

Northern Powergrid Customer Engagement Group response to Ofgem's Consultation on ED2 Draft Determinations

Introduction

Northern Powergrid Customer Engagement Group welcomes this opportunity to respond to Ofgem's Draft Determination. We are an independent group established to represent the needs and priorities of the customers and stakeholders of Northern Powergrid. Having scrutinised the development of the company's business plan for ED2 we are well placed to make informed comments on Ofgem's Draft Determination.

In this response we have not attempted to address all of the consultation questions raised by Ofgem, but have instead focused on a few areas where we believe we have relevant contributions to make that are informed by the views of local customers and stakeholders.

Summary

We have been impressed by the emphasis that Ofgem has put on consumer and stakeholder consultation throughout the ED2 process so far. We are pleased that Ofgem found that the enhanced engagement process, of which we have been a part, has helped it to better understand consumer and stakeholder priorities and has improved the quality of DNOs' business plans. No doubt Ofgem will want to have the benefit of similar input to inform the many important decisions affecting consumers that it now intends to take during ED2.

We have also had feedback from Northern Powergrid that our work has helped to reinforce a culture change in the company that puts understanding consumer and stakeholder priorities at the heart of decision making, and we have agreed an ongoing role for our group during ED2 with the company.

We understand that other DNOs may be taking different approaches to the future of their groups and we encourage Ofgem to consider steps to safeguard the independence of CEGs, to avoid any risk of their independence (perceived or real) being eroded. While welcoming Ofgem's proposal to continue the work of CEGs we do not support the suggestion of extending their role to encompass comparative reporting across DNOs. This type of activity would not play to the core strengths of CEGs which are rooted in understanding local stakeholders' priorities. It is in consumer and stakeholder interests that such comparisons continue to be undertaken by Ofgem.

As a Customer Engagement Group we believe that transparency, both in reporting the progress of DNOs in delivering the commitments in their plans and in Ofgem's decision making on the application of uncertainty mechanisms and re-openers is of paramount importance if consumer confidence is to be maintained. This is a central consideration in our responses below. We note particularly the potential improvements in this regard that the proposed modernisation of the regulatory reporting process and the DSO performance panel could have. In the absence of a

financial incentive for DNOs on environmental performance we also believe that it will be important for Ofgem to publish an annual report comparing the progress of DNOs in this area to underpin its objective of driving consumer and societal benefits.

We also welcome the focus on whole systems approaches and encourage Ofgem to go even further in seeking to strengthen the links between energy system planning and spatial planning to ensure that shared or fully coordinated plans become the norm.

On reliability, we believe that improvements for customers whose experiences fall well outside of the system wide averages, ie who receive the worst service, should be top priority irrespective of the voltage level at which the fault occurs. Customers are often unaware of, and certainly do not care which part of the network causes an interruption to their supply. We are not fully convinced by the position and the arguments on this point set out in Ofgem's Core Methodology document.

Specific Points

Core-Q1. *Do you agree with our proposals for the enduring role of the CEG?*

We welcome Ofgem's recognition that the enhanced engagement process has worked well in R110-ED2, and that the quality of DNOs' Business Plans is reflective of the CEGs' influence and independent challenge.

We concur that there is a useful ongoing role for CEGs. We have already agreed with Northern Powergrid an ongoing role scrutinising the company's delivery of its ED2 plan and also its improvement programme established in response to Storm Arwen.

We believe that the main area where the CEG adds value is in ensuring that the needs and preferences of local stakeholders and customers are taken properly into consideration in the development and implementation of DNO business plans. In doing this its value is considerably enhanced by the independence – both real and perceived – which the CEG enjoys. We believe that it will be essential to the enduring value of CEGs that this independence is maintained. We would welcome further moves by Ofgem in this regard (while stressing that we see no current threats to the independence of the Northern Powergrid CEG).

Given the likely impact on DNO costs and so customers' bills during ED2 of the many items to be determined after Ofgem's Final Determinations (the many Uncertainty Mechanisms and Reopeners as well as the Access SCR decisions) we think it is essential that decisions on these items are taken transparently and that local stakeholders' views are seen to be considered in the process. As CEGs we believe we can play an important role in this process, and we believe that this role should be recognised.

Core-Q2. *Do you see value in the CEGs working together to deliver more*

coordinated and comparative reporting on some of the DNOs' Business Plan commitments?

The CEGs have been in a privileged position in terms of understanding how DNOs think about the role of customers in achieving Net Zero at lowest cost and how they have worked with the Ofgem ED2 methodology to do this.

