant programme of engagement in the development of the business plans. For example, we have involved over 25,000 people in our process. This has ranged from events addressing strategic topics through to highly specialist gatherings. Customers have been involved in the assembly of the business plan and the options that might be included, through to rounds of public consultation.

Our approach to engaging with our customers and stakeholders has centred on defining a set of commitments covering the high-level output categories defined by Ofgem and how these should be addressed across our four DNO regions. As these commitments have been refined, they have been articulated in the form of CVPs, Price Control Deliverables (PCDs) and other outputs with associated targets.

Furthermore, our Customer Engagement Group (CEG) has acted as a critical friend to WPD in reviewing the business plan. The CEG has been both challenging and critical in its scrutiny and this has resulted in changes to our plan, which overall has had a positive impact and made it more representative of customer need.

Ofgem created a Challenge Group (CG) which it describes as “*representing end-consumers*”. The CG has reviewed the company business plans and CEG reports and assessed the ED1 performance of each company. Ofgem appears to have taken considerable notice of the CG's

conclusions when arriving at its decisions particularly around the commitments made by the companies and the CVPs.

More generally, given its supposed remit to represent consumers, it does not appear that the CG has adopted a consumer lens in its assessment of each business plan. If anything, their reports resemble the kinds of material that one might expect a regulator to produce as part of an assessment of efficiency or performance metrics etc.

The CG reviewed the 24 CVPs presented by the DNOs, but only felt able to support 4 of these and then only partially. This might suggest that the CG was more influenced by traditional measures of value for money, rather than identifying innovative ways of delivering additional value to consumers.

In addition, the CG appears sceptical about the reliability of the customer support which companies have cited in justifying their plans. It questions the robustness of the Willingness to Pay research undertaken with end-consumers, albeit that WPD and others worked with an acknowledged specialist in the field.

In the DDs, Ofgem cites four main sources which it has used to better understand customer needs, namely CEG reports, the CG report, the Open Hearings and responses to its call for evidence on the draft business plans. However, Ofgem has not commissioned consumer research of its own, preferring to base its assessment on the source mentioned.

Ofgem provides a breakdown of the conclusions it has drawn covering various components of the ED2 framework. The conclusions are descriptive in nature, and it is hard to assess whether customer views are driving Ofgem's proposals or precisely how Ofgem's interpretation of those views is being used to provide justification for Ofgem's decisions.

5.10 Output levels achievable with reduced allowances

As part of our Business Plan, and following extensive customer and stakeholder research, we made 42 Core commitments covering Ofgem's high-level output categories for RIIO-ED2, namely Delivering an Environmentally Sustainable Network, Meeting the Needs of Consumers and Network Users and Maintaining a Safe and Resilient Network.

These commitments describe in detail the programme of activity which we propose to deliver in RIIO-ED2, in exchange for the allowances requested. We proposed appropriate mechanisms through which we could be held accountable for delivering these commitments – mainly in the form of Output Delivery Incentives (ODIs – 37 reputational and 3 with a financial reward/penalty), but also 3 PCDs and 1 licence obligation.

In a singular and sweeping statement Ofgem proposes that "*we do not consider that reporting on the proposed core commitments requires bespoke ODI-Rs and do not believe their introduction is proportionate*". Rather Ofgem "*welcomes WPD's commitment to reporting on delivering against its RIIO-ED2 Business Plan aligned with their obligations under Standard Licence Condition 50 (Business Plan Commitment Reporting)*".

Standard Licence Condition 50 merely "*requires the licensee to publish an annual report on how it has performed against commitments made in its RIIO-ED2 Business Plan*" to prescribed timescales and making use of any guidance which the authority chooses to direct. This demonstrates that whilst licence obligations are important, they will often represent the minimum level of requirement necessary rather than enhanced service levels.

ODI-Rs proposed by us which were specifically rejected by Ofgem include:

- Core Commitment 3: Ensuring customers are able to connect low carbon technologies quickly and easily with the network being ready to support at least an additional 1.5 million electric vehicles and 600,000 heat pumps by 2028;
- Core Commitment 5: Keeping bills as low as possible and minimise the requirement for load related reinforcement by adopting a 'flexibility first' approach in order to minimise the utilisation of the existing network;
- Core Commitment 6: Unlocking capacity from the existing grid and therefore avoiding the need for reinforcement by stimulating the development of flexibility markets and implementing simple, fair and transparent rules for procuring flexibility services.

Six of the proposed commitments are accorded a paragraph of explanation as to why they are rejected referencing other – generally industry wide – aspects of the framework; for example, where performance is already measured through an existing incentive arrangement.

