

RIIO-ED2 Draft Determinations ENWL Document Consultation response

Annex 4: ENWL company specific response

August 2022



Introduction

In this annex we set out our response to the questions set out in the ENWL company specific annex of the Draft Determinations (DD).

In considering the questions raised by Ofgem, and our response to these, we have engaged with our CEG as well as wider stakeholders to understand their views on the DD and the positions set out by Ofgem. We have done this throughout the ED2 preparation process and consider that the views of our customers, stakeholders and CEG remain as important as ever. It remains critical that the settlement which is finalised for ED2 enables ENWL to deliver for the communities we serve. From our stakeholder engagement over the summer we understand that our stakeholders will respond independently setting out their views. It is vital that Ofgem act on these in the development of Final Determinations (FD) reflecting regional stakeholders needs.

We continue to welcome the ongoing engagement with Ofgem, both through bilaterals and working groups and view this as vital as we work through the changes required between DDs and FDs to ensure a workable and acceptable framework/ determination. We would note that the time remaining is short and there are significant amounts of detail still needing to be developed. This can be achieved but requires both DNOs and Ofgem to constructively work together in a solution orientated way. We are fully committed to playing our part in this regard. We also suggest given the time available and volume of work need that Ofgem consider its short-term resourcing requirements and scale as appropriate.

The responses contained in this and the other documents should be considered alongside the detailed comments we have made within licence drafting working group (LDWG) and its associated issues logs. We recognise that the licence for ED2 is not a formal part of this DD consultation stage and a separate process will be run to consult on the licence to be put into place, therefore we have not sought to include views on the licence at this stage in our response. An effective Ofgem led informal and formal licence consultation process is critical including the timely provision of updated issues logs showing how Ofgem has considered and actioned DNOs feedback contained within.

Further, whilst we note the DDs are a consultation with the opportunity to provide our views and evidence on the proposals contained within, we remain seriously concerned that the process and timing is not optimal and risks this important part of the ED2 process being rushed, especially considering the range and complexity of changes from RIIO-ED1. We remain of the view that an eight-week consultation period, especially given the timing over the summer, is not sufficient for such an important part of the process and urge Ofgem consider this in future stages and price review processes. This issue of process and the time available to fully understand the DDs and develop a fully informed and thought out response has further been exacerbated by additional and short order data requests from Ofgem with response dates overlapping, ultimately diverting resources away from our core response at times.

On next stages and steps in the process we remain open to working constructively with Ofgem and others to develop workable solutions for ED2. We urge that Ofgem are open and transparent and encourage that this occurs on an ongoing basis and ahead of FDs, including the expediting and sharing of decisions where possible. It is important that FDs contain no surprises to DNOs and we are of the view that if there are, this is unhelpful to all parties and a failure of process. This is of increased importance when considering the area and outcomes from Ofgem's cost assessment process.

To that end, we will continue to feed in evidence and information for the consideration of Ofgem over the coming weeks and months. We expect that Ofgem will consider this information on the same basis as it will the information contained in this document and included in our wider DD response.

ENWLQ1 What are your views on the company specific parameters we have proposed for the common outputs that we have set out above?

This question covers interruptions incentive scheme (IIS), Network Asset Risk Metric (NARM), Consumer Vulnerability incentive and Major Connections incentive. We provide a response to each in turn below:

- **IIS** – We agree with the targets proposed for CIs and CMLs for ENWL which reflect the changes in methodology for CMLs for ED2 more broadly.

We fundamentally disagree with the revenue cap and collar as proposed which reflects the imposition of asymmetrical incentive strength of 100bps of upside and 250bps of downside as set out in the Draft Determination (DD).

Particularly in our case, when considered against the issues we have consistently raised with Ofgem regarding financeability, this significant downside skew in the incentive is especially concerning. We set out our fuller response to this in questions 46 and 47 of our Core document.

- **NARM** – We welcome that the NARM baseline output is reflected in a single number and based on our proposal included in our Final Business Plan (FBP).

We therefore agree in principle with the NARM baseline output as proposed, though this is contingent on the output being consistent with the planned programme of work and the appropriate funding being provided in our FD. Currently errors in cost assessment mean this isn't the case as set out in this DD. Ofgem therefore needs to consider our specific response in this area as set out in question 54 of our Core annex response and also our response to Core question 111 which outlines the fundamental issues with the allocation of costs to cost areas (including NARMS) as set out in DD.

- **Consumer Vulnerability incentive** – We are unable to agree with our value of fuel poverty services delivered targets as we have real concerns about the comparative approach and the interactions with baseline allowances. Our target as set out represents the most ambitious of all DNOs in NPV terms and we have concerns that the basis by which these targets have been set on a DNO by DNO case is not comparable or fair. The inconsistency of approach means that the subsequent measurement of performance against this target is unlikely to be on the same basis as the target was established. Further it is clear from the cost challenge that we have received that our original ambitious target must now be adjusted to reflect the allowances provided. In short, a cost - service/output disconnect exists as is.

We note Ofgem recognise the issue of comparability of targets in the DDs and we support further work to ensure consistency of application and that targets are fairly assessed and calibrated including additional benefits to reflect the ambition of a DNO over others where applicable. Ambitious DNOs should certainly not be penalised which currently appears to be the case.

In addition, we recognise that we have not provided our value of LCT services delivered in SROI terms. As clarified by Ofgem in response to our SQ ENWL036, we now understand that the process for submitting SROI on LCT services delivered, as well as resubmission of SROI on fuel poverty services delivered, will take place in September. We welcome the confirmation that these new submissions will be considered by Ofgem for FDs.

- **Major connections** – We note that these sections in the ENWL specific annex are in line with the proposed methodology as set out by Ofgem. We provide specific response and comments to these in response to questions 39 through 43 of the Core annex.

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

We welcome both the inclusion of an ODI-R for our Borrowdale transformers programme and the acceptance of our Dig, Fix and Go (DFG) ODI-F, though Ofgem should revert to the incentive rate we proposed that is robustly evidenced and will drive more consumer benefit than Ofgem's proposed approach.

With regard to the Borrowdale transformer programme, it is critical that Ofgem's cost allocation methodology must be consistent with setting appropriate baselines for specific activities. This is a common theme across all DNO obligations.

Regarding Dig, Fix and Go, whilst we are pleased Ofgem recognises the value of this customer and stakeholder driven bespoke incentive, we have concerns about the incentive rate provided and the justification for the lower rate applied compared to that evidenced and proposed in our FBP.

Ofgem has sought to justify halving the incentive rate to align with what "*we are proposing to accept for UKPN's collaborative street works ODI*" noting they "*share similar benefits*". We agree that the types of benefit are similar, however we disagree that the scale of the benefits are similar as there are fundamental differences in the two proposals, notably, but not limited to, the types of work seeking to be improved for customers and volume of the activity to be undertaken.

Our proposal, unlike others, is focussed on improved outcomes through reduced duration of unplanned emergency street works. As set out in our proposals the benefit to consumers is greater from reduced disruption from unplanned activities than planned as these disruptions occur based on need and cannot be processed ahead of time to limit the impact of these essential unplanned emergency works. UKPN's proposals relate to planned works. Planned, including coordinated and collaborative works, will always seek to minimise disruption in advance through consideration of timing and duration of works including location and notifications to potentially impacted parties. Therefore, some of the disruption to consumers (including benefit to them) is realised upfront by planning and co-ordination and is already accounted for in DNOs working practices. This is not possible for unplanned work as in DFG which is about completely unplannable work, due to network faults that have occurred. As such greater benefit is to be realised in duration reduction when compared to planned work, all else being equal.

We therefore strongly propose Ofgem reconsider the incentive rate for DFG and provide a differential to reflect the fundamental differences in the scale of benefit available to consumers for DFG when compared to other proposals. As stated in our FBP, our recommendation is based on empirical, quantitative assessment and remains at 1.0 percent. The incentive rewards, should improvements be attained, will remain much less than the benefits created for customers. Therefore, Ofgem's proposals on DFG are not aligned with consumers interests or reflective of the improvements that would be achieved.

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

Smart Street

We agree with the proposal for a mechanistic price control deliverable for Smart Street; this is in line with the proposal in our FBP. However, we do not agree with Ofgem's DD consultation position not to provide a CVP reward and this is discussed in further detail in Q4 below.

We agree with reporting on outputs via regulatory reporting and look forward to further engagement with Ofgem on the details and practicalities involved.

Borrowdale Transformers

We agree with the Ofgem DD position that a PCD is not applicable for the work programme 'Borrowdale transformers' as it falls below the threshold for a bespoke PCD.

