

Ofgem's Consultation on the ED3 Framework

Northern Powergrid Independent Stakeholder Group's response

Introduction

The Northern Powergrid (NPG) Independent Stakeholder Group (ISG) welcomes the opportunity to respond to this consultation which addresses issues that are of real importance to all members of our society, not only those in the Northern regions, irrespective of whether or not they are current electricity customers.

The UK has some of the highest power prices in the world, affecting customer affordability and economic growth. It has set ambitious goals to improve energy security and achieve Net Zero. In this world, Northern Powergrid must evolve and innovate, meaningfully engaging with its stakeholders as it does. As the Independent Stakeholder Group, we are here to help ensure that the people of the North East and Yorkshire are kept at the heart of NPG's thinking, planning and delivery, with a particular focus on people at greatest need or risk. The outcome - more responsive business plans delivered better for having been robustly challenged, and benefiting from our independent advice and support.

Given the extensive range of questions posed within the consultation and the significant number of responses we expect Ofgem to receive, we have chosen to focus our comments on those questions where we believe our input, on behalf of customers, would be most valuable. However, we have also chosen to submit some overarching points which, whilst we see reference within Ofgem's thinking, feel are worth emphasising particularly in the interests of both consumers and our region. We look forward to working with Ofgem as the various steps are taken towards development of the ED3 framework which will undoubtedly be impacted not just by the learning from ED2 but by other key milestones such as the National Infrastructure Commission report following their ED review and the policy decision on the RESP framework.

Overarching Points

The issues raised in this consultation are wide ranging and will have profound consequences for how consumers' needs are met in future. We note the very significant shift in Ofgem's attitude to investment and a change in how flexibility is viewed as a tool for the future. Hence we would like to make three overarching points before addressing selected Ofgem's consultation questions.

Consumer ability to cope with the drive to Net Zero

At a time when the economy is struggling and consumers are struggling even more, it is imperative that the balance between delivering Net Zero and keeping already high bills affordable is achieved. This may require more government intervention through support packages for the fuel poor and the needs of vulnerable customers must always be taken into account as the ED3 framework is developed.

Economic Growth

The Electricity Distribution companies play a vital role in the economic health of the country and ED3 must ensure that they are able to continue to deliver that role whether through better enabling new demand and low carbon generation connections, having sufficient capacity to attract inward investment or providing employment both directly and indirectly. With the North East having some

of the worst economic indicators of any region within the UK, but significant potential for clean economic growth, it is vitally important that no constraints to economic growth are introduced as a result of the ED3 framework. Indeed enablers such as ensuring additional capacity is available in attractive locations to secure growth is vital.

Supply Chain Constraints

The issue of sufficient available skills and the promotion of STEM has been a challenge for at least the past 20 years and, as a society, we have failed to address it sufficiently. We would highlight that the green skills gap that presently exists requires all participants delivering Net Zero to think creatively about how talent is developed as part of the plans that are developed within the framework. We believe this should be well supported by Ofgem and the government. These efforts should help to safeguard that the workforce is representative of the communities being served by Network Operators. Supply chain confidence, particularly given the current government's growth agenda and pronouncements on planning reform, should be at an all-time high with more work being available that resources to deliver it. Of course this then leads to the risk of upward pressures on prices given that the supply demand equation is out of balance which is most definitely not in customers' interests. Hence it is vital that ED3 signals as much long-term certainty as possible, so that existing supply chain companies see the need to recruit and train talent and that new supply chain companies either emerge or are attracted from international markets. With the shift to the possibility of anticipatory investment, which is a significant departure from the approach in recent times, the supply chain must be assured that this is a not a one price control decision as 5-year certainty is not sufficient to secure the skills investment that is needed over a longer timeframe.

Responses to selected questions

Question 1. Do you agree with our characterisation of the wider context for ED3? Are there any other areas of context that you consider material for ED3?

We consider that the consultation document describes the context for ED3 well picking up on the key drivers for change and the challenges ahead for the electricity distribution companies. The only area where we feel there needs to be more emphasis (as the challenge is noted within the document) is in relation to the development of a larger skilled workforce so as to help alleviate supply chain pressures. We note this in our overarching points but would add that this consultation signposts a significant shift in investment volumes in order to enable the journey to Net Zero at the same time that other supply chain demands (and in some cases associated regulatory settlements, notably in the water sector) are emerging which, when coupled with the UK's overall need, and under the Labour government, appetite, for infrastructure development will only serve to make the skills challenge more acute.