The other 36 core commitments are not even specifically addressed and are rejected on the basis of the existing commitment within Licence Condition 50 in relation to Business Plan reporting.

This suggests an absence of a full consideration of customer and stakeholder views when assessing the company business plans (see further below). For WPD, these commitments are specific examples of us delivering the core output categories for RIIO-ED2, which have been agreed with customers and stakeholders, and then used as the basis for costing our business plan. Through the proposed ODIs etc, we are creating a framework through which we can be held accountable to our customers for their delivery.

Ofgem's approach however seems to regard them as little more than internal targets and ignores the investment of time and intellectual input made by our customers in defining them. It also relegates the importance of regular reporting back to customers and ongoing engagement which was surely part of the intent when the RIIO framework was established.

The Core Commitments laid out by us were dependent on the expenditure identified and set out within our Business Plan. With the very significant levels of reduced expenditure now proposed by Ofgem there will be a significant impact on delivery and consequential loss of value to customers (as we catalogued above) and reduced progress on the delivery of policy ambitions.

By way of example:

- The impact of a 19% reduction in Capex will mean that our networks will be less able to support the anticipated growth in EV charging and Heat Pumps in some of GB's major conurbations

Region	Electric vehicles and heat pumps		
	Stakeholder proposed	Ofgem's draft decision	At risk
Birmingham	82,760	29,980	-52,780
Bristol	36,887	22,063	-14,823
Cardiff	30,483	25,362	-5,121
Coventry	29,483	24,265	-5,219
Milton Keynes	31,923	26,273	-5,650
North Cornwall	24,775	18,879	-5,896
Nottingham	31,599	26,006	-5,593
Stoke-on-Trent	30,246	24,741	-5,505

- Parts of our Net Zero plan will need to be postponed – we anticipate a delay in achieving Net Zero of around 7 years.
- There will be a reduction in parts of our tree cutting programme. This is likely to lead to more outages, at precisely the time where more people are choosing or being required to work from home. This reduction is completely counter to the needs of a home-based workforce.
- We proposed to help 113,000 fuel poor customers to directly save more than £60 million through our support schemes. Given a funding cut of c.19%, then the activities will be scaled back such that at least 21,000 fewer customers will be helped, reducing the overall benefit of this scheme.
- In essence, we have a choice to make, given the reduction in the proposed allowances:
- Deliver all 42 commitments but at a reduced level: reduce the scale of our delivery and ambitions across all commitments by around 20%
- Deliver a smaller number of commitments overall and drop some stakeholder priority areas: Prioritise the top commitments only (e.g. network reliability and safety) do not deliver 5 to 10 commitments in their entirety

Either way, this is going to be a difficult message to communicate to customers and stakeholders and it would be perfectly reasonable for them to refuse to engage to the same extent in future, given the fact that their views only seem to have limited impact on Ofgem's assessment and decision-making.

5.11 Conclusions as to the centrality of consumers in Ofgem's ED2 decision-making

It is hard to avoid the view that Ofgem has valued holding consumer bills at current levels as being the most important consideration in assembling the ED2 package. Given the investment requirements of Net Zero, the only way this is achievable is by cutting the returns that companies can make, moderating investment to the minimum necessary whilst limiting activities which are more discretionary in nature.

This has a direct impact on consumers as evidenced by the number of CVPs which emerged from customer engagement, but which have failed to be accepted either by the CG and/or Ofgem or where there has been an assumption that they can be delivered through baseline allowances.

The retreat from the use of financial incentives not only places downward pressure on returns but plays to the narrative that companies should not be seen to profit from delivering high levels of service.

This speaks to a focus on consumer bills and company returns, as measured through RoRE, as being the key determinant of consumer satisfaction, rather than listening to what customers and stakeholders articulate as their needs and preferences and creating a package tailored to meet these.

Clearly charges are important to consumers and returns are a key component in arriving at these, but a purely financial view as to the effectiveness of a package is inevitably partial. Assessing value for money requires value to be considered, as well as the cost.

5.11.1 What changes could Ofgem make to create a genuinely consumer-centric Price Control?

In moving from DD to Final Determination, Ofgem should consider the following modifications to its approach:

