

National Energy Action (NEA) response to Ofgem's RIIO 2 Sector Specific Consultation (ED2)



About National Energy Action (NEA)

NEA¹ works across England, Wales and Northern Ireland to ensure that everyone in the UK² can afford to live in a warm, dry home. To achieve this, we aim to improve access to energy and debt advice, provide training, support energy efficiency policies, local projects and co-ordinate other related services which can help change lives. NEA's work is also delivered in partnership with local and national government, Ofgem, industry and the third sector to deliver practical solutions to improve the quality of life for those living in cold homes.

Action for Warm Homes

Background to this response

In 2012, NEA developed a scoping study with Ofgem to explore how well-placed network companies are to deliver social action cost-effectively and support the alleviation of fuel poverty. Throughout ED1 and GD1, NEA has worked with Ofgem and the network companies to embed many of the recommendations and cultivate several projects which support low income and vulnerable households. Some of the main drivers for NEA's on-going collaborations and recent work with the networks include:

- Ofgem requiring networks and energy suppliers to enhance their work on the Priority Services Register (PSR).
- Requiring energy suppliers and Distribution Network Operators (DNOs) to be proactive in identifying 'need' and act on the stakeholder and collaborative incentives to trial new approaches which have a positive social impact while proving alternatives to conventional network reinforcement.
- Ensuring exemplar network innovation projects are developed and disseminated fully and encouraging network companies to ensure fuel poor and vulnerable households directly benefit from these innovation competitions and allowances.
- Encouraging networks to deliver non-network solutions.
- Requiring Gas Distribution Networks (GDNs) to exceed the previous Fuel Poor Network Extension Scheme (FPNES) targets and supporting this activity on the ground.
- Ensuring GDNs provide more consistent advice and support for vulnerable households when they have to disconnect gas supply at properties when the boiler is deemed to be unsafe.
- Undertaking research and practical projects to raise awareness of the risks of Carbon Monoxide (CO) poisoning and acting on the key links between this and the risk of being in fuel poverty.

As well as directly supporting the delivery of ED1 and GD1, NEA has also ensured network companies play a key part in the delivery of the UK Government's Fuel Poverty Strategy. NEA has championed the need for revisions to the Digital Economy Act to allow local authorities, public sector health bodies and energy network companies to undertake direct data matching process with the Department for Work and Pensions (DWP), independent of licensed gas and electricity suppliers³. Throughout the RIIO 2 process, NEA has extensively engaged with Ofgem and the DNOs to help shape the price control, through stakeholder meetings, workshops, and sitting on several of Ofgem's working groups, helping to shape the price control.

The role of electricity networks now and in the near future

As well as continuing to strengthen their work being proactive in identifying 'need', throughout ED1, NEA has worked with several DNOs to trial new approaches which have had a positive social impact at the same time as proving alternatives to conventional network reinforcement (or deferring it). NEA has been encouraged by many of the DNO's appetite to develop these new approaches to manage grid constraints in contrast to network reinforcement via innovation trials, some the projects NEA is aware of are:

- ❖ The Solent Achieving Value from Efficiency (SAVE) Led by Scottish and Southern Energy Networks Distribution (SSE-N) in the Solent and surrounding area.⁴ This project focussed on how domestic energy saving measures could positively impact the network. NEA facilitated a workshop with energy suppliers on behalf of SSE-N to disseminate the work, and to understand how the findings on time of use tariffs could translate to real life applications.
- ❖ The SSE-N project looking at Social Constraint Management Zones, which trialled extensive engagement with community groups with the ambition of encouraging their participation in flexibility markets in two areas.⁵

- ❖ The Less is More project where Western Power Distribution partnered with the Centre for Sustainable Energy to help communities reduce their electricity demand, especially at peak times so that less money was spent on upgrading substations, to cope with rising demand.⁶
- ❖ The Power Saver Challenge project with Electricity North West aimed to extend the life of existing network assets by working with customers to reduce the amount of electricity they use, in return of a reward. The aim was explicitly to test the feasibility of avoiding investment in an urban primary substation and extend the life of the existing asset⁷.
- ❖ TOU trials within Energywise which involved low income households in East London who took part in trailing two different ToU tariffs.
- ❖ NEA and Agility ECO produced a report investigating the possibility to divert budgets currently allocated to load-related network upgrades into local schemes that improve energy efficiency. Specifically, the report looks to analyse the “Size of the Prize” on Northern Power Grid’s network, the economic feasibility of investment in local energy efficiency and how this compares to conventional network reinforcement and practical feasibility⁸.

Additionally, at the launch of the RIIO ED2 price control, NEA presented four areas for reform that would allow DNOs to fulfil Ofgem’s ambition of a price control more focussed on addressing vulnerability:

1. Reforming the current share factors and weighting Demand Side Response (DSR) or demand reduction projects dependent on whether they have a direct social and environmental outcome.
2. Reforming the current losses incentive so that DNO/DSOs are incentivised to deliver energy savings within domestic properties by replacing energy inefficient appliances or electric heating.
3. Ensuring any future innovation funding (Network Innovation Allowances or Network Innovation Competitions) is directly supporting consumers in the transition to a low-carbon future, particularly those in or extreme risk of fuel poverty.
4. Helping low income customers upgrade their connection in the context of moving to low carbon electrical heating.