Question 2: What are your views on our overarching objective and proposed consumer outcomes?

We fully support both the overarching objective and proposed outcomes. However, to build on this, we do consider it essential that, in developing the ED3 framework, Ofgem fully considers the constraints that will impact the ambition described in the overarching objective. There are many consumers who will fully grasp and endorse both the objective and outcomes but, particularly within Northern Powergrid's region, there are substantial proportions of the community who, whilst being supportive in principle, are simply not in a position to adopt much of what is being described as their focus will be on coping with their personal economic circumstances on a day-to-day basis. Hence we must ensure that the ED3 framework protects them, and indeed, does not exclude them from delivery of the overarching objective. A fair and just energy transition must be a core principle in

ensuring that policy and decision making is not discriminatory. We note the work that Ofgem has already done to ensure that no customers are left behind in the transition to Net Zero but there will need to be a heightened focus on this challenge as the ED3 framework is further developed.

Question 9 Do you think that there is a greater role for elements of ex post regulation or of cost pass through in ED3, either specifically in assessing cost changes resulting from changes to investment requirements during the period, or more broadly to reflect the changing context?

We accept the need for regulatory change, and broadly agree, but we remain concerned that aspects described as “cost pass through” need significant oversight and challenge, thinking about how weakness here just feeds through into customers’ bills.

Q10. What is the potential availability of distribution-based flex across GB for DNOs in the short term and on the journey to net zero during ED3?

The Demand Flexibility Service demonstrated that households can deliver ~0.3kW of flexibility for occasional events, ideal for managing system resilience and outages and similar use cases. There is no reason why a large proportion of households couldn’t do this with suitable recruitment and retention strategies. That would create a GW-scale resource within NPg’s region. Homes with LCTs such as EVs, heat pumps, solar PV + battery systems, etc, can provide significantly more flex, adding even more scale to the resource.

Financial incentives are important but are not the only, or even the dominant, motivator for many people (e.g. see <https://www.churchillfellowship.org/ideas-experts/ideas-library/powering-participation-exploring-how-creative-engagement-can-unlock-domestic-demand-side-response/>). System operators should be incentivised to do far more to recruit and support this resource, which could be key to maintaining security of supply in a net zero system.

Small and medium businesses are, if anything, even less well addressed by the current system. They could add yet further capacity to this resource.

Question 12: Do you agree that the risk and downside for consumers of network underinvestment in network reinforcement would be greater than the downside of overinvestment?

We note the amount of unused capacity in certain parts of the NPg network and are pleased to see the extent to which NPg has been “advertising” such capacity through the publication of capacity maps.

However, we agree that the potential risk and consumer impact of delayed network build, or not building capacity ‘right first time,’ (as Ofgem describe) could be much greater than the impact of investing earlier than needed and incurring some accelerated financing costs for a short period of time. With the ambition to deliver Net Zero we do not consider that the risk of stranded assets is as high as it might have historically been, particularly given the “electrification” agenda as part of the drive to Net Zero and the generation growth envisaged for the region. We agree with the Ofgem view that the risks of underinvestment for consumers are in excess of well justified investment proposals that enable economic growth and the journey to Net Zero.

Q15. How do we ensure that network flexibility is used only when it is in consumers’ long-term interests in ED3?

The issue is not that the “Flexibility First” commitment is driving DNOs to over-utilise flex. The issue is that they are not identifying and capturing the whole system value of flex. They should be given a

much stronger whole system responsibility, driven by a financial incentive to broker the availability of flex to other players who need it, not just for their own purposes.