1. Ofgem should look again at the Willingness to Pay research undertaken by each of the DNOs – this shows that consumers are willing to pay modest additional charges in exchange for new and enhanced services but also to contribute to preparations for the Net Zero transition.
2. Ofgem should consider ratifying a larger number of CVPs, particularly where there has been strong consumer support demonstrated for them. It must also ensure that DNOs have sufficient allowances to deliver their CVPs and other commitments built into their baselines.
3. Ofgem should reconsider its decisions on funding investment in relation to Net Zero and provide larger ex-ante allowances to enable companies to respond more effectively to the specific demands of their regions, for example, to enable uptake of Electric Vehicles or Heat Pumps. This would be wholly in accordance with the outcomes of the DNO's Willingness to Pay research.
4. Ofgem should consider how it brings a more balanced judgment to its assessment of business plans so as to take account of the value being provided to consumers as well as the absolute cost. There is evidence of willingness to pay more amongst consumers for specific outputs and these could provide worthwhile and more efficient investments for consumers in the longer term. We would recommend that it formulates a consumer value measure equivalent to its RoRE and efficiency measures which it can use to better assess the cost of delay.
5. Ofgem should consider whether the DNOs Social Return on Investment (SROI) could be more widely used in reopeners etc which might be submitted as part of RIIO-ED2 or as a potential measure of value which can be deployed both in RIIO-ED3.

The consequences of using a RoRE lens to assess the “value” of the price control settlement is evident. If the ambition is simply to ensure that consumer charges are moderated and that regulated companies do not make ‘large’ returns, then this results in a natural drive to:

- reduce *ex-ante* funding,
- make greater use of *ex-post* assessment through uncertainty mechanisms
- minimise the power of incentives
- limit the potential for upside rewards
- introduce caps on the overall returns that can be obtained; and
- reduce the cost of capital

All these actions will serve to put downward pressure on the absolute returns that companies can make, however what it fails to do is consider whether this best protects consumer interests or whether the reduction in consumer bills may simply be paid for through a more than proportionate reduction in the value delivered to consumers and the timeliness of the delivery.

Moreover, it is easy to ensure returns equate to expected returns through a set of *ex post* adjustment and bespoke uncertainty mechanisms. But this comes at a cost through the loss of consumer value in terms of the benefits delivered through *ex ante* incentive-based regulation and which, as outlined above, enables consumers to benefit from the greatest proportion of the benefits derived.

It is evident that an assessment of many of the proposals found in the DDs from the perspective of consumer value will illustrate that outputs are being cut, the scope for innovation is being limited, delay is being introduced and that the transformation of the sector more broadly will be constrained.

This is a very substantial trade-off being proposed which Ofgem has not considered as part of its impact assessment and hence we have to assume that it has not undertaken the corresponding analysis. The fact that a CVM type tool does not exist and has not been used, and the fact that the considerations in the discharge of the consumer duty have not been clearly articulated, strengthens our view that consumer value is not being adequately considered.

It is our belief that Ofgem should more actively take account the customer and stakeholder research undertaken by companies or have undertaken consumer research of its own to assess what the right balance is between consumer charges and provision of products/services at the aggregated level of the proposed Price Control settlement. Instead Ofgem appears to have relied on the opinions of the Challenge Group (CG) in particular and used this to justify its apparent stance that what consumers desire is lower/stable bills rather than added value in response to modest increases.

Annex A - Comparison of the proposed outcomes of the ED2 Price Control applying a Consumer Value Lens:

WPD has worked systematically through the DD with a view to cataloguing those areas where the framework or decisions under the framework erode or leave consumer value on the table. This table is non exhaustive and the 14 areas identified where consumer value do not represent all areas where consumer value is eroded as part of the proposals set out in the Draft Determination.

Item	Action	Impact	Assessment under Consumer lens	Potential Scale of Consumer Value discarded	How Ofgem should address in the case of WPD
1	Consumer Value Propositions – accepted but without reward	Need to deliver out of baseline with no additional funding leads to ‘basic service’ despite recognition of the benefits through CVP acceptance	Incentive to minimise the value add of any delivery due to cost saving incentive under TIM as not subject to reward framework.	Loss of Net Benefits which would be expected from CVPs, as follows – CVP1: NPV of +£14.4m of direct benefits estimated after 5 years. CVP2: NPV of +£27.9m after 5 years CVP3: NPV of +£3.1m after 5 years Loss of value from derivation of future CVPs	Provide reward for CVP-1, CVP-2 and CVP-3 based on robust reward framework proposed by WPD.
2	CVPs - rejected	New or innovative service not made available	No benefit to consumers	Loss of Net Benefits which would be expected from CVPs, as follows – CVP4: NPV of +£20.5m of direct benefits estimated after 5 years. CVP6: NPV of +£16.7m after 5 years	No Specific Amendment Sought
3	IIS targeting based on historic methodology as opposed to new methodology proposed for ED2	Reduced incentive to improve CI and CML performance, particularly in respect of lagging performers	CI and CML performance will be constrained whilst companies continue to max out on financial incentive.	Incentive to fund outage performance by WPD will reduce by c.£29.8m in ED2.	Apply more sectorally challenging IIS targets based on application of established ED1 Methodology which recognises WPD’s historical performance.