We also agree with the proposal to report on progress against the target within regulatory reporting and that this is sufficient regulatory treatment.

LineSIGHT

We disagree with the Ofgem consultation position to reject the proposal for LineSIGHT.

As set out within our FBP and accompanying EJP, LineSIGHT is an important public safety initiative that is enabled by recent proven innovation funded through Ofgem's innovation stimulus. It has the potential to radically improve the safety risk of our HV overhead line network and has received strong endorsement from our customer and stakeholder research.

We believe that key safety programmes comprise both responses to new emergent risks (such as the increasing incidence of link box incidents ahead of RIIO-ED1 which stimulated an appropriate regulatory response), and also the development of new technology which enables network operators to implement practical new measures to materially reduce existing operator and public safety risks. LineSIGHT is a transformational initiative. It radically improves the public safety risk associated with overhead lines through live monitoring of span clearances. As set out in the EJP, numerous previous incidents and fatalities have occurred where overhead line spans were low but live and the network operator had no indication of the risk as the technology to detect this was not available. There is strong regulatory precedent for providing discrete allowances with associated outputs for such developments in safety technology. In RIIO-ED1 we received funding for the installation of a new technology, the safe climbing latchway system on our steel lattice towers with an associated delivery output commitment. We also received funding to address the public safety risks associated with asbestos management and link box safety, both accompanied by specific reputational output commitments to measurement and reporting.

In terms of the planned LineSIGHT programme, we were pleased to be able to demonstrate the system to Engineering Hub representatives at their bilateral visit to us in April 2022 and their subsequent EJP assessment of LineSIGHT concluded that;

"We believe that the EJP provides sufficient justification for the needs case and optioneering. However, there remains significant uncertainty in the deliverability of the scheme, leading to a risk that the volumes may not be efficiently delivered during ED2."

As a consequence, the EJP was classed as ‘Partially Justified’. We agree that there are undoubtedly delivery risks associated with the programme and we are happy both to discuss the mitigations we plan to put in place, and also discuss with Ofgem the relevant form of Output design (eg PCD) which would protect customers from any consequences of under-delivery of the programme.

Considering the positive reception given to the initiative by the Engineering Hub, we were surprised at the outright rejection of the proposal in the DD. Due to its innovative properties, we are concerned that assessment of our planned rollout in RIIO-ED2 has fallen between the Ofgem Costs, Policy and Engineering Hub teams and Ofgem have, as yet, been unable to form a full collective appreciation of the benefits case.

We believe that the LineSIGHT programme is ‘reasonably practicable’ and hence should form part of our overhead line safety management system in RIIO-ED2. It does not supplant any existing measures on overhead lines (hence does not form part of a notional and unfunded ‘toolkit’ as suggested by Ofgem in the DD) but represents a world-leading approach to enhanced public safety on these assets.

We welcome further discussion with Ofgem and will seek an opportunity to take representatives from the relevant teams through our proposal in more detail. We are happy to provide follow up details and justification as required, including a view of the HSE perspective based on our extensive discussions with them on the LineSIGHT proposal. As such, we will be following up with Ofgem representatives to propose an appropriate bilateral meeting subsequent to our DD response submission.

For the avoidance of doubt, a commercial investment case cannot be made. Ofgem suggests that LineSIGHT should be rolled out as part of BAU but presents no evidence for coming to this conclusion. A new technology of this nature is neither BAU asset replacement nor is it part of the maintenance of existing equipment. The reason we put this EJP forward was because the safety benefits do not financially accrue to the DNO and therefore without Ofgem acknowledging the safety requirement through funding the rollout it will not be possible., Without explicit funding would we consider that Ofgem have given a clear indication that the deployment of this new technology as proposed is not in consumers overall interests.

Customers in Vulnerable Circumstances

We disagree with the Ofgem consultation position to reject our proposal for providing network improvements for vulnerable customers and provide further detail below.

Ofgem “....welcome ENWL’s efforts to improve the network for customers in vulnerable situations¹”.

With the heightening cost of living crisis and continued focus on supporting customers in vulnerable circumstances we and our stakeholders have been disappointed by Ofgem’s rejection of the EJP we put forward. We ask Ofgem to reconsider its DD position and approve the EJP and funding requested for the following reasons: -

- There is strong support, evidenced through our customer and stakeholder engagement, for improving reliability to customers in vulnerable circumstances who are NOT on parts of our network such that either WSC criteria nor IIS supports our investment in improved reliability;
- Tackling this gap in the regulatory framework is an established regulatory precedent as it was addressed as part of RIIO-ED1 with a similar targeted programme focussed on lower reliability circuits (but not so poor as to merit IIS or WSC driven investment cases) with comparatively high clusters of vulnerable customers;

¹ RIIO-ED2 Draft Determinations ENWL Annex – Table 19

- Ofgem's reasons for rejecting the EJP are fully addressed in the supplementary information provided here.

In Table 19, of the ENWL annex Ofgem say:

"ENWL provided insufficient evidence to support the use of a PCD". We proposed a PCD because the magnitude of expenditure was material enough to reach the PCD threshold. We also considered that a PCD would offer consumers specific assurance that the outputs under this EJP would be delivered or the funding would be returned, increasing the acceptability of this EJP. If Ofgem does not consider a PCD to be necessary then we suggest an ODI-R approach would meet our stakeholders' aspirations to have transparency of what we have delivered, whilst managing the regulatory burden a PCD imposes on both Ofgem and ourselves. We continue to be minded that a PCD could be appropriate but in the light of Ofgem feedback now propose that an ODI-R is used for this programme in the form of us reporting each year to stakeholders and Ofgem as part of our reporting on how we are supporting customers in vulnerable circumstances.

"[Ofgem] consider there to be considerable overlap with the interventions applied by all DNOs under the Interruptions Incentive Scheme [IIS]." The proposed interventions seek to improve the reliability of the network at a reasonably affordable cost and as such are necessarily similar to or the same as interventions that are made by us and we believe other DNOs in response to the IIS or WSC BUT VITALLY these interventions proposed under this EJP are not fundable through either of these regulatory mechanisms without ENWL incurring a loss, therefore we would not undertake these investments without this EJP.

Response to Ofgem's Rationale for rejection

In response to 2.31, "*[Ofgem] think it is likely that the improvements made through this programme would contribute fully to IIS performance against targets in the same way as any other reliability improvements".*

We acknowledged in our FBP that there will be some very marginal, late in ED2, IIS performance benefit from this EJP. However, when the costs and benefits are compared using the IIS framework, it is clear that if these investments were proposed as part of IIS they would be rejected on the basis that the forecast benefits don't justify the cost, thereby labelling them as NPV negative or 'economically irrational'. Should the EJP be approved, our customers won't start to experience the benefits until at least years 3,4,5 of ED2. Ofgem should not in our view allow a concern about an immaterial and marginal potential benefit to block approving an important and strongly supported proposition to benefit customers in vulnerable circumstances. Put succinctly, it is vulnerable customers who face material disbenefits from the Ofgem DD position.

Further in 2.31 Ofgem say, "*A customer's classification as vulnerable is not influenced by the interruptions they face*". We agree with Ofgem that all customers are affected by power cuts, including vulnerable customers, and we agree that there is not a classification of vulnerable customer driven by the number of interruptions a customer faces. We are though looking to address the fact that a power cut for a customer in vulnerable circumstances has HIGHER impact on that vulnerable customer than a non-vulnerable customer. For example, a customer in vulnerable circumstances due to a medical dependency or disability may be less able than others to travel out of the area impacted by the power

cut than a customer without these circumstances. Independent commentary on the higher impact of a power cut on a customer in vulnerable circumstances is shared² to support this point.

Concerning 2.32 “[Ofgem] are concerned that whilst some customers in vulnerable situations are not necessarily explicitly captured under those who are Worst Served Customers (WSC), under this proposal they could be prioritised over and above those who are supplied by the worst performing parts of the network.” We assure Ofgem that our Customers in Vulnerability Reliability Programme under this EJP is ADDITIONAL and DISTINCT FROM our activities to support WSC. Both addressing WSCs needs and those who will benefit from this EJP will be achieved if Ofgem approves this programme of work.

In 2.33, “[Ofgem] note that ENWL’s CEG is supportive of the use of PCDs to protect consumers in the event of under delivery. However, there is a lack of justification as to why this proposal should be taken forward as a PCD and no reasoning provided for why delivery of the proposal is uncertain.”