Since that launch event, NEA has engaged extensively on these ideas with Ofgem’s ED2 policy team, the Committee on Climate Change subgroup, the ENA and bilaterally with DNOs and academics (Newcastle uni etc) to ensure that our proposals are workable and useful for Ofgem in the formation of the price control. In Appendix 1, we give a brief Preliminary analysis of these four areas of reform.

Summary of this response

As noted above, NEA has extensively engaged with Ofgem the DNOs to help shape this price control, through stakeholder meetings, workshops, and through working with Ofgem in the RIIO 2 working groups.

NEA is so far pleased with Ofgem’s approach in the ED2 price control, especially the increased focus on stakeholder engagement and vulnerability. We believe, however, that there are several areas that require closer, additional consideration:

A Vulnerability ODI and Minimum Standards are the right approach, but DNOs need confidence to invest.

NEA is pleased to see that there is a clear incentive for working to address consumer vulnerability, with a strong alignment with Ofgem’s own Consumer Vulnerability Strategy through the baseline standards. This approach represents a much fairer proposition for households than has been taken forward in GD2.

While RIIO GD2 has encountered problems in the draft determinations stage of business plan appraisal with regards to the rejection of many vulnerability ODIs, and confusion over the new use-it or lose-it allowance, we believe that a single ODI overcomes many of the issues faced, with added simplicity and a reduced chance of confusion created in the business planning phase.

However, Ofgem must take action to ensure that DNOs have the confidence to invest in their vulnerability strategies, given that they will only receive the reward or penalty in an ex post fashion. It will require early feedback (at the draft determination stage) from Ofgem on each DNO’s vulnerability strategy to give them the confidence that achieving their strategy will result in a suitable reward (or penalty) for them, allowing them to assuredly invest in their proposals. Additionally, Ofgem must include an assessment of performance in the middle and at the end of the price control. Without this, and because of the ex-post nature of the incentive, we are not confident that DNOs would fully commit to their plans.

We consider the level of potential funding proposed for the ODI, at +/-0.5% of base revenue, to be more suitable for addressing vulnerability than the low sums found in the use-it or lose-it allowance in RII0-GD2. We urge Ofgem to reconsider the level of funding within GD2 to be more reflective of the current financial situation that has been created for many households because of the pandemic, learning from the increased incentive in ED2.

The vulnerability baseline is a good start, but could be strengthened

While the proposals do allow for significant spend on activities to support vulnerable energy consumers, with clear minimum standards for DNOs to achieve, some of these standards are relatively broad, and we believe that with some small changes, the baseline could be improved significantly. For example:

- Ensuring that Principle 1 includes minimum standards for households that rely on Braille or British Sign Language to communicate.
- Ensuring that the mounting consumer debt issue is accounted for within the priority services register, through the creation of a new financial vulnerability PSR flag.
- Including a standard to ensure that the PSR works well across sectors, reflective of the Ofgem Consumer Vulnerability Strategy.
- Introducing a new standard for facilitating and supporting suppliers to deliver the smart meter rollout. While DNOs do not have a statutory role in the rollout, there is much that could be done to promote the benefits of smart meters, in particular to those households that currently use prepayment meters.
- Guaranteeing the inclusive design of DSO functions by explicitly referring to DSO within the vulnerability baselines, and DSO within the vulnerability baselines.

Ensuring vulnerable consumers are at the heart of DSO transition

While NEA is pleased to see that Ofgem propose a principles in the baseline standards to “Understand new forms of vulnerability, in particular by identifying blockers to participating in a smart flexible energy system” and “Embed the approach to protecting the interests of consumers in vulnerable situations throughout a company’s operations to maximise the opportunities to deliver support”, there is more that should be done to ensure that vulnerable energy consumers are at the heart of the DSO transition.

NEA agrees with the proposal for a new DSO ODI, the Vulnerability ODI and the baseline standards. We are concerned, however, with the lack of detail on how DNOs will be expected to integrate their vulnerability strategies into their plans to fulfil DSO functions, and if/how they will be rewarded for doing so. We consider the above baseline standards will not in themselves achieve the goal of embedding across the businesses and believe that there would be utility in having a corresponding principle within the DSO baseline, to ensure that networks’ work on DSO fully considers that of their most vulnerable customers, integrating them into the solution at the start, rather than fixing unintended consequences with add-ons at the end.

NEA fully believes that DSOs of the future should have a core responsibility to ensure that their work to protect vulnerable customers and integrate them into solutions is as important as cultivating and adopting their operations to adjust for the growth of EVs and Heat pumps. While we accept the ideas we set out at the start of the price control (and above in this document) can be achieved within the proposed framework (as set out in our full response below), Ofgem must work to consider how that the full scale adoption of these options we note above can be achieved in the next price control. This will not be achieved through broad incentives, but by more prescriptive baselines and expectations.