We want to build on the perceived and actual success of the ED2 CEGs which Ofgem mandated, including the value added to ED2 through the engagement process between the regulator, the CEGs, the Challenge Group and key customer representatives and stakeholders.

We should take care to see that our role focuses on those activities we are best placed to undertake and not to encroach on the remit of others, including Ofgem and the Challenge Group. This will avoid duplication and confusion and make best use of limited specialist resource.

Since our unique value as CEGs is closely linked to safeguarding the priorities of local stakeholders, there is much value that we can add during ED2 by each working individually with our respective DNOs. But we also recognise that there are areas where we could work together to support each other and so further Ofgem's objectives even more.

CEG Chairs have discussed areas where the CEGs could work collaboratively to add value in mitigating for customers now and in the future the uncertainty in the implementation of the ED2 business plans. We could provide a Forum for exchanging best practice and identifying where there are blocks to things working as well as they might for customers and stakeholders.

The areas include the following.

- Co-ordinating intelligence and experience of how different DNOs are working to embed their role at a regional and sub regional level and the impact they are having.
- Commenting constructively on the clarity and consistency of what Ofgem requires and how the different companies interpret this. This would be from a consumer perspective, including whether aspects of Ofgem's approach that might create a post code lottery have adverse effects on consumers – different circumstances, directions interpreted and applied inconsistently.
- Commenting on the potential impact (positive and negative) of incentives on customers.
- Maintaining constructive pressure on the companies to move from thinking about what they do, to considering explicitly the benefit and value to consumers. For example, it may be hard for a CEG to support energy efficiency initiatives that are about paying for third-party advice and which focus on the number of referrals, not the impact, benefit and value to customers.

NB We do not believe that CEGs as well placed to undertake benchmarking between DNOs. We see this as an activity that is likely to continue to be most efficiently and effectively undertaken by Ofgem (and the Challenge Group if it continues). No doubt

DNOs, Ofgem, customer representatives and stakeholders will have additional and insightful perspectives.

Core-Q11. *Do you agree with our proposed approach for the Annual Environmental Report ODI-R?*

We agree with the proposal for annual reporting on the environmental performance of DNOs, but do not think the proposed approach goes far enough. Leaving it to each DNO to report their own performance without any independent assessment and comparative reporting by Ofgem is unlikely to meet the stated objective to “pursue transparent and robust environmental reporting”. We believe that Ofgem should publish an annual report comparing the progress of all the DNOs against their plans and against the objective of decarbonising the networks – on which customers clearly put a high priority. As stated above, we see comparative reporting and benchmarking to be a clear role for Ofgem as regulator. Publishing such an annual report will also provide Ofgem with an opportunity to comment on progress in addressing the lack of data for setting baseline and stretch targets referred to in its Core Methodology document. This report should cover all areas of environmental performance, including losses. Losses represent a very high proportion of the total carbon footprint of DNOs, and steps to minimise them could also have a significant impact on customers’ bills.

While DNOs contributions to total system losses are large, we recognise that addressing them is a highly complex whole systems topic and so cooperation among companies is essential. It is therefore a particularly appropriate topic for Ofgem as the regulator of the whole system to report on.

Core-Q19. *Do you agree with our proposed Digitalisation re-opener?*

We agree with the principle of having a Digitalisation re-opener. We believe it is important this, and all other re-openers operate effectively, incorporate customer and stakeholder input, and include mechanisms for continuous improvement of how the re-opener process itself operates. In view of the potential for significant increases to Totex during ED2 as a result of all the various mechanisms to deal with uncertainty, of which this is just one example, it is essential for all these mechanisms to be transparent and to involve stakeholder and customer input. Otherwise the extensive engagement that has been undertaken during the preparation of ED2 will be undermined.

Core-Q22. *Do you agree with our intention to modernise the regulatory reporting process?*

We welcome this proposal and request that one of the explicit success criteria for the work should be to facilitate straightforward comparisons of DNOs’ past and planned performance in order to simplify benchmarking comparisons and so promote cross learning between DNOs to benefit customers. Following the completion of the initial

phase of the work, it should be seen as a continuous improvement activity, rather than being closed as a one-off project.

Core- Q24 *Do you agree with our proposed design of the DSO incentive?*

We welcome the introduction of this incentive and its high level design. Using a qualitative approach (survey and panel) is probably reasonable at this early stage of development of DSO functions, but we would prefer to see a stronger set of outturn performance metrics even at this early stage, and a commitment to continue refining and developing these. It may be effective and efficient to extend the remit of the proposed performance panel to include making recommendations on future outturn metrics. Whatever its remit, it is essential that the panel has the resources necessary to deliver it effectively.