We have not proposed the PCD because the delivery of the proposal is uncertain. It has been proposed as a PCD in response to wishes of customers and stakeholders. A PCD provides an added protection for consumers that this discretionary, stakeholder and customer driven programme is only paid for if it is fully delivered. We firmly and certainly commit to achieving the outputs and outcomes of this EJP irrespective of it being a PCD or not. See above where we invite Ofgem to consider if an ODI-R, reported by us could be an appropriate way forward.

“ [Ofgem] consider that ENWL could undertake such network improvements as part of its planned network improvements in RIIO-ED2 captured by the IIS and/or funding for WSC.”

The improvements enabled by this EJP will not be delivered and would not meet the criteria for taking forward under IIS or WSC. In the case of IIS, the forecast CI and CML benefits are insufficient to justify the cost of the interventions. As such, if we are to behave in an economically rational manner, IIS would not enable us to make the interventions proposed in the EJP. For a customer to attract investment under Ofgem’s WSC mechanism it first has to qualify as a WSC in line with the Ofgem definition. These customers do not qualify as WSC and therefore are explicitly prohibited from inclusion in the proposed interventions in our WSC programme. ENWL has made real use of the ED1 WSC mechanism as well as delivering all of our separate commitments to specific improvements for clusters of vulnerable customers in ED1. This is a key evidence point showing that in ED1 when a comparable programme to this ED2 proposal was approved, we continued to also act to address and resolve WSC situations. As we approach the end of ED1 we are on track to deliver our unique additional commitment to have no customers in the ED1 Worst Served categorisation.

In 2.34, “ [Ofgem] note that ENWL has not set out what benefit this proposal would deliver for customers in vulnerable circumstances. For example, how much the risk of a power cut or length of a power cut would likely reduce for customers benefitting from this investment programme. ”

Further detail on the benefits is included here:

Benefits of our proposals to improve network reliability for customers in vulnerable circumstances.

In ED2 we are proposing network investment that would improve the quality of supply for customers in vulnerable circumstances (CIVC). While these investments are similar in scope to those we might undertake as part of investment to improve IIS outcomes generally or for those customers that qualify

² [rb_feb16_older_people_and_power_loss_floods_and_storms.pdf \(ageuk.org.uk\)](http://ageuk.org.uk/rb_feb16_older_people_and_power_loss_floods_and_storms.pdf)
[Power Cuts Factsheet.pdf \(energenvoys.org.uk\)](http://energenvoys.org.uk/Power%20Cuts%20Factsheet.pdf)

as worst-served, the investment driver is distinct (i.e. there is no overlap of these proposals with those of IIS and worst-served customer) and without this funding, we would not perform the work.

Our ED2 CIVC investment proposals fall into two categories.

CIVC category 1

Invest to mitigate the impact of any future HV faults on customers with a vulnerability

This will be achieved by means of automation, introducing remote control to HV distribution substations known to be supplying electricity to clusters of customers with a vulnerability (i.e. a higher number than the average for all substations). In upgrading the substation to feature automation (i.e. the remote control of the substation HV switches), we can ensure the availability of a remotely-switched alternative via the HV network. In doing this, in the event of a future HV fault, the automation will restore supply to the substation in just minutes rather than, say, the one hour or more it typically takes if the HV substation switch is operated manually, thereby mitigating the impact of the fault on customers with a vulnerability.

The programme totals £16.6m, benefiting approx. 150,000 customers of which 16,617 customers are vulnerable at an average cost of £1,000 per vulnerable customer.

While we have reviewed data on the delivery of the upgrading of HV substations to include automation as part of separate IIS-funded investment programmes, our ability to do this depends on the cost of the intervention (in this case the cost of upgrading the substation to include the automation functionality) compared to the current network performance level and therefore the expected savings.

Cost of intervention

In our ED1 vulnerable customer programme, the average cost of the interventions per substation was █ with work comprising the combination of fitting of automation and some associated HV switchgear changes and HV cabling. In contrast, in assessing the opportunity in ED2, we have identified from asset data assessment that there will be a greater proportion of switchgear changes required to allow us to upgrade these particular substations to include automated switches when compared with the population of assets addressed in ED1, leading to an increase in the cost per substation versus that of ED1.

This is assumed to be █ per substation.

Assessment of potential benefits

Fitting remote control to a substation allows us to operate the switches remotely from our control room and to extend the network automation systems to include that substation. Without this, the substation must be attended locally by an authorised engineer for manual operation of the switches and the benefits of network automation are necessarily limited to any existing sites in proximity to the substation. In the event of a fault, a non-automated switch takes around 60 minutes or so to operate manually, including the time it takes for engineers to travel to the site. This compares with between 1 and 5 minutes for an automated switch. The fitting of the remote control has no effect on the future likelihood of a fault (i.e. the fault rate) and as such we characterise this investment as mitigating the impact of future faults on customers.

When we consider the benefits of an investment we assess both the number of customers at the substation and the probability of a fault occurring that would affect those customers. As the specific

substations will only be selected as part of the detailed planning - estimated to be 600 HV substations, this is a sizeable task that we will commence after we have confirmation that the proposals are to be funded - we have used average fault rate data to determine the potential IIS benefits.

Table 1: Potential CI/CML benefits

Customers per substation	Associated cable (m) – distance to nearest automation point	CI per annum	No. of substations addressed	CI per annum (assumes automation is 80% effective)	CML saved per annum	CI benefit	CML benefit
250	800	12	600	5,760	345,600	0.24	0.14

Overall, for the category 1 investment, the estimated annual CI benefit is 0.24 and the CML benefit is 0.14. In 2021/22 the value of 1 CI is [REDACTED] and 1 CML is [REDACTED] giving an estimated annual IIS benefit of approx. [REDACTED]. This benefit would be insufficient to guarantee we would do this work as part of any future IIS investment programme. This is because while the customer impact of a fault is considerable, particularly in the case of customers with a vulnerability, (i.e. a duration of up to 1 hour or more) the probability of a fault occurring is relatively low.

CIVC category 2

Invest to reduce the future likelihood of a loss of supply for customers with a vulnerability fed from poorly performing HV feeders.

By examining data on customer vulnerability alongside that for network performance, we can search for correlations between HV faults on feeders and the number of customers with a vulnerability affected by those faults. We have identified 6 HV feeders that supply high numbers of vulnerable customers as a proportion of total customers on the feeder and when compared to a typical HV feeder and with a performance level much worse than the average for all HV feeders (i.e. poorly performing HV feeders).

The HV feeders are:



It is proposed to address the underlying performance issue, thus reducing the fault-rate (i.e. the number of expected future faults) on these feeders and in doing so improving the reliability of supply to the vulnerable customers supplied from these feeders.

This would comprise work similar in scope to our ED1 'multi-vector' projects or ED2 worst-served customer proposals (i.e. material enhancements including circuit reconfiguration and under-grounding of problematic sections of OHL) with an average cost per feeder of [REDACTED], totalling [REDACTED] for the six feeders listed. This investment would benefit 12,673 customers, of which [REDACTED] customers have a significant vulnerability in our high risk category at an average cost of £3,393 per vulnerable customer.

Cost of intervention

Based on work in ED1 similar in scope to that proposed here we estimate the cost to be [REDACTED] per feeder, or [REDACTED] for the six feeders.

Assessment of potential benefits

In line with the approach to deriving benefits for our ED2 proposal for worst-served customers, given that the interventions proposed are similar in scope to those for that programme, we can expect performance to improve by 50 percent upon completion of the work.

Table 2: Potential CI/CML benefits

	Avg. annual customer interruptions ED1	Avg. annual customer minutes lost ED1	Avg. annual customer interruptions after intervention	Avg. annual customer minutes lost after intervention	CI benefit	CML benefit
[REDACTED]	3,082	227,521	1,541	113,761	0.06	0.05
[REDACTED]	3,986	176,215	1,993	88,107	0.08	0.04
[REDACTED]	295	37,363	147	18,682	0.01	0.01
[REDACTED]	1,715	195,378	858	97,689	0.04	0.04
[REDACTED]	1,279	34,618	640	17,309	0.03	0.01
[REDACTED]	1,221	92,388	611	46,194	0.03	0.02

Overall, for the category 2 investment, the estimated annual CI benefit is 0.24 and the CML benefit is 0.16. In 2021/22 the value of 1 CI is [REDACTED] and 1 CML is [REDACTED] giving an estimated annual IIS benefit of approx. [REDACTED]. This benefit would be insufficient to guarantee we would do this work as part of any future IIS investment programme. This is because while the customer impact of the faults is considerable and the probability of a fault occurring is relatively high, the cost to mitigate the risk is also high.

We have already identified those HV feeders that qualify as worst-served against the Ofgem definition of worst-served in ED2. None of the above 6 feeders feature on this list and as such do not qualify for investment as part of our ED2 WSC investment programme.