The Price Control Must Fully Consider the Impacts of COVID-19 on Households

The pandemic has led to the single biggest hit on our economy for 41 years⁹. It is expected that the affordability of energy will become much harder for many more people over the coming years. The impact from coronavirus on household situations has been significant. There is a reasonable chance that the impact of this on consumer will be more material than the impact of decarbonisation for the period of the GD2 price control. NEA therefore believes that Ofgem should consider how to react to the chance in circumstances arising from the pandemic within ED2. We believe there are two clear opportunities to do so.

1. Through encouraging DNOs to prioritise the tackling of affordability in their own vulnerability strategies; and
2. Through reconsidering previous decisions taken on the role of DNOs (and other networks) in relation to direct interventions in the home that could reduce energy costs, including thermal efficiency upgrades, and the replacement of inefficient appliances.

Strengthen the Commitment to Inclusive Innovation

NEA supports the Network Innovation Allowance (NIA) proposals, especially the restriction of scope to transitioning towards net zero and supporting vulnerable energy consumers. We also strongly support the proposed requirement to assess each NIA project in terms of its impact on vulnerable energy consumers, and we propose that this assessment must consider:

- An assessment in terms of equity, by looking at the financial impact on all income deciles.
- The impact on customers with different heating types, including but not limited to:
 - Gas boilers;
 - Direct electric heating;
 - Heat pumps;
 - Oil Heating; and
 - Solid fuel heating.
- A consideration of impact on different vulnerable groups, including but not limited to:
 - Digitally excluded households;
 - Rural Households;
 - Different property tenures;
 - Households using prepayment meters;
 - Households that speak English as a foreign language;
 - Households with disabilities and medical conditions.

In addition to this already strong framework, we believe that Ofgem should explicitly include vulnerability within the scope of the Strategic Innovation Fund (SIF), and should require an assessment on the impact on vulnerable energy consumers (as set out above). The opportunity to do this assessment within the SIF is significant, given the relative size of projects compared to the NIA.

Key Recommendations

1. Ofgem should continue to pursue the vulnerability ODI with the proposed reward/penalty as set out in this SSMC.
2. Ofgem should be more prescriptive in the minimum standards, by:
 - a. Ensuring that principle 1 includes minimum standards for households that rely on Braille or British Sign Language to communicate;
 - b. Ensuring that the mounting consumer debt issue is accounted for within the priority services register, through the creation of a new financial vulnerability PSR flag;
 - c. Including a standard to ensure that the PSR works well across sectors, reflective of the Ofgem Consumer Vulnerability Strategy which looks to “work with others to solve issues that cut across multiple sectors”;
 - d. Ensuring that principle 3 contains a standard for facilitating and supporting suppliers to deliver the smart meter rollout, especially where a household uses a prepayment meter;
 - e. Guarantee the inclusive design of DSO functions by explicitly referring to DSO within the vulnerability baselines, and DSO within the vulnerability baselines.
3. Ofgem must take the proposals regarding NIA forward, particularly with respect to vulnerable energy consumers.
4. Ofgem must introduce a new mechanism for allowing low income consumers to upgrade their network connection at no upfront cost.
5. Ofgem must ensure DNOs losses strategies consider the ‘behind the meter’ electrical efficiency of domestic appliances.
6. Ofgem must ensure that the final version of their “Vision for DSOs” includes engaging and assisting vulnerable consumers at its heart.

Full response to this consultation

Overview Document

OVQ12 - Do you agree we should adopt a consistent NIA framework for DNOs, and other network companies and the ESO?

Yes, NEA agrees with the consistent NIA framework for all network companies and the ESO.

OVQ13 - What are your thoughts on our proposals to strengthen the RIIO-ED2 NIA framework?

NEA strongly supports the proposals to strengthen the RIIO-2 NIA framework. In particular, focusing the scope of the NIA on innovative ways to assist vulnerable consumers and the requirement to assess the impact on vulnerable customers. Implementing both of these areas concurrently is vital part of in ensuring that the transition to net zero is inclusive, and leaves nobody behind. The ENA themselves, in their network innovation strategy document, say within its innovation strategy that there should be a focus on “An inclusive approach to participation in the energy transition, with a focus on vulnerable consumers”.