Beyond the value of avoiding or deferring infrastructure investment, flex has significant benefits for use cases such as:

- Avoiding curtailment and accelerating connection queues. Demand turn up could be used in preference to generation curtailment (e.g. via ANM) to maximise utilisation of low carbon generation, and to accelerate timelines for connecting new generation. As well as reducing the immediate carbon intensity of the grid, this improves returns on investment in generation, improving the case to build more of the generation we need to achieve Net Zero. DSOs are not chasing this type of flex as actively as they could because the benefits accrue to other parties, not themselves.
- Managing network outages and other system resilience events. Flex offers the ability to reduce non-essential loads so that restricted capacity can be used to deliver essential power, e.g. to vulnerable consumers and critical equipment. A key issue here is ensuring that people know how to respond when there is an emergency. In this regard, services like DFS have a “fire drill” value that is completely unrecognised by current flex markets. DSOs would be very well placed to capture this value, as it is outages on their network that are most likely to benefit from this capability.
- Supporting wider system balancing and operability. Ofgem has recognised this value in the ED3 consultation, but it is not recognised in the CEM tool. Suitable rules to manage interactions between flex services (“primacy rules”) need to be implemented to fully capture this value. The pace at which the Open Networks project has been defining these rules is unacceptably slow. The new flex market facilitator may improve this, but they are taking time to ramp up. Ofgem should create much stronger incentives to accelerate this work.
- Managing work programmes. Flex offers the ability to improve logistics and manage constraints in skills and supply chains by shifting work backwards or forwards by several years, e.g. to create regional clusters of work so reducing non-productive staff time and mileage. The system has not yet started to think about how to value and exploit these capabilities.
- Managing losses. Reducing load at peak times can help reduce losses. The CEM tool values this as part of the investment case for avoiding / deferring investment, but there is little attempt being made to use flex to manage loads on equipment that isn’t close to capacity.
- Voltage optimisation. NPG’s BEET (Boston Spa Energy Efficiency Trial) project is exploring the use of network flexibility to optimise voltages and hence reduce power consumption in homes and businesses. Distributed flex in home batteries, EVs, smart inverters, etc, could do similar.
- Building consumer buy-in. Flex gives consumers an opportunity to be active participants in the energy system, not just passive recipients of a low-cost commodity provided by large corporations. This could be critical to building buy-in to the programme of work and investment that will be necessary to achieve net zero. People are more likely to support it if they feel they can be part of it. Flex gives them to opportunity to do that.

None of these use cases are currently appropriately valued by the DNOs in ED2, or in the CEM tool that they use to evaluate flexibility. If flex is to play the key role it has potential to play in delivering CP2030 then not only does the full value of flex need to included in ED3 but it also needs to be enabled beforehand.

Question 25: . How can we better strengthen accountability for consumer outcomes?

We believe that the mechanisms developed for ED2 are fit for purpose and that Ofgem's duties in relation to consumer protection form a sound basis for the ED3 period. Holding the electricity distribution companies to account for delivering against customer needs is something that we fully support and we have not, yet, seen any failings in respect to the application of this obligation. However, we are always mindful of the changing environment and, in particular, the increasing pressures on customers to fund the transition to Net Zero. We would refer you to our overarching points and reiterate that we believe it is vital for the ED3 framework to always consider consumers' capacity to play an active part in this journey and recognise the financial constraints that many consumers face.

Question 26: What are your views on ED company reporting and the overall transparency of performance and compliance?

We agree that transparency is key to driving greater accountability. Indeed as the ISG we have made it very clear that we do not want any bespoke reports created for us, we want to work on the identical information that is produced for the running of the company. We note the additional reporting requirements that Ofgem has placed upon all companies and, as we are not charged with monitoring financial resilience, can see the real value in certain areas. However, we do see an enormous amount of reporting to Ofgem including items such as the Long-Term Development Statements and the Distribution Future Energy Scenarios and would like to feel confident that such reporting has a real value as there is no point in creating a reporting requirement without our seeing the benefit of that reporting. This will be particularly important as we simultaneously work our way through the ED2 period and approach developing ED3, as all distribution businesses have now submitted their SLC50 reports for the first year of ED2. We strongly encourage assurance all reporting to Ofgem is relevant and value adding.

Question 27: Do you consider that ISGs alone are sufficient to ensure high quality and effective consumer and stakeholder engagement throughout the ED3 price control? What alternative or complementary approaches should we consider?

As the ISG we will do everything in our power to deliver against our vires (as described in this consultation document) and believe that, just as we did (as the CEG) in the creation of the ED2 business plans, we have a responsibility to help ensure that the people of the North East and Yorkshire are kept at the heart of NPg's thinking, planning and delivery. The structure we have co-created with NPg to fulfil this requirement has become embedded within the organisation and many mechanisms now exist that allow the ISG to fulfil its role effectively.