Ofgem say "*It's unclear the extent to which this proposal has support from ENWL's customers and stakeholders.*" In addition, Ofgem concerns are informed by the levels of costs. Ofgem comment on customer and stakeholder support needing to be more robustly understood, "*This is especially the case given the £1000 cost per vulnerable customer benefitting from the automation investment*

programme, and £3393 cost per vulnerable customer benefitting from the improvements to six poorly performing HV feeders."

In this regard we invite Ofgem to review the support received from our regional stakeholders for this much needed programme. Specific evidence is found in the following sections / pages of our submission.

- [Business Plan – see benefit 18, page 63.](#)
- [Annex 01 Customer research findings and triangulation – see B18 Improving reliability for those in vulnerable circumstances, page 132.](#)

In brief, there is very strong support for this proposal, including well informed customers who identified funding improvements for customers in vulnerable circumstances was a priority for them.

Our innovative [Value of Lost Load 1](#) research presented indisputable evidence that power cuts have a disproportionate impact on customers in vulnerable circumstances. A subsequent [VoLL 2 willingness-to-pay research](#) into fair charging then evidenced strong customer support for additional targeted investment to improve the reliability of the service provided to vulnerable customers.

In three [sub-regional engagement events](#), stakeholders told us that we not only needed to improve average supply reliability a little, for a lot of customers (via IIS) but also improve reliability a lot, for targeted groups of customers. Through polling, stakeholders identified customers in vulnerable circumstances as a priority, given that this group is not adequately reached via other schemes.

A key learning from our engagement programme has been the value of triangulating set-pieces of quantitative research such as willingness-to-pay, with deeper, longitudinal and deliberative engagement with consumers. The latter enables more informed and richer perspectives. Our Public Panel, a representative sample of 40 North West consumers, spent over 100 hours deliberating and challenging our leadership team on different areas of our plan to which they attributed value. One such area was our proposal to improve reliability for those in vulnerable circumstances.

To sufficiently contextualise the conversation, we provided the panel with our definition of vulnerable circumstances, targeting approach, associated investment costs, and the potential customer reach. We provided the panel with our RIIO-ED1 average reliability performance trended over time so that they could reflect on the benefit delivered from expenditure to date. We identified improvements to existing service levels (the ones tested in willingness-to-pay) and openly shared constraints that would make improvements beyond these ambition levels unlikely in RIIO-ED2.

In response to the panels feedback we normalised the cost of delivering this improvement to the impact that it would have on their annual bill – relative to the other potential improvements we could make in other areas of the FBP (in £ and pence). 82 percent of panel members accepted our proposal based upon the proposed cost and ambition. Central to this advocacy was the common understanding customers who had experienced power cuts in the past had of their impact, particularly on vulnerable customers, and the societal benefit of targeted investment, including reducing stress during an outage and reducing the negative impact of cold weather on customers' health.

We tested our customer and stakeholder driven proposal in statistically robust and demographically representative quantitative acceptability testing. 99 percent of customers understood the proposal and 88 percent found it acceptable. **It ranked 5th out of the 41 proposals evaluated by customers, representing the highest performing reliability themed investment proposal.**

Table 3: Acceptability testing results

Support for proposal in Acceptability Testing	
All customers (household, business and future)	All customers and stakeholders
88%	90%

It is this triangulated evidence base, underpinned by iterative, open, and transparent engagement with customers and stakeholders which provides a strong evidence base in favour of enabling the investment to proceed.

Conclusion

Our response in this area sets out the evidence that fully addresses the points of concern cited by Ofgem that led to the rejection of this CVP.

We therefore urge Ofgem, on behalf of our stakeholders, customers and especially vulnerable customers to reconsider and approve the funding for this EJP and remind Ofgem that it approved a comparable programme with broadly the same rationale for ED1 which we delivered quickly and is now providing tangible benefits for customers in vulnerable circumstances.

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

We welcome the Ofgem view that the delivery of Smart Street should be funded, whilst we disagree with the lack of reward for this and in addition our other CVP relating to CLASS.

We suggest that Ofgem reconsiders what level of reward is appropriate against the substantial benefits that these projects deliver. What is clear to us is that zero rewards are not in long-term consumer interests, which would be best served by acknowledging and thereby stimulating more proposals like CLASS and Smart Street that have transformational levels of benefits and significant ambition.

Ofgem risks missing an opportunity to encourage companies to bring forward specific propositions to generate consumer value over and above 'business as usual' activities and outside the scope of 'traditional' distribution practice. Ofgem may, therefore, observe less ambition in future price controls.

Providing a reward for Consumer Value Propositions (CVP), where these provide exceptional value to consumers is a key part of driving companies towards risk-taking, including spending the time and effort required to develop consumer specific CVPs. We consider Ofgem should review the proposal not to make any CVP rewards in the cases of Smart Street and CLASS.

Providing CVP rewards is also important in terms of Ofgem actively operating the RIIO-ED2 framework. Ofgem rightly set a high bar for what would qualify as a CVP. We responded to this and only submitted two specific CVPs that clearly go beyond 'business as usual' operation and are exceptional, even transformational, for our customers, providing benefits no other DNO delivers for their customers.

Looking wider than ourselves and our operating area, providing a reward is very important for stimulating all relevant RIIO regulated companies to develop and propose such CVPs going forward, including those, for example, in Gas Distribution (GD). We assume and recommend that CVPs are part of the RIIO-3 framework, although further revision and evolution is likely to be needed. The absence

of Ofgem determining CVP rewards in clearly appropriate cases such as CLASS and Smart Street will dissuade such bold and positive proposals being developed in future.

As we have submitted Second Tier Reward applications for both Smart Street and CLASS, we would support Ofgem considering ENWL for rewards for successful delivery of these projects in a joined-up way. This could be either the Second Tier Reward mechanism or as a CVP reward, but all rewards need to be considered together to ensure an appropriate reward overall. We feel it would be more appropriate to receive one reward for delivering these projects to avoid the risk of being rewarded twice. Due to the overlap in timing of the Second Tier Reward application window, and the DD and FD by Ofgem, this is a question which Ofgem will need to consider should it decide to provide ENWL with a reward. The deadline for Ofgem making a decision on the Second Tier Reward application we submitted on 1 August 2022 is the end of November 2022.

We have had extensive engagement and provided substantial amounts of evidence to Ofgem on Smart Street benefits, both as part of our RIIO-ED1 Innovation Rollout Mechanism (IRM) funded project, and as part of our RIIO-ED2 discussions. Indeed, the CVP has strengthened given today's higher energy prices. We welcome Ofgem's agreement that Smart Street delivers for consumers "*While we [Ofgem] are not yet confident in the full extent of benefits Smart Street will create, we recognise that conservation voltage management technologies more broadly could yield significant benefits for consumers.*" Ofgem could consider, amongst other matters, its degree of confidence in benefits case, providing a positive CVP reward when considered against the latest context given the challenges currently faced by consumers.

We look forward to engaging with Ofgem on any reporting requirements for Smart Street and agree that these are met through our annual Ofgem reporting (RRP) each July. For instance, narrative and quantitative information can be included as part of our Strategic Performance Overview (SPO) document. The reporting needs to be mindful that it ensures accountability without creating undue regulatory burden for Ofgem. Ofgem references a "*PCD report*"³ which we currently see as the same as the accountability mechanism via RRP as set out by Ofgem in Table 21 of the DD ENWL annex.

We finally note that Ofgem is pointing to the separate process for determining how CLASS revenue and costs are treated in RIIO-ED2, though we observe that there is no specific reward identified as part of that separate process. We have successfully implemented a technology that will deliver, in Ofgem's own assessment, billions of pounds worth of benefits⁴ to GB consumers, if approved for use in ED2.

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

We agree with the overall assessment of stage 3 and it is pleasing that Ofgem recognise that we have not submitted any low confidence costs in our FBP. We also note the proposal under stage 4. We consider that the modelling and assessment process undertaken for DD is significantly flawed and the efficiency of our FBP is not recognised as a result. See our response to question 63 to 111 in our Core Methodology Response, Annex 2.

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

In our FBP we proposed a number of uncertainty mechanisms (UM), many of which we considered could be common across all DNOs.

³ Para 2.28

⁴ [IA - Regulatory treatment of CLASS as a balancing service in RIIO-ED2.pdf \(ofgem.gov.uk\)](http://IA - Regulatory treatment of CLASS as a balancing service in RIIO-ED2.pdf (ofgem.gov.uk))

We would like to take the opportunity to respond to the Ofgem draft proposals on each of these in turn as set out in its DD:

Load Related Re-opener (LRE)

In our FBP we proposed for all LRE (except LV service work) to be covered under a load related re-opener. We still consider this to be the best option for ED2 given challenges with implementing in the time available a volume driver for secondary network reinforcement.