In terms of how the details of the vulnerability assessment should be made, we believe that it could fall into two separate parts: A quantitative assessment and a qualitative one. The quantitative assessment should consider the direct impact of the innovation, as well as the impact of the intended consequences of the innovation, and must include (but not be limited to):

- An analysis on how the costs and benefits of the innovation (in terms of the project, and the desired outcome) translate on to **different income deciles**. Especially since the start of Covid-19, financial vulnerability has become significantly more pronounced and should be the foremost consideration. This could be coupled with an equity weighting of costs/benefits, similar to how Government conducts its own impact assessments. We note that Ofgem does this in its own assessments of impacts of its own decision making on vulnerable energy consumers.
- An analysis on how the innovation will impact on households with different heating types, including:
 - **Gas boiler**
 - **Direct Electric Heating**
 - **Heat pumps (air source, ground source)**
 - **Oil Heating**
 - **Solid Fuel Heating**

A qualitative assessment should also be required, investigating how the innovation project, and intended outcomes would impact on disadvantaged groups, included but not limited to:

- **Digitally excluded households** - (20% of the population has at most limited access to the internet). These households often face extra costs as a result of not being able to access the best deals or missing out on technology that could reduce their costs.
- **People living in Rural Areas** who often face higher costs because of poor insulation, and/or use of expensive fuels to heat their homes.
- **People living in different tenures**, those in PRS often have less choice about the way they consume energy and who therefore may see higher costs as a result.
- **Households that use legacy prepayment meters**, who often face market detriment by being unable to switch without physical meter changes, or broader difficulties such as those experienced during the lockdown.
- **Households that speak English as a foreign language.**
- **Households with disabilities and medical conditions** (specifically those that are affected by energy rationing)

OVQ15 - Do you agree with our proposed approach for setting individual levels of NIA funding?

NEA broadly agrees with the proposed approach for setting individual levels of funding. Setting the expectation for justification of allowances in business plans should lead to more coherent innovation strategies, where gaps in provision are identified, and innovation exists to try and fill this need. We believe that this could go one step further and require DNOs to set out the split of their expected funding level between projects that focus on the Energy System Transition, and those that focus on Consumer Vulnerability. This would create an extra layer of scrutiny on innovation, as these levels would need to be justified themselves as part of the enhanced engagement process.

Ofgem need to be aware of the risk caused by the mechanism, that a DNO could either not ask for any NIA funding at all or choose not to use any NIA funding for projects focussing on addressing consumer vulnerability. This risk must be mitigated for in the final framework, potentially including a change of focus for the SIF if no NIA funding is used for either of the two focus areas that Ofgem outlines.

OVQ18 - Do you agree with our proposal to use the Business Plan Incentive to encourage companies to reveal standards of performance higher than our baseline expectations in their DSO strategies? Do you agree we should require, where appropriate, all DNOs adopt these revealed standards?

Yes, NEA believes that such an incentive structure would allow DNOs to compete with each other on the set of minimum standards that each would need to adhere to, resulting in higher standards for all households. If this is not done, and business plans that go beyond the minimum are rewarded without increasing the baseline for other DNOs, then there is an acute risk that a postcode lottery will be created, and customers in some areas will receive a much higher level of service that customers elsewhere, which would be wholly unfair.

OVQ20 - Do you agree with our proposal to introduce a DSO ODI in which we would, via an ex post incentive, penalise or reward companies based on their delivery against baseline expectations and performance benchmarks? If so, what criteria and other considerations should we take into account in determining whether we should apply a reward or penalty?

NEA agrees with the proposal for a new DSO ODI. As we state in the summary above, however, we are concerned with the lack of detail on how DNOs will be expected to integrate their vulnerability strategies into their plans to fulfil DSO functions, and if/how they will be rewarded for doing so. It is clear to NEA that this level of integration is crucial to successfully achieving the clear goal to “Embed the approach to protecting the interests of consumers in vulnerable situations throughout a company’s operations to maximise the opportunities to deliver support”, as set out in the Appendix 5 of Annex 1 of the SSMC, as the fourth principle of the baseline standards for addressing consumer vulnerability.

If incentives for vulnerability, particularly those that based upon integrating work across the business, are only referenced in one area of the SSMC, then we are concerned that it will be difficult to break out of this silo, and consumer vulnerability work will continue to be done around the edges, and often as an afterthought. While we are aware that the DSO ODI cannot contain an incentive for something that is clearly a baseline standard elsewhere, a reference to this expectation would go some way in ensuring that no consumer is left behind in the energy system transition.

One area where specific guidance on incentives may be justified, however, is where extra work is put in to ensuring that DSO markets are inclusive through extensive engagement with community groups. The evaluation¹⁰ of the SSE-N innovation trial “Social Constraint Management Zones”, found that “the initial CAPEX required to set up the flexibility service can be a large hurdle for many smaller community organisations and local flexibility providers to participate in flexibility and energy efficiency schemes”. **We recommend that Ofgem explicitly state that as part of either the vulnerability or DSO ODIs, a reward can be given for activities that directly promote DSO markets to a wider audience.** Additionally **Ofgem could allow the ranking of bids into a DSO market to be done not on a purely financial basis, but one which considers total social value** (which might allow a more expensive community project which has significant social value to beat a less expensive gas reciprocating engine, which has minimal social value beyond its low cost).

OVQ23 - Do you agree with the DSO roles, principles and associated baseline expectations in Appendix 5? Does it provide sufficient clarity about the role of DNOs in RIIO-ED2? Do you think amendments or additional baseline expectations are required?