We will not only be scrutinising NPg's approach to the ED3 period, but engaging regularly with NESO, particularly in relation to the creation of the RESPs and are pleased to see the ongoing connection with Ofgem through a regular series of ISG Chairs and Ofgem meetings. These will be important discussions but we believe it is essential that, to ensure the customer voice is being heard at the highest level, the ISG chairs meet regularly with the Ofgem Chair and GEMA. The ISG chairs group has requested meetings with GEMA which, to date, have not yet been scheduled. For GEMA not to hear directly from the Ofgem mandated ISGs seems inappropriate and we hope this situation will be remedied.

However the ISGs are no substitute for meaningful stakeholder engagement strategies that each DNO must develop and deliver. Stakeholder insights must inform and shape the DNO plans. The ISGs

can hold the companies to account for ensuring that all voices are heard and insights from engagement are fed into company decision making.

Before considering whether any engagement beyond the ISG's is necessary, Ofgem should ensure that they are making the most of the existing arrangements. From our perspective, we will continue to probe deeply on behalf of customers as we continue to champion their voice and provided that we have access to the right audiences to share what we are hearing, we believe that the current, Ofgem mandated arrangements may be sufficient, subject to the first part of our following answer.

Questions 28-30: Q28: Do you agree that Ofgem should adopt research approaches, such as deliberative techniques to ensure that the consumer voice is heard and considered throughout the ED3 and company Business Plan process? Q29. How should our approach to enhanced stakeholder engagement be adapted to better include the perspectives of all vulnerable customers, including those that are seldom heard, digitally disengaged/excluded and those that are worst served? Q30. What alternative or additional approaches might we use to ensure that the consumer voice remains central to our policy setting process?

We have chosen to answer this set of questions collectively as we believe they are inextricably linked. The ISG fully supports the adoption of research techniques to ensure that the customer voice is heard. These must complement, but not be a substitute for, the feedback arrangements from the ISGs referenced in our answer to Q27. In terms of seeking the views of vulnerable customers, we believe Ofgem should seek feedback from the ISGs and supplement this with engagement across the sector, including CAB, NEA and Energy UK amongst others. As mentioned previously, with poor economic indicators compared to the rest of the UK in the Northern region, this is a particular focus for us as the NPg ISG. Finally, whilst we are aware of some processes that Ofgem use to seek customer views, we do believe that more connectivity with the ISGs, particularly at Board level would be beneficial in ensuring that Ofgem gets access to the regionally varied customer voice and that it remains central in the policy setting process.

Agreeing engagement and research methodologies with the DNOs could improve Ofgem's ability to benchmark proposals and performance. Lessons could be learned from GD3 in terms of Customer Value research and Business Plan Acceptability testing

Ofgem might consider :

- assessing and rewarding the companies on the detailed customer outcomes and not outputs against generalised outcome areas
- hosting an annual showcase/workshop on customer outcomes to recognise and share good practise
- assess intergenerational fairness in tangible ways that can be more easily communicated with customers
- identify gaps in statutory powers to better protect vulnerable customers (Ofgem/CA/Ombudsman)
- ensure innovation projects are designed to lead to clear customer outcomes
- recruit more customer service and engagement specialists within Ofgem
- undertake a gap analysis to link up incentive schemes between different sectors in the energy market to streamline various initiatives (including redress schemes and signpost service).

Questions 34-35;

Q34 How can we drive further service improvements under the TTC incentive?

Q35. Should the TTC also apply to domestic connection upgrades i.e. fuse/cutout/service cable upgrades, including unlooping?

This section of the consultation reads as though it is only considering the connection of newly built properties to the network, or to wholly new network connections. We are concerned that this misses the most important part of customers' needs for the energy transition as they connect new low carbon technologies (e.g. PV, domestic storage and EVs) to their homes. In many cases there needs to be an interaction between the customer (or their installer) and the DNO. Sometimes the interaction only results in an agreement that the customer can proceed, but in other cases it identifies necessary reinforcement work, e.g. service loop unbundling. The existing performance measures focus on new connections to new properties; the service aspects for customer wanting to connect LCT are not properly defined. Part of this consideration would include a TTC applicable to the range of domestic customer needs.