We understand the ambitious proposal of Ofgem to apply a volume driver for the secondary network and will work with Ofgem and the other DNOs between now and FDs to seek to develop a workable solution for implementation in ED2. We cover our views on this in more detail within question 4 of our response to the Core document.

We do welcome the inclusion of a Load Related Re-opener for all other aspects of LRE and this is broadly in line with our proposals in our FBP. We cover our further views on the Load Related Re-opener in more detail within question 5 of our response to the Core document.

However, we do remain concerned there is much to do in the limited time available so continue to see developing load related funding mechanisms as a key priority.

LCT LV Service solutions

In our FBP we proposed an automatic volume driver which would be used for unlooping of domestic properties, along with associated work at the LV service point, including cut-outs, fuse upgrades and service cables.

We see from Table 27 of the ENWL specific annex that Ofgem has marked its consultation position as reject. We believe that the common UM described by Ofgem as "*LV Services Volume Driver*", is the same as the ENWL proposal. We therefore consider that the Ofgem consultation position should be Accept as common UM and invite Ofgem to review its conclusion at FD. Our 'LCT LV service solutions' mechanism in our view offers a blueprint for how the ED2 mechanism should be taken forward and encourage Ofgem to make use of our proposals in this way.

Wayleaves and Diversions

We disagree with the Ofgem proposal to reject our proposal for a UM covering wayleaves and diversions. We note from wider observation that other DNOs⁵ who have also proposed workable solutions in this space have had their proposals rejected by Ofgem as well.

We note that the reason set out by Ofgem for rejecting all RIIO-ED2 UM proposals for wayleaves & diversions is "*do not consider the forecasting risk ... to be materially different enough from any other cost activities*" and "*did not sufficiently justify ... re-opener would outweigh the drawbacks of ... bill volatility*". However, this is inconsistent with other statements from Ofgem in the same suite of documents where Ofgem set out in the RIIO-ED2 DDs WPD Annex, Table 28 - row for EJP016: "*Wayleaves and diversions are inherently subject to a high degree of uncertainty.*" This inconsistency of messaging raises issues with the justification for rejection set out by Ofgem for all DNO led proposals in this area.

⁵ UKPN and SSEN

In discussions with Ofgem it has been indicated that Ofgem is willing to reconsider the need for a UM in this area and this would be discussed at the cost assessment working group (CAWG) on 23 August. We welcomed this and presented jointly with the other DNOs who proposed UMs in this area given the pressing need for one to be included for ED2. Below we set out the reasons why a UM is needed in this area for ED2:

- All companies made baseline cost and volume proposals in CV5 - Diversion; and costs also included for C10 – Wayleaves (CAI) & CV6 – Diversions Rail Elec (by some companies) this was coupled with ourselves, SSEN and UKPN who also proposed associated UM proposals. Whilst Ofgem is proposing a UM for diversions for rail electrification applicable to all companies (continuation of RIIO-ED1 mechanisms) it does not see the need to include one for wayleaves and diversions which are a broadly equivalent activity and cover material costs in plans/uncertain forecasts. This inconsistent treatment is without justification from Ofgem.
- We would note that in the RIIO-2 FDs for Transmission companies, Ofgem set out that: "*Baseline Totex allowances with a true-up mechanism at the end of the RIIO-2 period (i.e., Wayleave review / Landowner compensation)*"⁶ would apply. Again, this suggests Ofgem recognises the issues involved in this area with its inconsistent treatment between sectors being without justification. This is further exacerbated by the difference in asset ownership between Transmission and ED in England and Scotland. A potential discrimination issue is introduced by the RIIO-ED2 DD at 132kV given this where a UM is allowed in Scotland, but not in England & Wales.
- Land Rights and Consents for Electricity Network Infrastructure – A Call for Evidence, Department for Business, Energy, and Industrial Strategy (BEIS, August 2022) stated that "*The cost and timescales associated with negotiating these voluntary agreements can be unpredictable*". As evidence this suggests that key external Stakeholders agree that uncertainty in this area is inherent and as such, on face value, a UM should apply.
- Further, the Secretary of State, via the Planning Inspectorate, has recently (2022) provided clearer guidance within the determination of a Necessary Wayleave Application, under Schedule 4 Paragraphs 6 and 8, that a reasonable time period to complete non-chargeable diversionary works as a result of a Formal Notice to Remove is 24 months. This clearly sets out that the activities undertaken by DNOs in this area is not discretionary and as such creates issues should baseline allowances provided be inadequate where a UM of some form would allow for this to be rectified in the period.

It is clear therefore, based on the above, that RIIO-ED2 DD sets an inconsistency across sectors without any reason in principle for why future risks and uncertainties in ED are different to other sectors namely GD/T in RIIO-2 FDs. This inconsistency is also baked into how future risks and uncertainties between rail and highways diversions activity is managed without justification as to why differential treatment should be present in broadly equivalent areas/activities. Further, given DNOs often have no choice (legally required) in incurring costs it is unclear how diversions are different to, for example, Access SCR in terms of the need to adapt to changes in customer or economic activity to comply.

We therefore urge Ofgem to include a UM for wayleaves and diversions at FD and propose this be on the basis of outcomes from the CAWG discussions, or, as a minimum, our FBP proposed UM (which could be applied on a bespoke basis).

⁶ RIIO-2 Final Determinations, Core document, para 7.106

Ash Dieback

We disagree with the Ofgem DD position to reject our proposed UM covering the uncertain cost area of Ash die back costs in ED2.

We still remain of the view that it is certain that there will be an increase in vegetation cuts per year in RIIO-ED2 with this increase due to the management of the ash dieback trees (for which this type of work was not carried out in any significant volume in RIIO-ED1). We understand that the view from Ofgem is that "*We think a volume driver would create challenges in setting a unit price and in verifying the felling of only class 4 trees.*"

Neither of these issues are insurmountable in our view as; (a) unit rates have been developed throughout the Ofgem assessment of costs and specifically in disaggregated assessment models and (b) with verifying class 4 being easily covered by reporting requirements either in our RRP or through a specific requirement to report in, for example, the Annual Environment Report (AER).

We therefore urge Ofgem reconsider our volume driver and include this in our FD.

Polychlorinated Biphenyls (PCBs)

We welcome the Ofgem proposal to accept our proposal as a common UM, recognising the volume uncertainty relating to PCBs.

We note that the PCB UM and unit rate to be included in the volume driver is the subject of ongoing working groups run by Ofgem. As the cost assessment working group (CAWG) is scheduled for 23 August, with the response date of this document being 25 August, there is insufficient time to provide additional data on PCBs in our DD response as requested. We note Ofgem, in response to our SQ (ENWL030), set out that any future data requests will be contingent on discussions held at CAWG and thus sit outside of our DD response. We look forward to working with Ofgem, the sector and other stakeholders to development a workable UM for ED2 which includes key consideration of such elements as on-costs and indirect costs.

We share the further detail in our response to question 16 of our Core document response.

Net Zero and Re-opener development fund (NZARD)

This fund has been applied to both GD2 and T2 for their RIIO-2 price controls, with Ofgem stating the aim that the price control needed to be flexible enough to inject the necessary funding, at the right time, to support the achievement of Net Zero.

We consider that this aim applies equally to the ED sector and taking our steer from the existing NZARD guidance document in place for the other sectors, our FBP included a proposal of how we would utilise such a use it or lose it allowance.

We proposed that the fund was split into three areas:

- Local Area Energy Plan (LAEP) support
- Re-opener development
- Provision for small Net Zero facilitation projects

Ofgem consultation position is to reject this fund, considering there was insufficient justification and scope of proposed activities to be business as usual, managed within Totex baseline.

We proposed UIOLI funds for LAEP support because this would enable Ofgem to acknowledge the importance our stakeholders place on these activities by specifically funding them, whilst Ofgem is not risking overfunding these as any unused funding under UIOLI will be returned to customers. Our anticipated response is to have greater focus on and grow these services and activities in line with the UIOLI funds we requested and our FBP set out.

In the Core document⁷ Ofgem is clear that work with local authorities on Local Area Energy Plans is welcomed, and the statement is made that “*we propose to allow baseline funding for the activities put forward*”, Ofgem has not done so in our case. The work with Local Authorities is also a key part of our DSO strategy, which has also been supported with no amendment by Ofgem. Further, the Net Zero re-opener is currently scoped by Ofgem to include works which are driven by a LAEP. This is a clear indication of the intent of Ofgem for DNOs to actively participate in LAEPs. This rejection of a UIOLI funding request is inconsistent with the stated aim of Ofgem.