As in our answer to OVQ 20 and in the summary, NEA believes that if the baseline standards for DSO do not cross reference the principle within the vulnerability baseline to “Embed the approach to protecting the interests of consumers in vulnerable situations throughout a company’s operations to maximise the opportunities to deliver support”, then there is a risk that work on vulnerability and DSO will both be siloed, and the potential for truly embedding will be lost.

To remedy this, we propose that at the very least, the DSO baseline include references for the expectations that arise from the stated principle within the vulnerability baseline. Ideally, a new principle within the DSO baseline would be added, for example “A DNO to DSO transition that is inclusive”, including minimum standards such as the creation of DSO markets that all households can directly benefit from.

An example of where this has already been trialled is through the SSE-N innovation project “Social Constraint Management Zones”¹¹, where communities and community organisations were able to receive payments for helping ease constraints on the local electricity network, as an alternative to upgrading cables and substations. Energy saving projects that help the network are called flexibility. As a result of this extra financial reward, and increased engagement with a new set of stakeholders, SSE-N were able to solve network constraints and reward vulnerable households at the same time, and recommended in their evaluation of the project “embedding community-based flexibility and energy efficiency projects into the CMZ process in the future.”¹². We recommend that this be a minimum requirement across all DNOs in the DSO baseline.

OVQ30 - Do you agree with the impacts of our potential Access SCR proposals that are identified in this Chapter? Are there additional impacts that are not identified?

NEA agrees with the impacts identified in the SSMC. There is, however, an additional uncertainty that we believe requires careful consideration as part of the process. Depending on the result of the SCR process, there could be a significant cost for some domestic users to either connect to the network, or to upgrade their connection if, for example wished to install a heat pump or electric vehicle charger. While this could be deemed fair for some network users, it could price some vulnerable and fuel poor households out of the market for these crucial elements of the energy system transition, which we believe would be an unintended adverse consequence for Ofgem, BEIS and the DNOs.

This could be mitigated through a scheme similar to the GDN’s Fuel Poor Network Extension Scheme, where consideration is made for whether financial assistance is justified in either connecting fuel poor households, or upgrading their connections, in RIIO ED2. This will help off-electricity-grid customers to connect, potentially vastly improving their lives. It could also help these households to upgrade their connection in the context of moving to low carbon electrical heating, something that can be necessary, especially for higher powered heating sources such as heat pumps. While this activity theoretically could be funded via the innovation funds or the proposed incentive structure, we do not have confidence that this will happen given the uncertainty surrounding the recuperation of costs. NEA would welcome working Ofgem to explore how this new scheme would operate.

OVQ34 - Do you think we need specific mechanisms in RIIO-ED2 to manage the potential longer-term impacts of COVID-19? If yes, what might these mechanisms be?

Since the open letter for ED2¹³, there have been two significant changes in the external context that deserve special consideration from Ofgem. Firstly, the commitment that Parliament has made in reaching net-zero carbon emissions by 2050¹⁴, which realigns the course towards decarbonisation and means that actions may need to be taken earlier than previously expected. Ofgem has addressed this change through the inclusion of the net-zero re-opener which allows a flexible response to technological and policy developments along the path to Net Zero. This is welcome and allows the networks to be funded appropriately to meet carbon obligations, without unnecessary cost to households.

The second important development has been the worldwide Covid-19 pandemic. The pandemic has led to the single biggest hit on our economy for 41 years¹⁵. It is expected that the affordability of energy will become much harder for many more people over the coming years. The impact from coronavirus on

household situations has been significant. There is a reasonable chance that the impact of this on consumer will be more material than the impact of decarbonisation for the period of the ED2 price control.

NEA therefore believes that Ofgem should consider how to react to the chance in circumstances arising from the pandemic within ED2. We believe there are two clear opportunities to do so.

Firstly, through encouraging DNOs to prioritise the tackling of affordability in their own vulnerability strategies, including expanding on work that is already ongoing relating to provision of, and signposting to, debt advice, income advice, and energy efficiency advice.

Secondly through reconsidering previous decisions taken on the role of DNOs (and other networks) in relation to direct interventions in the home that could reduce energy costs, including thermal efficiency upgrades, and the replacement of inefficient appliances. This could be achieved through reconfiguring the current losses incentives, so that the equivalent energy savings that currently realised via reducing line losses instead delivered in domestic properties via the upgrading of white goods, lower cost appliances or upgrades to inefficient electric heaters. The priority should be targeting this assistance to low income household with little or no disposal incomes, as they can't currently benefit from improved product standards, despite potentially benefiting the most from these energy efficiency gains. As with the model above, where the 'margin of feasibility' is tight DNOs/DSOs would also be encouraged to identify complementary energy efficiency activity that is already being planned or developed within an area. This is where the potential exists to 'piggyback' a DNO investment alongside 3rd party fund instead of making the investment entirely independently (albeit with the same intention of avoiding an unnecessary reinforcement of the network) making this activity complimentary to current EE schemes. This would align well with Ofgem's endeavour to facilitate a 'whole systems approach' where the best system solution is found, which is not necessarily the best solution for an individual network.