Core-Q25. *What are your views on the outturn performance metrics and RRE we are proposing to include in the DSO incentive? If you do not support their inclusion, please outline which alternative outturn performance metric(s) or RRE you think should be included in the framework instead.*

As stated in our answer to Q24, we would ideally like to see a stronger set of outturn performance metrics now, although we do recognise the shortage of experience and information on which to base such metrics. We would like to see the remit of the performance panel extended to include consideration of the balance between items included in the RRE and outturn metrics – for instance by moving towards an outturn metric on amount of flexibility bought.

Core-Q27. *Do you agree with our proposal to introduce a new whole system strategic planning Licence Obligation?*

We welcome this proposal as far as it goes, but would prefer to see a stronger emphasis on joining up energy (and other utility) planning activities with spatial planning activities that are led by local authorities. We recognise that Ofgem is not in a position to mandate how local authorities undertake their planning activities but it could require DNOs to go beyond simply making data and tools available and actually evidencing real and productive engagement with spatial planning authorities with the aim of developing shared or fully coordinated plans. Such engagement is likely to be resource intensive and without a requirement for it from Ofgem DNOs may not give it enough priority.

Core-Q28. *What are your views on the digital tools that could be used to support this?*

We agree with the need for such tools, and think that it may well be productive for Ofgem to establish an innovation project, possibly through the SIF, as a good way to build a common set of such tools for DNOs to deploy.

Core-Q44. *Do you have evidence that customers would be willing to face an increase in their bills to also receive an increase in their reliability, including that they understand the actual cost and how this translates into average power cuts?*

The CEG did observe engagement events during the preparation of NPg's business plan in which customers indicated their support for expenditure to improve reliability for those whose reliability is least good (NB this is not synonymous with Ofgem's WSC definition). In general customers expressed satisfaction with the current general level of reliability – and probably did not clearly distinguish between reliability and resilience – but some felt that a 12 hour target time for restoration is not ambitious enough. There was considerably more interest in focusing work on improving the worst reliability experienced by customers than on the average level of reliability.

Core-Q46 *What are your views on moving to an asymmetric cap and collar?*

In view of the general levels of customer satisfaction with current levels of performance, Ofgem's proposal to introduce an asymmetric cap and collar seems appropriate. We would also like to draw attention to our response to Core-Q44 in which we highlight the importance customers place on improving the service to those who currently experience the poorest reliability, and the need to focus incentives more effectively into this area.

Core-Q48 *Do you agree with how we have characterised the operation of the current CML methodology and our reasons for changing to setting targets in line with our CI methodology?*

We are not fully convinced by the position and the arguments on this point set out in Ofgem's Core Methodology document. There seems to be insufficient focus on improving customer service, with the emphasis clearly on avoiding DNOs outperforming financially. We note that the new methodology, by basing targets on individual DNO historic performance, abandons the assumption (set out in para 6.55) that DNOs should be able to deliver the same restoration times across the network without giving any clear justification for doing so. It may be that there is a good case for doing this, but the document does not make it.

As stated in our responses to Core-Q44 and 46 we are more interested in DNOs being incentivised to improve the performance to customers who currently experience the poorest reliability, rather than being incentivised to improve average reliability. The evidence we have seen points clearly to customers regarding this as the highest priority in terms of reliability improvements.

Core-Q53 *Are there any other areas or metrics that we should include in our governance framework?*

We believe that improving reliability for customers whose experiences fall well outside of the system wide averages, ie who receive the worst service, should be a priority irrespective of the voltage level at which the fault occurs. Customers are often unaware of, and certainly do not care which part of the network causes an interruption to their supply. We raised this point in both our interim and final reports on Northern Powergrid's business plan and we are disappointed that Ofgem has not addressed it in its Draft Determination.

The evidence we have seen demonstrates that, for Northern Powergrid at least, the majority of customers whose experience of reliability is worst is let down by the LV network. The continuing failure to address the service received by these people under the WSC mechanism is regrettable and means that the purpose of this mechanism is not being adequately achieved (in the case of Northern Powergrid at least – we have not seen evidence for other DNOs' customers).

Therefore, we believe that as a minimum, the governance criteria should be amended to require DNOs to report the number of customers who experience the level of disruption set out in the WSC criteria irrespective of the part of the network that causes the disruption (ie to include outages resulting from LV problems). The reports should include a record of which part of the network caused the service interruption so that a good database can be established for setting future WSC definition and targets.