This funding gap on LAEP support needs to be addressed for FD or risks non-delivery of a key component of smart optimisation and whole system planning and we urge Ofgem to re-consider and approve the funding of this clear need via a transparent method such as the UIOLI proposal put forward by ourselves. The detail of how the LAEP support will be delivered is outlined within our DSO Transition Plan (Annex 2) of our FBP.

In the case of re-opener development funding, we understand that an alternative approach could be to include these development costs within the re-opener applications themselves, rather than this ring-fenced specific fund. This is an option that we can utilise for the re-openers we identified as most likely to make use of the NZARD and look forward to working with Ofgem on licence drafting to ensure that re-opener development costs are able to be included within the re-opener applications

On small Net Zero facilitation projects, we accept that this has had less detail provided in our FBP than other areas. This is a feature of the work area as it is currently unknown what developments and support may be needed in the period as they are likely to arise on a case by case basis and might often be driven by other stakeholders, including those Ofgem has already provided this funding to, such as GD companies. Access to a discrete funding pot to support new NZ developments we feel will bring benefit for GB and the customers of the North West, and risk is managed by the parameters of a use it or lose it mechanism, where should the need not arise, 100 percent of unspent funds are returned to customers, and funding can only be used for the intended purposes. We feel these characteristics and protections should provide sufficient comfort for Ofgem to re-consider the application of NZARD in the case of small NZ facilitation projects as has been proposed via a UIOLI because they specifically deal with the uncertainty Ofgem refers to in a way that enables us to respond to stakeholders if, as and when they need it as well as manages customers not paying for activities that are not required to be delivered.

Distribution Net Zero Fund

In our FBP, we proposed a use it or lose it (UIOLI) fund for two specific areas of activity, “Community and local energy” and “Decarbonisation Advice Service”.

These two areas have strong stakeholder support and are extensions of the work that has been undertaken in ED1 or as a minimum piloted.

⁷ Para 4.114 – 4.116

The proposal was rejected as Ofgem's DD consultation position.

We specifically chose a UIOLI fund as a regulatory funding mechanism as it provides a ring-fenced allowance, used solely for the purpose it was created, creating transparency and accountability, whilst protecting customers that any unspent allowances are returned to customers in full, with no TIM applicable.

We continue to propose that this is best justified, and provided, through a bespoke UIOLI allowance in ED2 and set out our justification and proposals in more detail below.

The detail below is split into the activities contained within UIOLI namely "*Community and local energy*" and "*Decarbonisation Advice Service*"

Community and local energy

There are three main strands to our community and local energy proposal:

1. **Developing a new community and local energy strategy for ED2:** This activity is to deliver and evidence a stakeholder led strategy for supporting community and local energy customers. It covers the activity of 121 customer support and is similar to WPDs community engineers concept. £250k has been allocated for this element.
2. **Delayed payment scheme for connections costs:** £1m allocated in ED2 to a delayed payment scheme for the cost of connections to community energy customers. It will be provided at no extra cost to customers by shareholder funding.
3. **Enhanced community energy funding (Powering our communities):** an increase in funding provided directly to communities to a total of £1.95m over ED2.

The overall cost for the delivery of these services is £3.2m, with £1.95m allocated to the community energy fund.

We continue to believe that there is a strong and compelling evidence base that justifies the need for this fund and in addition justifies why we are best placed to deliver the fund and the activities involved. Therefore, by way of response to the specific challenges posed by Ofgem⁸ in our DD we set out the evidence base for:

1. Why ENWL is uniquely placed to deliver this proposal, particularly the community energy fund; and
 2. How the impact of the fund will be measured.
1. Why ENWL is best placed to deliver this proposal

We are uniquely placed to deliver the proposals to support community and local energy groups in our region because:

⁸ ENWL has provided insufficient evidence to justify the need for this fund; ENWL has not provided sufficient information to understand how this funding will be used beyond their baseline expectations in RIIO-ED2.

- **We have the in-depth technical expertise to help support communities in our region to take part in the Net Zero transition:** We can play a vital role in helping groups to navigate industry processes and help groups connect to our network in the most efficient and timely way.
- **We have strong and well evidenced customer and stakeholder support for our proposals:** As customer ‘willingness-to-pay’ for our community and local energy service is £1.32 at the 80th percentile (based on our original higher cost proposals of a £1m/year fund) and these same proposals received an 83 percent acceptability score when tested with customers.
- **We are addressing a gap in support:** Our technical, network expertise complements existing support from other partners such as the ‘Net Zero Hubs’ and Local Authorities. We have developed our plans in partnership with these organisations through our ‘Sustainability Panel’ and bilateral engagement. We will work together to deliver our support in ED2.
- **The Powering our Communities community energy fund proposal provides a level of support that is not available through the other funds community and local energy groups have access to⁹:** Up to £15,000 per project.
- **Without the fund and ENWL’s support, communities have limited capacity to achieve their ambitions and are therefore unlikely to play their full part in the energy systems transition:** It is an important tool to help us engage with communities with Net Zero and can kick start their journey.
- **The North West is already behind on decarbonisation based on the number of low carbon technologies deployed and has relatively high levels of fuel poverty:** Without our support, and the capacity the fund affords communities, the North West is unlikely to improve these statistics.
- **It complements our Whole Systems Strategy because it helps us to deliver our role in supporting and co-ordinating customers to develop whole systems responses:** Community and local energy groups work at a whole systems level in their communities by considering all energy vectors.
- **It helps support customers that may otherwise get left behind in the energy systems transition:** By providing capacity to communities that might otherwise not be able to engage.

2. How the impact will be measured

The total value of the Powering our Communities community energy fund proposed for ED2 is £1.95m. The scope of the fund has been developed in consultation with stakeholders and using the evidence base from our ED1 pilot community energy fund. It will provide relatively modest amounts of funding to the applicants of up to £15,000 per project. This will allow activities to support community engagement, capacity building, feasibility studies with the aim of the communities deploying low carbon technologies and energy efficiency measures.

Our research shows that delivering the community energy fund in ED2 will deliver the following social return on investment (SROI):

- £1.70 SROI for every £1 invested over ED2, and

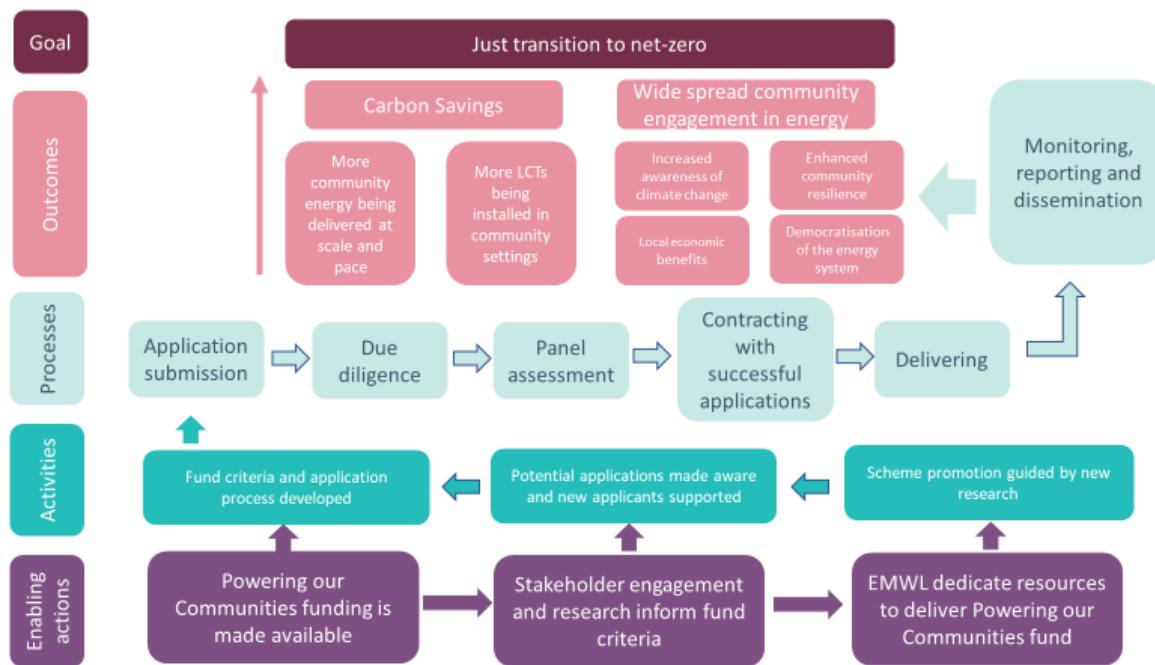
⁹ Reference: recent response from Greg Hands to Tim Farron re support for community energy which stated that current funding opportunities for community energy groups is via the UK wind growth funds run by local authorities. For example, the Towns Fund is for projects up to £25m and the Levelling up fund is for projects up to £20m.