Response to Annex 1 – Delivering Value for Money Service for Consumers

OUTQ6 - Do you agree with our proposal to remove the Stakeholder Engagement and Consumer Vulnerability Incentive in RIIO-ED2?

Yes, NEA agrees with the proposal to remove this incentive. A new vulnerability ODI will mean a greater focus and level of available funding in supporting consumers in vulnerable situations. We believe that this is merited, as while there are large amounts of excellent work supporting vulnerable consumers, it is an area which generally has received less attention than stakeholder engagement in the current incentive format. For example, in the 2019 SECV panel report, they commented about DNO work: *“There is little focus on fuel poverty and activities in the consumer vulnerability space appear small scale”, “There is however little focus on fuel poverty”* and *“There does not appear to have been overall coordination or plan”*. Additionally, given the new minimum standards for stakeholder engagement as part of the enhanced engagement element of RIIO 2, we consider that this work should now firmly be business as usual.

OUTQ19 - Do you agree with our proposed approach to ensuring consumers in vulnerable situations receive an appropriate range and level of support in RIIO-ED2? If not, what alternative approach should we consider?

Yes, NEA is pleased with Ofgem's proposed approach in the SSMC regarding the Vulnerability ODI. A single ODI where performance will be judged on an ex-post basis with clear baselines that relate to Ofgem's own Consumer Vulnerability Strategy represents a step change in how to regulate for good outcomes for vulnerable energy consumers, in relation to GD2.

While RIIO GD2 encountered problems in the draft determinations stage of business plan appraisal with regards to the rejection of many vulnerability ODIs, and confusion over the new use-it or lose-it allowance, we believe that a single ODI overcomes many of the issues faced, with added simplicity and a reduced chance of confusion created in the business planning phase. It will require early feedback (at the draft determination stage or before) from Ofgem on each DNO's vulnerability strategy to give them the confidence that achieving their strategy will result in a suitable reward (or penalty) for them, allowing them to assuredly invest in their proposals. Without this, and because of the ex-post nature of the incentive, we are not confident that DNOs would fully commit to their plans.

We consider the level of funding proposed for the ODI, at +/-0.5% of base revenue, to be more suitable for addressing vulnerability than the low sums found in the use-it or lose-it allowance in RIIO-GD2. We urge Ofgem to reconsider the level of funding within GD2 to be more reflective of the current financial situation that has been created for many households because of the pandemic, learning from the increased incentive in ED2.

OUTQ20 - Do you have views on our proposed Vulnerability Principles and associated standards (in Appendix 5) for RIIO-ED2? Do you disagree with any of the standards we have proposed? If so, why?

NEA is particularly pleased with the approach taken in setting a baseline for vulnerability work within ED2. This gives certainty to DNOs as to what is expected of them and allows the price control to be better aligned with Ofgem's own consumer vulnerability strategy. Such an approach should be taken across the board in future price controls, as well as other parts of the energy system that Ofgem regulates.

While we do not disagree on any of the proposed standards, there are some areas that we feel merit extra attention:

- Within principle 1, there is a standard relating to additional communication needs, which is very welcome. As part of this year's Fuel Poverty Monitor¹⁶, NEA found that those speaking English as an additional language faced significant difficulty accessing information and support during the pandemic lockdown. We also found that there were significant deficiencies in the provision of material in Braille and British Sign Language. Ofgem should include both of these formats in addition to the top 10 spoken languages in each DNO area.
- Within principle 2, we believe that two additional standards are warranted:
 1. The creation of a financial vulnerability PSR flag. In this year's Fuel Poverty Monitor¹⁷, as part of a remedy for the growing issue of affordability issues in the energy market, we recommended that Ofgem and energy companies work to ensure that financially struggling households are more easily identified through the creation of a financial vulnerability flag or 'needs code' within the Priority Services Registers (PSR). As DNOs have a clear responsibility for the PSR through their licences, we believe that this baseline represents one of a number of opportunities this to be done, albeit one that is relatively far in the future.
 2. A standard relating to sharing PSR information and best practice across sectors. Ofgem's Consumer Vulnerability Strategy 2025 includes a theme to "work with others to solve issues that cut across multiple sectors. As the PSR clearly crosses several sectors (Energy, water, finance, digital), we believe that there is a clear need for DNOs to work with others to share data and ensure that the PSR remains fit for purpose.
- Within principle 3 we believe that given the principle is based around achieving an inclusive smart, flexible energy system, we believe that there should be a distinct standard related to the main DNO role in the new system in the form of DSO functionalities. As we have stated previously in our answer to question OVQ23 above, this creates a risk that work on vulnerability and DSO will both be siloed, and the potential for truly embedding will be lost.
- We also believe that principle 3 should contain a standard for facilitating and supporting suppliers to deliver the smart meter rollout. While DNOs do not have a statutory role in the rollout, there is much that could be done to promote the benefits of smart meters, in particular to those households that currently use prepayment meters. The benefits of this work to both customers and networks was showcased in the UKPN innovation project "Energywise"¹⁸
- Within principle 4, we believe that it is extremely positive to expect as a minimum to have a vulnerability champion at board level, but there is still a potential for work on vulnerability to be siloed in nature if the baseline does not at least reference other DNO functions, such as the transition to DSO, as outlined above.