Item	Action	Impact	Assessment under Consumer lens	Potential Scale of Consumer Value discarded	How Ofgem should address in the case of WPD
4.	Reduction in allowed investments in LRE (driven by Net Zero scenario models)	Reduced outputs such as numbers of EV charge points or heat pumps which can be supported. Need to rely on Uncertainty Mechanisms if demand is higher than Ofgem has allowed for, however these have a threshold expenditure of c.£27m before costs can be recovered, which provides a disincentive to invest.	Reduced numbers of EV chargepoints, Heat Pumps or volume of renewable generation that cannot be connected due to network constraints. Extended timescales for Connections if UM needs to be exploited.	Reduced outputs Cost of delay in provision of outputs if UMs have to be accessed	Apply greater allowances for LRE in the <i>ex ante</i> and adopt best and latest scenario data Provision of higher ex-ante allowances. Multiple windows for re-openers
5.	Limited investment in resilience of the network in the face of adverse weather	Potential for extended outages for consumers	Greater risk of more and longer outages reducing consumer welfare	Benefit of greater resilience in network coupled with those of replacing aged equipment in remote locations	Increase replacement expenditure
6.	Failure to take into account the balance of risks and expected loss of value in choice of point estimate of WACC	Risks that marginal investment signals result in non-delivery of NPV value adding projects	Loss of full NPV value derived in respect of projects not progressed	Based on engineering	Increase ex-ante funding and provide a means through which DNOs can access project funding, perhaps on a staged basis
7.	Proposed Investment in digitalisation and data services to enable network companies to extract the maximum capacity from their networks	Reduction in baseline ex-ante funding limiting innovation. A greater dependency on re-opener to provide additional funding. Re-opener not available to DNOs until 2026.	Limited incentive to push boundaries in digitalisation so other costs such as reinforcement may remain higher than necessary	Excess cost of unnecessary reinforcement. Also, higher whole system costs borne by consumers as digitalisation is delayed	With suitable controls, provide a funding mechanism through which DNOs test DSO capability over and above a default model
8.	DSO	Modest baseline ex-ante funding limiting innovation. Re-opener can only be triggered by Ofgem	Ambition of more progressive companies to go further will be constrained. Consumers in effect waiting for Ofgem policy decisions	Whole systems savings that could be achieved by an empowered local system operator.	Ability of DNOs to be able to trigger re-opener. Provide upside incentive to drive higher performance

Item	Action	Impact	Assessment under Consumer lens	Potential Scale of Consumer Value discarded	How Ofgem should address in the case of WPD
9.	Improvements to quality of service provided to major connections	Penalty only mechanism resulting in defensive strategy for delivery of major connections	No incentive to seek improvements in service for Major Connections	Companies target performance level adequate to avoid a penalty	Provision of symmetric incentive. Provide greater ex-ante funding ahead of reopeners to encourage prompt delivery
10.	Reopeners – timing, particularly of those later in the Price control, will reduce the opportunity for DNOs to take advantage of the funding provided	Uncertainty over funding likely to result in safety first approach including delay of work until funding secured	Actions delayed until end of ED2 period or into ED3 rather than being planned into early years of ED2	Consumers experience delay	Ex Ante provision of estimated expenditure up to re-opener window. Reduce materiality threshold or enable aggregation across categories in relation to a higher threshold.
11.	Use of materiality thresholds in UMs	Creates a hurdle for investment as costs may not be recoverable	Investment foregone by companies in seeking to minimise expenditure under UMs where threshold is unlikely to be reached	Reduced benefit to consumers due to companies limiting discretionary expenditure	Amendment of Materiality Threshold to 0.5% of baseline expenditure consistent with RIIO GD2/T2.
12.	Proposed PCD to replace the existing fleet of vans with EVs	Petrol/Diesel vehicles remain in fleet until end of economic life	Reduced incentive to seek accelerate progress to achieve Net Zero	Delay in achieving Net Zero as a business	Provision of CVP-1 with reward: WPD to achieve Net Zero by 2028.
13.	Review of NIA allowances after 3 years rather than award of allowances for 5 years	Increased reluctance to plan beyond year 3	Reduced investment in R&D limiting potential for benefits in ED3	Delay in consumers seeing benefits of innovation	Provide full 5-year allowances.
14.	Limitation of IIS upside to +100bps RORE from previous 250 bps RORE	Limits incentive to deliver improvements in reliability	Failure to seek out consumer welfare enhancing reliability improvements	Reduction of c.£55m of incentivised investment by WPD in reducing outages, equivalent to 150bps RoRE	Reinstate incentive to deliver higher IIS