- £5.27 for every £1 invested over a 10-year period on the same basis.

The fund SROI will be monitored and reported on an annual basis and over the lifetime of the ED2 fund to ensure it delivers the modelled SROI.

We will also monitor the impact of our fund. To do this we have developed a Theory of Change (shown in figure 1) in partnership with our stakeholders which it captures the outputs they are expecting to see.

Figure 1: Theory of Change



This will be used to monitor the progress of the fund on behalf of the stakeholders and it will also provide the input data required for the SROI calculation.

The overarching goal for the Powering our Communities fund is a Just Transition and this will be measured by two key outputs:

- Carbon savings; and
- Extent of community level engagement measured by the number of people and communities engaged and their level of engagement.

This data will be gathered via project monitoring processes which includes; monitoring reports produced by the projects, surveys and external audits to measure the impact against the Theory of Change criteria and to produce the data for the SROI tool.

On this basis we continue to propose that the only funding route for this proposal is within our DNZ UIOLI allowance as set out in our FBP. We strongly view that Ofgem should reconsider and accept our proposal for our FD.

Decarbonisation Advice Service

This section covers our proposal on “*Decarbonisation Advice Service*” as proposed in our FBP and responds to the specific points raised in the DD and by Ofgem in our bilateral on 20 July 2022, namely:

1. Justification for the proposal.
2. Why ENWL is best placed to offer some of those services, beyond what we might expect from the major connections or vulnerability or DSO strategies.
3. How do we know ENWL is not replicating a service that’s provided by another organisation that’s more focused on larger customers?
4. How would we measure success/delivery on these proposals and how would we consider what a good outcome is for consumers?
5. Why additional funding is needed over and above what is already proposed in other parts of the business plan?

We consider these in turn below.

1. Justification for the proposal.

As set out in our FBP Annex 1, our business (and domestic) customers have explicitly requested support from ENWL to help them reduce energy costs and CO₂ emissions. In requesting this support our customers have set out they view us as a trusted, independent source of information to help them make the right decisions on their journeys to Net Zero.

Several additional pieces of research have also been published since FBP was submitted in December 2021, which set out businesses’ latest progress towards Net Zero and the need for additional support to decarbonise in line with UK Net Zero 2050. This includes the latest findings of two organisations with Government-mandated roles in relation to the delivery of the UK’s Net Zero Strategy namely the UK ‘Committee on Climate Change’¹⁰ and the ‘British Business Bank’¹¹.

Our proposal also draws on the findings of the UK Zero Carbon Business Partnership¹², which is working in collaboration with BEIS and the UK SME Climate Hub, as well as additional research we are running in our Net Zero business survey.¹³

2. Why ENWL is best placed to offer some of those services, beyond what we might expect from the major connections or vulnerability or DSO strategies.

Ofgem is already supportive of DNOs providing decarbonisation support to customers.

SPEN’s proposed ‘*Advice Services ODI-F*’ is similar to our proposed ‘*Decarbonisation Advice Service*’. Whilst not supportive of the funding mechanism, Ofgem appear to be supportive of DNOs providing advice, particularly “*where there is a clear network benefit, or clear benefits to vulnerable customers*”.

¹⁰ <https://www.theccc.org.uk/publication/2022-progress-report-to-parliament/>

¹¹ <https://www.british-business-bank.co.uk/press-release/majority-of-smaller-businesses-dont-understand-carbon-jargon-new-british-business-bank-research-reveals/> and <https://www.british-business-bank.co.uk/research/smaller-businesses-and-the-transition-to-net-zero/>

¹² <https://www.broadwayinitiative.org.uk/sme>

¹³ In addition to the justification provided in our ED2 FBP submission, ENWL have undertaken additional research and insight to help justify our Decarbonisation Advice Service proposal.

Local-national framework of business decarbonisation support

The Committee on Climate Change has set out the need for a local-national framework of business decarbonisation support. We are already playing a key role in the development and implementation of this framework.

At a national level, we are one of the founding members of the UK Zero Carbon Business Partnership, which was established in 2021. The Partnership has committed to reaching 2m of the UK's 5.5m SMEs.

To date, we have established a web-based advice and signposting service, to help ensure all businesses can access the consistent and high-quality information and advice they need to progress on their journeys to Net Zero. The partnership has recently agreed with BEIS we will work collaboratively with the BEIS-sponsored UK SME Climate Hub, to provide the detailed guidance and signposting that businesses need beyond the pledge-making completed through the hub.

At a local level, we are working with partners to add value, fill gaps, further develop and establish new decarbonisation support for businesses. In Greater Manchester this is as a founding member of the Bee Net Zero Partnership. In Lancashire as a supporting partner of the Chamber Low Carbon Programme, and in Cumbria as a member of the Business Decarbonisation Strategy Group. This work enables us to work with partners to proactively engage with and provide one-to-one support to businesses of all sizes and types, as well as undertaking mass engagement through partnership-based events and communications.

This work is not covered by our major connections or vulnerability strategies. It is linked to our DSO strategy in terms of proactively engaging with businesses and supporting them to adopt energy efficiency, low carbon technologies and, where relevant, provide flexible services.

3. How do we know ENWL is not replicating a service that's provided by another organization that's more focused on larger customers?

As set out above, our work to date during 2021 and 2022 has been delivered in collaboration with other national and local partners. We have adopted this approach to ensure we avoid duplication, fill gaps that can't be filled by other partners, and maximise the impact of our activities in supporting business customers.

Through our work to date we have confirmed this partnership-based approach is the correct one and that, within this approach, there are activities that we are uniquely placed to deliver. We have summarised these activities here in relation to the journey for business customers that we set out in Section 4.1.10.2 of our FBP, namely "*Inspire > Engage > Support > Action*" :

Inspiring businesses:

- We are sharing the lessons learned from our work since 2019 to lead by example on our own decarbonisation.
- We plan to share our experience from setting and working towards meeting the science-based targets we've set as part of the ED2 business planning process.

Engaging businesses:

- We are providing impartial and evidence-based advice on mature and investable low carbon technologies, based on our experience to date, and our translation of national policy into local-level recommendations for practical action.

- We are providing businesses with an early introduction to our connections process, as part of helping to ensure a smooth journey.

Supporting businesses – targeted / high electricity users:

- We are targeting high electricity users who we deem to have high potential to deliver a combination of energy efficiency, electric vehicles and charging, heat pumps, solar PV and/or batteries.
- This activity is underpinned by our unique knowledge of a business's latest electricity usage and recent trends, current deployment of low carbon technologies, maximum import capacity and maximum export capacity.
- Once identified, the scope of our support is as per that for 'all other businesses', as below.

Supporting businesses – all other businesses:

- We are supporting the development of businesses' low carbon technology (LCT) projects, informed by local grid conditions, and helping ensure that projects are affordable, commercially viable and will deliver an attractive return on investment; this includes advising on how to limit/avoid reinforcement costs, under both the current regime and the new regime once the Access SCR arrangements are implemented as planned to be in April 2023.
- We are providing pre-application connections advice, with a view to a smoother application and connection process.
- In relevant locations, we also advise on the potential for flexible services contracts and revenues to bolster the business case for an organisation's LCT project.

Action:

- We are providing impartial signposting to potential local suppliers of low carbon services and technologies to help businesses undertake detailed development and delivery of their projects.
- This involves utilising our relationships with local partners and their knowledge of the local low carbon and environmental goods and service sector.

4. How would we measure success/delivery on these proposals and how would we consider what a good outcome is for consumers?

A good outcome for customers is that we are responding to their calls for us to provide them with support for their journeys to Net Zero. (Evidence of these calls is provided in our FBP, Annex 1).

We will measure the success/effectiveness of our response through reporting on:

- a) the quantity of advice given - The quantity indicator (a) would measure the numbers of customers reached and engaged through our activities. And;
- b) feedback on the quality of that advice - With the quality indicator (b) being based on the responses to surveys, interviews and other insight work to understand customers' views on the service and its effectiveness in supporting their journeys to Net Zero.

We would expect to provide separate reports for business and domestic customers.

5. Why additional funding is needed over and above what is already proposed in other parts of the business plan.

As set out above in more detail, this proposal is unique and during 2022/23 ENWL is delivering small-scale pilot decarbonisation advice activities using funding from the existing ED1 DSO budget.