OUTQ21 - Do you agree with our proposal to use an ex post assessment to penalise/reward companies who fail to deliver their strategies in line with our guidance/exceed performance targets?

NEA is relatively comfortable with such an assessment but accepts that this does create a risk that DSOs can not confidently make investments to execute their vulnerability strategies, if the reward is discounted because of its ex post nature. Ofgem can mitigate this someone through providing a thorough assessment

of vulnerability strategies in the business plan assessment stage, giving a steer to DNOs as to which parts of their strategy may be rewarded and which may not be.

We are also concerned that an ex-post assessment may incentivise DNOs to undertake more conservative work that they are confident about and comfortable with. While this has merits, it may preclude valuable work, such as the those like Social Constraint Management Zones project mentioned above, if the reward were to come several years down the line, and this reward was not in any way guaranteed. Ofgem must fully consider the risks of an ex-post assessment before fully committing to doing so within the price control.

OUTQ22 - Do you consider that an assessment of performance in the middle and at the end of the price control is a proportionate approach?

Yes. NEA believes that this proposal seems sensible and would partially mitigate the risk set out above in the answer to OUTQ21.

OUTQ61 - Do you agree with our proposed removal of the Losses Discretionary Reward?

DNOs have long had an incentive to reduce the losses on their networks. The cost effectiveness of these reductions has deteriorated with time, as the 'low hanging fruit' has been taken early. At the same time, there has been a clear gap in funding for low income households to benefit from more efficient appliances or white goods. The Government assume everyone has had access to increasingly efficient appliances (via improvements through EU products Directives) and therefore this reduces everyone's exposure to increasing policy costs, paid for regressively through energy bills. Sadly, this isn't the case for many low-income households. NEA has long argued that the losses discretionary reward could be reformed to incentivise DNO to deliver these energy savings within domestic properties (by replacing energy inefficient appliances or electric heating rather than just focus on line losses). This would be an effective way for networks to deliver a positive outcome but again with a strong social and environmental benefit.

Response to Annex 2 – Keeping Bills Low for Customers

COQ52 - Do you agree with our proposed design of the BPI for RIIO-ED2?

NEA broadly agrees with the proposed design of the BPI in ED2, but there are some clear lessons that need to be learned from the process for the other networks and the ESO so far:

Ofgem must, in its draft determinations, set out how they have taken stakeholder views into consideration when making decisions. At the beginning of the work to shape the RIIO 2 price control, Ofgem said within the framework decision that "The Gas and Electricity Markets Authority (GEMA) retains ultimate responsibility to make initial and final determinations, using, among other things, evidence from the enhanced engagement process as a key input."

It was therefore disappointing that the draft determinations did not transparently make considerations of the enhanced engagement process. We feel that there is a risk that the voice of the customer will be dampened through this lack of transparency, both as representatives of fuel poor households on CEGs, and as stakeholders ourselves who have engaged fully in the process.

NEA therefore urges Ofgem to commit to publishing their full analysis of the plans in draft determinations for ED2, including how they accounted for customer views, in order to give greater confidence in the process. Without this analysis, we, and others, cannot properly judge whether Ofgem has made informed decisions as to which parts of the business plan to allow, and which to disallow.

In GD2, it appeared that the mechanism within the BPI to assess the companies' vulnerability strategies had been forgotten, and it was not clear if or how companies could or have been rewarded for comprehensive vulnerability strategies. Indeed, NEA understood that there was been no feedback on strategies that required significant work and consumer engagement and had been required by Ofgem. This cannot be repeated in ED2, where it is more essential, as noted in our answer to OUTQ21, to give feedback on vulnerability strategies in the context of an ex post reward for the vulnerability ODI.

COQ53 - What are your views on our suggestion to use proposals contained in draft business plans in the setting of baseline standards in a number of areas (as discussed in paragraphs 13.28 and 13.29)?

NEA agrees with the setting of baselines in a number of areas (notably for the vulnerability ODI). We set our view out on this in our answers to questions OVQ20 and OUTQ20 above.

COQ57 - Do you agree with the proposed set of minimum requirements for Stage 1 of the BPI that are set out in the draft Business Plan Guidance?

Yes. NEA is particularly pleased that there will be a minimum requirement for stage 1 of the BPI. As stated above, it is essential for Ofgem to give feedback on vulnerability strategies in the context of an ex post reward for the vulnerability ODI.

Appendix 1 – Preliminary analysis of our four proposed areas of reform.

Proposal	Effect on UK plc	Effect on Networks	Effect on Fuel Poverty
Reforming the current share factors and weighting Demand Side Response (DSR) or demand reduction projects dependent on whether they have a direct social and environmental outcome	Meets the aims set out in the FP Strategy, the Clean Growth Strategy and the Climate Change Act. Will reduce system costs of decarbonisation and could help reduce wider societal cost such as health and social care.	Weighting DSR from vulnerable/fuel poor customers might imply a higher gross cost to implement other alternatives to conventional network reinforcement but would still be cheaper than BAU and wider risks could be mitigated through the design of the incentive.	Will help to ensure that fuel poor/vulnerable customers are not left behind in the low carbon transition and will allow them to play a part, and benefit, from the move from DNO to DSO.
Reforming the current share factors and weighting Demand Side Response (DSR) or demand reduction projects dependent on whether they have a direct social and environmental outcome	This reform would give network more options for increasing the whole system efficiency. This should result in achieving a more efficient system in a more cost-effective manner than without the intervention.	Networks should have more opportunities to perform better on this incentive than in the current format. This means that there will be more opportunities for a better rate of return to be earned.	Extra money for funding of energy efficiency measures will help to fill at least part of the gap left by insufficient programmes at present. It would also address a policy gap for low income households to benefit from more efficient white goods which are currently assumed to benefit all households but don't.
Ensuring any future innovation funding (Network Innovation Allowances or Network Innovation Competitions) is directly supporting consumers in the transition to a low-carbon future, particularly those in or extreme risk of fuel poverty.	Shouldn't harm our carbon objectives, will have a positive impact on fuel poverty and will not cost more than the scheme would otherwise.	Should be a net zero economic change for the networks and help them work across other industry schemes like ECO/WHD and deliver enhanced brand recognition within communities.	Will help the fuel poor to benefit from the low carbon and DNO->DSO transitions. A significant amount of money is spent on innovation funding every year – even a portion of this funding would be valuable to fuel poor households.
Helping low income customers upgrade their connection in the context of moving to low carbon electrical heating	Helps to achieve national carbon targets through facilitating more households to move towards zero carbon heating.	Minimal impact on networks if the price control allows for full cost recovery.	As we move towards the decarbonisation of heat, and gas becomes more expensive with the introduction of, for example, the green gas levy, such a scheme would give fuel poor households a more realistic chance of using lower carbon heating without further entrenching their fuel poverty.

¹ For more information visit: www.nea.org.uk.

² NEA also work alongside our sister charity Energy Action Scotland (EAS) to ensure we collectively have a UK wider reach.

³ At present it is not possible for these key groups to do this without being subject to the enhanced General Data Protection Regulations or a time consuming appraisal of the household's circumstances and securing individual 'opt in' consent.

⁴ For more information visit: <http://www.energy.soton.ac.uk/save-solent-achieving-value-from-efficiency/>.

⁵ For more information on the SCMZ project, see <https://www.nea.org.uk/technical/scmz/>

⁶ For more information visit: <http://www.lessismore.org.uk/>

⁷ For more information visit: <http://www.powersaverchallenge.co.uk>.

⁸ To read the report visit: <http://www.northernpowergrid.com/downloads/1704>.

⁹ On 30th June 2020, the BBC reported that the impacts of coronavirus had caused the worst contraction of the UK economy in 41 years. For the article, see <https://www.bbc.co.uk/news/business-53231851>

¹⁰ <https://www.ssen.co.uk/WorkArea/DownloadAsset.aspx?id=19119>

¹¹ For more information visit <https://www.nea.org.uk/technical/scmz/>

¹² <https://www.ssen.co.uk/WorkArea/DownloadAsset.aspx?id=19119>

¹³ <https://www.ofgem.gov.uk/publications-and-updates/open-letter-consultation-riio-ed2-price-control>

¹⁴ On the 27th June 2019, the UK became the first major economy to pass net zero emissions law. For more information see <https://www.gov.uk/government/news/uk-becomes-first-major-economy-to-pass-net-zero-emissions-law>

¹⁵ On 30th June 2020, the BBC reported that the impacts of coronavirus had caused the worst contraction of the UK economy in 41 years. For the article, see <https://www.bbc.co.uk/news/business-53231851>

¹⁶ <https://www.nea.org.uk/wp-content/uploads/2020/09/UK-FPM-2019.pdf>

¹⁷ <https://www.nea.org.uk/wp-content/uploads/2020/09/UK-FPM-2019.pdf>

¹⁸ The Energywise project found that when households had access to smart meters and smart energy saving advice, they saved an average of £14 annually and reduced their consumption by an average 3.3%. These savings translate to an average reduction of 23W during the evening peak window (17:00 – 22:30), which represents about a 5.2% reduction in average evening peak demand per household and reflects the capacity for meaningful engagement with energy savings by the trial participants. For the closedown report, see <https://innovation.ukpowernetworks.co.uk/wp-content/uploads/2019/05/Energywise-Closedown-Report.pdf>