The full delivery of the proposed ‘Decarbonisation Advice Service’ would be a new activity for us, requiring additional resources, beyond the levels being deployed for the pilot activities in 2022/23 and not, from our understanding, replicated by other DNOs either in ED1 or in their ED2 business plans.

We therefore believe that the Distribution Net Zero UIOLI covering Decarbonisation advice service is the most appropriate source of funding to provide these additional resources/activities as:

- It provides clarity over how much is being spent on the service ring fencing this to ensure it is targeted at the activity in question - £1.7m proposed.
- We would be required to report the impact of the funding, making it clear how the service is helping businesses and domestic customers to decarbonise.
- Provides opportunity to match funding for joint activities with local partners, where partners require external funding to boost local-level decarbonisation support.
- In the event the money is not spent or is not necessary these unspent or unused funds would be returned to customers without any adjustment for TIM.

It is on this basis we continue to propose that the only funding route for this proposal is within our DNZ UIOLI allowance as set out in our FBP. We strongly view that Ofgem should reconsider and accept our proposal for our FD.

Moorside – Nuclear development on the west coast of Cumbria

We welcome the inclusion of our proposal for a revised Moorside re-opener in ED2 and look forward to working with Ofgem to feed through the necessary amendments and changes to the licence condition.

Access SCR Reform – a regulatory driven changes proposal

In our FBP, we proposed a re-opener for ‘Regulatory Driven Change’. We considered this re-opener to be relevant as we enter a period of increasing change and responsive policy development, both by Ofgem itself, and also for Ofgem as the implementer of change driven by Government.

This was not looking at Access SCR load related impact (our view remains Access needs to be part of LRE mechanisms) which Ofgem was originally considering and instead took a more holistic view of the type of regulatory change that could potentially have significant impact on DNO activities, outputs and costs.

Examples of regulatory driven changes that we provided in our proposal were:

- Implementation of Access SCR decision
- Establishment of FSO
- Energy codes reform
- DUoS charging reform
- Market-wide half hourly settlement
- Requirement to further develop digital twin technology

Ofgem has recognised the type of change that we envisaged, however, rather than accepting the proposal from us, has instead added in new re-openers to the ED2 toolkit such as the Digitalisation Re-opener and the Storm Arwen Re-opener, as well as broadening the scope of others. We consider that some of the examples and change we think may come forward would be captured under these new mechanisms or broadened existing ones, but not all.

We also consider the complexity of having multiple re-openers could be removed by instead having this single re-opener we proposed with a clear scope which would then remove the need for so many individual re-openers, resulting in less complexity and regulatory burden.

Should Ofgem choose to continue with its plan for these individual re-openers, it is particularly important that the subject of indirect costs is properly addressed in the suite of uncertainty mechanisms. Presently this is a significant gap and many re-openers in the ED2 framework will have a high dependence on indirect costs which are at risk of blocking delivery if this funding gap is not adequately addressed. We set out this issue in more detail in our response to Finance question 30.

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

We consider that the answer to this question, and those posed in the Core document (questions 8 and 9) are intrinsically linked and therefore our response to this question also brings in broader issues highlighted in the Core document response.

The commitment shown by Ofgem to unproven smaller scale innovation in ED2 is seen to be reduced given an overall decrease in real terms annual funding for DNOs in years 1-3. This reduction is to £23m per year in ED2 compared to £30m per year in allowances for ED1.

This is coupled with the NIA allowance review in year 3 which brings added uncertainty over further innovation funding for the remainder of the ED2 period. Ofgem will need to provide DNOs with clarity in good time on what will happen from year 3 of ED2 because NIA projects will need to be all planned to finish then. Timescales and criteria for deciding the future of NIA funding are unclear at this point. Ofgem has indicated the three-year review is to afford them flexibility to align ED funding with future GD and T innovation funding packages. This approach will lead to uncertainty and potentially reduce innovator appetite for low technology readiness level (TRL) ideas requiring multi-phase project development that are outside the scope of SIF challenges. If NIA should be continued after year 3, the two-year extension will only allow short targeted projects to be completed.

The staggered process employed to the transition of GD and T to SIF in RIIO-2 which is now intended to be implemented for ED2 could be replicated for any future NIA changes, therefore giving innovation stakeholders certainty over the 5-year ED2 period.

It is acknowledged by Ofgem in the ENWL specific Annex that, in our case, the methodology for benchmarking ED2 NIA allowance against ED1 leads to a reduction in annual NIA levels. This is despite being awarded 5/5 against the business plan guidance criteria.

We offered higher company contribution seeking to stimulate a larger NIA sum being proposed from Ofgem, essentially by offering to place more of our funding into innovation and take more of the risk alongside consumers, effectively proposing to back ourselves alongside consumers.

Since Ofgem hasn't responded to this at DD we urge Ofgem to reconsider and further would no longer propose us having a higher company contribution in ED2 than that set for all DNOs. For ENWL a 33 percent reduction in annual allowance will result in lost future consumer benefit, reduced innovation opportunity and impact our ability to deliver on value-adding business plan commitments such as the Collaborative Innovation Scheme, the Innovation Oversight Panel or the higher 15 percent contribution we proposed as well as some of the proposed innovation projects. The narrowing of NIA scope for ED2 to concentrate on energy system transition and customer vulnerability may also exclude other valuable opportunities in the areas of flexibility and commercial evolution, whole system solutions and optimising of assets.

Ofgem's stated policy position was that it intended to set levels of NIA funding on the basis of the quality of a DNO's business plan submissions and the justifications for NIA funding set out in the business plan.

The approach taken to setting NIA allowances by benchmarking business plan evidence against the equally weighted five SSMD criteria (each equating to 0.1 percent of base revenue) has led to a weak dependency between business plan quality and innovation stimulus for ED2. Some network licensees will receive more money in cash terms than ENWL even though they scored less against the SSMD criteria, which appear to be solely forward-looking and do not consider previous proven performance. This approach had led to the size of base revenue becoming the dominating factor which puts ENWL at a disadvantage as the smallest DNO group. Additionally, this assessment method was not adequately articulated in the SSMD and, had it been, we would have offered a different proposal in our FBP. We strongly recommend this approach is revised and a DNO group-level innovation allowance for companies is set, which would therefore create fairness for all customers regardless of company group size.

As a consequence of the proposed reduction in NIA funding in ED2 we anticipate there will a change in the type of innovation network companies will do. (Innovation projects are developed to address network challenges in the areas of safety, network resilience, asset management efficiency and capacity provision.)

Looking forward into ED2 network companies may focus Innovation funding away from areas which deliver long term whole system, customer and societal benefits to those of narrower and more short-term considerations focused on return periods. An example that may not be prioritised in this scenario is the work we undertook to successfully innovate to trial and roll out Smart Street. The Smart Street project has proven there are significant benefits to customers and NIA funding and its predecessor funding regime was fundamental in developing the component technology required to implement the Smart Street network control techniques. We foresee these type of forerunner projects that may benefit customers will have less precedence in ED2.

We face the same challenges as other DNOs in meeting the requirements of the energy system transition to Net Zero. However, the cost to innovate and deliver projects to meet the future challenges does not vary with the size of the company but does vary with ambition. Throughout RIIO-ED1, ENWL has consistently found its innovation ambitions constrained by its allowances. In a nutshell, we have more ideas than we have funding to support. While we worked with other DNOs to encourage them to address many of the issues we believed were important to support the transition to low carbon, it is not always practical to directly influence the work of other network operators.

We believe that ENWL has excellent innovation credentials, delivering innovation into BAU as evidenced by our two LCNF Tier 2 projects now operating effectively in BAU: CLASS and Smart Street, the latter being rolled out currently with an expectation of being fully operational by 2023. We were the DNO that worked with Kelvatek on the development of its Bidoyng and Weezap devices that are now used in their thousands by all DNOs. This places us in a fantastic position to take on a greater share of the overall innovation effort. Our RIIO-ED2 FBP included a higher allowance for innovation than was provided in RIIO-ED1 to help us achieve the ambitious plan we set out.

We therefore urge that Ofgem increase our innovation allowances to reflect our track record of delivery and the benefits that can be realised for consumers through increased innovation funding.

There is a danger that reducing the NIA will decrease the amount of innovation, which in turn will result in less innovation by all companies and also lost benefits to customers and the environment. In reducing funding and introducing the SIF which is much more complex than the NIC, companies may not be able to influence the challenges sufficiently to help address any network-specific needs. Additionally, reducing NIA may result in resource limitations, restricting the number of projects that can be entered into to the SIF process.